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BUDGET ADDRESS FOR THE FY 2016 AND FY 2017 BIENNIUM (ABRIDGED)
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For a small state, Connecticut is a place of stark contrast and unique diversity.

We are home to historic and vibrant urban centers, but also to picturesque small towns, parks, and forests that are the envy of our nation.

Our economy relies on a backbone of large employers that have sustained us over generations. And yet that same economy would crumble if not for a network of *small* businesses that showcase the ingenuity and spirit of Connecticut workers.

Our industrial centers are helping make global advances in aerospace, bioscience, and precision manufacturing. At the same time, some 400,000 acres of Connecticut farmland support a 3.5 billion dollar agricultural industry.

These contrasts are found throughout our great state. They demonstrate our rich history and our distinct character. They make us who we are. Working together in recent years, we've crafted budgets that capitalize on these unique Connecticut assets. We protected state aid for cities and towns, at the same time we created a new state park and preserved more open space.

We worked to attract and retain large employers, at the same time we created the state's first program to help small businesses. We made targeted investments in burgeoning, high-tech industries, at the same time we began to restore hundreds of acres of overgrown farmland.

The budget I present to you today continues to build on Connecticut's diversity and its unique strengths. We can continue to build a better tomorrow, by making smart choices today.

BUDGET OVERVIEW

Of course, making *smart* choices usually means making *tough* choices. The budget I present to you today is filled with tough choices.

All told, my proposal contains more than \$590 million dollars in cuts to the current services budget. The vast majority of these cuts are choices that, under ideal circumstances, Connecticut would not have to make. But as our economy continues to recover, tough choices are needed if we want to achieve the following simple goals:

First, we must balance our budget by living within our means and living within our spending cap. This budget does that with a total increase of just 3.1 percent from the prior fiscal year.

Second, we must maintain our commitment to funding public education.

Third, Connecticut must keep its promise to cities and towns.

Fourth and finally, even in this time of difficult choices, we must not ask any more of our middle class.

This budget contains no new taxes. In fact, it goes one step further. Today I am proposing that we overhaul Connecticut's sales tax, moving it to under 6 percent for the first time since 1971. We can pay for it by simplifying our tax code, and by reining in loopholes and corporate tax credits.

The hard-working members of our middle class have helped turn our economy around and get us moving forward. They've pitched in and shared in the sacrifice. Let's give them something back.

But I want to be very clear – there are a few things *I will not do*. I will not support any effort to exceed our spending cap by emergency declaration. I will not support an early retirement incentive – an idea that may save money now, but costs us much more in the long run. I will not sign a budget that is balanced on the backs of our towns or our public schools. Within this framework, I will listen to anyone who has serious ideas on how to make this budget better.

ECONOMIC DEVELOPMENT

We know we're on the right path. We know our choices have been the right ones. That our strategy for economic development is working. Since 2011 our unemployment rate has dropped from a high of 9.1 down to 6.4 percent today. More people are entering the workforce even as unemployment drops. In 2014 we created more than 26,000 new jobs – our best job growth since 1998. All told, our private sector has grown more than 75,000 jobs over the past four years – regaining 94 percent of the jobs lost during the Great Recession.

We need to keep this momentum going. We can do it by continuing to support the good programs and policies that have brought us this far.

This budget continues to help small businesses grow jobs by funding our successful Small Business Express Program.

We don't have to stop there. The same way that we're giving a tax break to middle class families, we can give one to small businesses as well. By reforming our business tax code and bringing it more in line with other states, we can eliminate the Business Entity Tax this year, which disproportionately impacts small employers. My budget eliminates that tax this year.

EDUCATION

We've done great work in recent years to bolster our public schools. Together, we've made year over year increases to school funding, and we've done it at a time when other states slashed their education budgets.

Our schools are better for our efforts. Graduation rates have increased by 3.7 percent in the last four years. Connecticut students are leading nationally in reading and math. We are finally making real progress on closing our achievement gap.

We also need to make sure that when Connecticut students graduate from our colleges, they can afford to pay off their loans. For too many, student loan debt is an anchor that drags them down, hindering their choices and putting the American Dream out of reach. We can help by enabling Connecticut's Higher Education Student Loan Authority to refinance the loans of state residents.

SECOND CHANCE SOCIETY

There is another way we can help our economy continue to grow. It is something that will give more people a chance at finding gainful employment. It will also address a systemic wrong that has plagued our country, our state, and our economy for generations.

Throughout American history, one of the unifying themes that has bound us together is that of a second chance. But somewhere along the way, we lost sight of this simple principle. Too often we became a society that sought permanent punishment, instead of permanent reform. We built modern prisons when we should have been building modern schools. From 1985 to 2008, our prison population tripled in size. We created a generation of offenders who had no chance at a better life when they got out of prison. No chance at a higher education. No chance at a good paying job.

Connecticut can do better. And over the past four years, we've started to change. We implemented reforms to our juvenile justice system. We decriminalized marijuana resulting in 6,000 fewer arrests. We refocused on community policing. We targeted violent offenders in our communities, putting them away for longer stretches. We took dangerous guns and ammunition off our streets with the strongest gun control laws in the country – all thanks to the bi-partisan efforts of this General Assembly.

Today we can say with confidence that these reforms are working: Crime is at a 48 year low. *Violent* crime is down 36 percent. Homicides in urban centers like New Haven, Bridgeport, and Hartford have dropped by 48 percent since 2011.

The bill I submit to you today will offer a second chance to non-violent offenders. It reduces penalties for simple drug possession to a misdemeanor. It unties the hands of our judges by eliminating mandatory minimums. It expedites our paroles and pardon process for non-violent offenders. It offers ex-offenders new opportunities in finding both a job, and a home.

Together we can give non-violent offenders a second chance to be productive members of our community and our economy. Let's give them a second chance.

TRANSPORTATION

I want to finish today by continuing a conversation we began a little over a month ago, when I joined you in this chamber and spoke about our transportation infrastructure. In the intervening weeks since then, the Department of Transportation, the Office of Policy and Management, and staff in my office have been hard at work developing a new transportation vision for the next 30 years. Included in the capital budget I propose to you today is a detailed plan for ramping up this effort over the next five years that will enable us to begin moving on these projects and this vision.

That's what this budget proposal is: a beginning. If we want to completely transform our infrastructure over the next 30 years, it will require additional conversations on how we'll pay for it beyond the initial 5-year ramp up in this budget.

Last month I made clear that I believe Connecticut must create a strong transportation lock box that will ensure every dollar raised for transportation is spent on transportation.

I've been glad to see that proposal has received bipartisan support, and I look forward to signing it into law. Until that happens, we cannot make final decisions on how to fund projects 20 or 30 years from now.

What we can do today, this year, this session, is get started – and that's what this capital budget does.

CONCLUSION

My friends, in the weeks and months ahead, we have some big questions to answer together.

How to balance our budget and live within our means.

How to grow more good jobs with good benefits.

How to make sure all our kids have the opportunity for success.

How to reform and reintegrate those who run afoul of the law.

And how best to connect ourselves to one another, and to the world beyond our borders.

We need to decide what kind of state we want to be – not just tomorrow, but 10, 20 and 30 years from now.

Throughout this work, let's remember that our forbearers faced these very same questions. They had to decide what kind of Connecticut they were going to leave *us*.

It's why they founded our Capital City, and gave us North America's first written constitution.

It's why they built great schools, libraries, and parks across 169 beautiful cities and towns.

It's why they laid down lines of rail connecting us to Boston, New York, and beyond, and why they built a parkway that's now an iconic part of the Connecticut landscape.

We inherited these things. They were passed down to us. Entrusted for safe keeping.

And now we carry a sacred obligation – to our children and our children's children. To make this state an even better place for our having lived in it.

This year, this session, let's honor that obligation.

Let's preserve local budgets, and protect public schools.

Let's support our middle class, those seeking to become middle class.

Let's build better roads, bridges, and railways.

Let's make smart decisions today, so that together, we can build a brighter tomorrow.

Thank you. May God bless you, and may God bless the great State of Connecticut.

GOAL

Governor Malloy's Recommended Budget for the upcoming biennium is balanced, with General Fund expenditures of \$18.0 billion for FY 2016 and \$18.5 billion for FY 2017, and is below the spending cap. The Governor's budget makes significant investments in the state's infrastructure, maintains commitments to our cities and towns, and preserves the most critical services to our children and families. And, consistent with the Governor's past two biennial budgets, this budget fully funds the state's debt payments and pension contributions.

CONTEXT

This budget proposal is presented at a time when the state is continuing to recover from decades of shortsighted budgeting and, even as the state's economy is improving, we must confront a nearly \$1.2 billion gap between forecasted revenue and current law expenditures for both FY 2016 and FY 2017. Nevertheless, this budget does not rely on one time revenues, borrow to meet operational needs, or neglect the state's basic infrastructure. With some of the most robust job creation numbers in decades, the budget works to maintain this progress and to move Connecticut responsibly through the biennium. Governor Malloy has proposed a budget that is tough, but balanced - in its bottom line and in its fairness.

FRAMEWORK

Governor Malloy's recommended all-funds budget increases spending over FY 2015 levels by more than \$632 million in FY 2016, a 3.3% increase, and \$617 million in FY 2017, a 3.1% increase. These increases are in line with the responsible growth seen over the last four years and are below the eight years prior to that, when spending grew an average of 4.6%. On a current law basis, however, General Fund expenditures were projected to increase by \$1,111.7 million in FY 2016 over estimated FY 2015 levels and \$712.5 million in FY 2017 over estimated FY 2016 levels. To get to a balanced budget in both years of the biennium, the recommended budget reduces expenditures by \$590 million in FY 2016 and more than \$753 million in FY 2017 and increases revenue by \$557.6 million in FY 2016 and \$356.8 million in FY 2017. The recommended budget is balanced and under the spending cap in each year of the biennium. Tax policy changes include reducing the state's regressive sales tax rate from 6.35% to 5.95%, abolishing the onerous business entity tax, and closing tax loopholes benefiting a select few.

This budget proposal is austere, but is fair and offers a thoughtful, realistic approach to the state's finances. Over the years, fixed costs such as pensions, retiree health care and debt service have consumed a growing share of revenue. This is compounded with hundreds of millions of dollars mandated for repayment of deficit bonds issued in 2009, repayment of unfunded pension liability, and repayment of the Generally Accepted Accounting Principles (GAAP) deficit. Consequently, the proposed spending reductions are much deeper than the state has needed to impose since 2011. This proposal does not shirk responsibility or kick the can down the road to avoid tough choices. The vast majority of these cuts are choices that, under ideal circumstances, Connecticut would not want to make, but the budget meets the state's obligations and works to fulfill all covenants.

This proposal is premised on the belief that the state can build a better tomorrow by making tough choices today, leveraging our strengths to shore up our weaknesses, and investing in people and infrastructure to

yield both short-term and long-term dividends. This is demonstrated in exciting new investments in transportation and in the future of our fellow citizens. Moving ahead, these efforts will facilitate job creation and ensure all children receive a top-notch education. It will also place the state on firm financial footing to mitigate damage from a future economic downturn, and put Connecticut on the path to having a transportation system that will be the envy of the nation.

The proposed budget is built on a set of principles that will move Connecticut forward responsibly and effectively:

- Reducing Spending
This budget reflects General Fund expenditures of \$18.0 billion for FY 2016, cutting \$590 million from current law spending levels. In addition, it cuts more than \$753 million in FY 2017. The budget is \$6.3 million below the spending cap for FY 2016 and \$135.8 million below for FY 2017.
- Paying Our Bills
Payments on the state's long term obligations and debt service will not be deferred, whether in the form of contributions to the state's pension system or paying off Economic Recovery Notes.
- Living Within Our Means
There is no borrowing to pay for the state's operating budget, and one time solutions are kept to a minimum.
- No Burden Shifting
Governor Malloy is not going to balance the budget on the backs of municipalities as some neighboring states have done. This budget maintains funding for statutory formula grants at the FY 2015 level, including Education Cost Sharing (ECS) and Payment in Lieu of Taxes (PILOT). Additionally, the budget increases funding for Municipal Projects by \$3.6 million per year to provide \$60 million annually to support local infrastructure. It establishes a new \$20 million grant for green infrastructure, level funds Small Town Economic Assistance Program (STEAP) and the Local Capital Improvement Program (LoCIP), and maintains funding of \$60 million annually for Town Aid Road (TAR). It maintains support for education, by keeping the commitment to local school construction (with nearly \$600 million pledged annually) and continues funding for the teachers retirement system.
- Investing In Our Future
This budget funds programs that have been effective, giving small businesses a chance to thrive and showcase Connecticut's entrepreneurial spirit. It targets companies on the cutting edge of burgeoning, high-tech industries, and it will help us restore and sustain our 400,000 acres of farmland. Since December 2010, Connecticut's private sector has added over 78,000 jobs - approximately 96% of the jobs lost during the Great Recession – due in part to successful initiatives like the Small Business Express Program. Additionally, this budget preserves funding to make housing more accessible for those in need and provides initiatives to give people the tools they need to lift themselves out of poverty. The Governor's commitment to early childhood education remains strong and this budget works to ensure universal access to pre-k is accomplished.

In the pages that follow, Governor Malloy's Recommended Budget is presented in greater detail.

TRANSPORTATION- LET'S GO CT!

One of the most pressing priorities addressed in Governor Malloy's budget is to improve the state's transportation infrastructure. The Governor's new transportation plan – Let's Go CT! - is a long-term strategy which outlines the state-wide intermodal program that will expand, update, and improve Connecticut's transportation system. The Governor's Recommended Budget addresses this need by incorporating the capital and expenditure funding needed to begin the implementation of that bold vision.

The Let's Go CT! plan will include expanded rail service on existing Metro-North and Shore Line East lines, and expanded service on the New Haven-Hartford-Springfield line. Additional station construction will also be complemented by Transit-Oriented Development (TOD) and responsible growth programs which will enable the impacted communities to add more economic and housing options for their residents and visitors, while preventing sprawl. An additional \$2.78 billion in transportation bond authorizations is recommended over the next five years to begin to implement Let's Go CT!

The state of the current highway system cannot be ignored. Governor Malloy proposes beginning the process of replacing some highway structures that have served the state well for many decades but are in need of replacement. This is no small undertaking. The budget begins the design process for the viaducts in both Hartford and Waterbury and the result will be a revitalized Interstate 84 (I-84). Both upgrades entail significant investments of both time and funding with the design work beginning within the first five years of the proposed plan.

The highest priority for highway expansion is the section of Interstate 95 (I-95) from Stamford to Bridgeport. Based on the significant congestion in this corridor, the Governor proposes expanding capacity by adding lanes and reconfiguring access points which will improve traffic flow. Interstate 91 (I-91) improvements are also included in the project list, such as the reconfiguration of the 1-91 ramp to the Charter Oak Bridge. These are just a small portion of the initiatives being championed by Governor Malloy as part of the Let's Go CT! vision.

Governor Malloy also believes in the benefits that will come from expanding bus service. The new *CTfastrak*, the state's first bus rapid transit system bypassing traffic on I-84 and local streets in this heavily-congested corridor, will begin operation in March 2015. In addition, expansions to the *CTfastrak* operations are proposed to allow more citizens access to affordable, frequent, and convenient bus service. Funding is also included to carry out a study of alternative bus route configurations and additional routes for the CT Transit bus system that would allow access to job centers which currently do not have sufficient service. Following the completion of the study, significant funding is included to implement new and extended bus service routes. This expansion will help connect more residents to employment centers, opening up more job opportunities as our economy recovers.

Other states and cities have had bus-tracking technology for years, and it is time Connecticut does as well. A real-time bus information system is being installed as part of *CTfastrak*, and this budget includes funding to expand the technology to the entire CT Transit bus system. Not only will this Next Bus technology attract new riders, as research has shown in other cities, but it will allow transit riders to check their cell phones before leaving home or work to see when the next bus will arrive, saving time and making planning commutes easier.

National and state surveys find many jobs are inaccessible by transit or require unreasonably long commutes via transit. The Governor is committed to reversing this trend in Connecticut and enhancing the state's transit network and efficiency.

In addition to *CTfastrak* bolstering the transportation focus in central Connecticut, the Governor also includes funding to improve the operation, safety, and efficiency of the state's rail lines, especially the most travelled rail corridor in the country — the New Haven Line.

The Governor's Biennial Budget continues to emphasize the need to enhance safety by including \$7.9 million to continue and expand safety initiatives on the New Haven Line with the line's operator Metro-North Railroad. This amount represents Connecticut's portion of the larger safety program. The funding continues for safety initiatives currently in place including additional funding for engineers, inspectors, supervisors, and other positions to monitor and review rail track operation and safety.

In addition to the safety improvements in the Governor's budget, the service, operations, and facilities for the commuters on the rail lines will also be enhanced in order to maintain and grow commuters' confidence. The New Haven Line is integral to the state's commuters and economy. This lifeline also serves as the main corridor between Boston and New York, through to the Washington D.C. area. Due to that dependence, the line provides a significant economic foundation for Connecticut.

The Governor is also committing more resources to the state's rail lines by:

- Initiating a study to determine how best to increase speed and service;
- Moving forward with the replacement of the WALK Bridge, while performing repairs on other rail bridges and adding rail bridge inspectors;
- Encouraging ridership by constructing new stations and upgrading existing ones, while also building new parking facilities; and
- Continuing to invest in our branch lines, and completing the signalization of the Waterbury Branch.

At the same time he is heavily investing in our transit and rail systems, the Governor has consistently stressed that we also need to address the backlog of repairs needed on our roads and bridges, the growing congestion on our highways, and replacement of bridges that have served us well for generations. Tackling big ticket infrastructure improvements will take several years of design and engineering work before construction can begin. And the Governor continues to invest in necessary repairs to existing infrastructure, assist municipalities with local transportation needs, and encourage the Department of Transportation (DOT) to change the way it delivers projects. Lastly, the Governor is committed to making our towns and cities more livable, walkable, and safer for all users of the roads and sidewalks.

To accomplish these goals, the Governor's budget:

- Initiates engineering and design on several projects, including the viaducts in Hartford and Waterbury, and widening of I-95;
- Continues to move forward with extensive repairs on the Gold Star Bridge;
- Increases the Fix It First Bridge Program to \$70 million per year;
- Establishes a new innovative bridge program utilizing new delivery and construction methodologies;
- Continues to provide \$60 million a year for the Town Aid Road program, while increasing the Local Transportation Improvement Program to \$74 million a year; and
- Enhances the trails program and creates a new urban bike and pedestrian connectivity program.

In order to accomplish the strategic medium- and long-range goals of Let's Go CT!, the DOT will also need funds to carry out the preparation and supportive work in the near term, on a day-to-day basis. The resources cover both the preparation for ongoing ambitious projects as well as regular maintenance of the current infrastructure of the state. The Governor's Budget includes the following staff and funding:

- Forty positions and \$1.2 million in FY 2016 and an additional 38 positions (\$2.3 million, including annualization) in FY 2017 for engineers, rights-of-way positions, and clerical and support staff for a long-term capital program to strengthen the state's infrastructure investment;
- Ten positions (\$270,000) beginning in FY 2016 to implement a pilot Expedited Transportation Investment Program in order to improve and streamline capital project delivery timelines;
- Three project manager positions (\$300,700) beginning in FY 2016 to oversee a new project management system;
- Twenty positions (\$950,000) in FY 2016 and an additional 20 positions (\$1.9 million, including annualization) in FY 2017 for maintainers to target bridge maintenance and rehabilitation to ensure continual safety monitoring;
- Fifteen positions (\$645,000) in FY 2016 and an additional 15 positions (\$1.3 million, including annualization) in FY 2017 for maintainers to fully staff maintenance trucks;
- Four public transportation positions (\$210,000) for rail bridge inspection beginning in FY 2016; and
- \$10 million exclusively for additional plow trucks to replace an aging fleet which is the backbone of the maintenance effort on the state's roadways.

These operating resources complement the funding in the capital program of the Governor's Recommended Budget to reflect the entire biennial phase of the Governor's Let's Go CT! transportation plan.

The economic importance of a sound transportation vision includes traditional land-based means. Specifically, the state must take advantage of the coastline by investing in its ports, opening up another mode of economic vitality in the state. To achieve this goal, the Governor will work to replicate the success of the Connecticut Airport Authority, which now oversees Bradley International Airport and the state's General Aviation Airports, by taking the initial steps to grow the state's maritime industry through establishing the Connecticut Port Authority (CPA). The CPA will market and coordinate the development of the state's ports and maritime economy by developing a comprehensive strategic plan. It will focus on attracting more private investment and import and export business while also taking trucks off of our congested highways. \$10 million each year in additional bond authorizations is recommended to support these efforts.

Transit-Oriented Development continues to be of major importance on the Governor's agenda. TOD encourages development of commercial, residential, and office space anchored to and around a transit center, such as a rail or bus station, and promotes more livable, walk-able, bike-able communities and neighborhoods. By increasing the public's access to public transportation, the state's growing network of economic centers become within reach for all of the state's citizens.

The Governor is building upon the TOD commitment and efforts he started a few years ago. Having achieved successes in pilot stage, the state's TOD program has found a growing number of partners in the state. In addition to the new Urban Bike and Pedestrian Connectivity program, the investment will now grow as the Governor's Budget includes funding to establish the Transit Corridor Development Authority (TCDA). Funding is provided in FY 2017 to support the operations of the TCDA which will coordinate economic development within one-half mile of passenger rail or bus rapid transit stations. The TCDA will provide a greater focus on coordinating and enhancing TOD partnerships throughout the state. An additional \$8 million in bond authorizations is provided in FY 2016 to continue local TOD planning efforts.

The Governor's recommended budget includes \$671.4 million in FY 2016 and \$693.3 million in FY 2017 for special tax obligation bond authorizations to finance the on-going transportation capital program - and that's before the Let's Go CT! initiative. \$70 million in general obligation bond authorizations for port improvements, dredging and Town Aid Road are included in each year of the biennium.

SECOND CHANCE SOCIETY

Governor Malloy recognizes the impediments to those returning to the community after a period of incarceration. These obstacles often lead to a cycle of crime and poverty. The Governor is proposing several initiatives to break the cycle and to allow ex-offenders to become productive members of society. This effort, the Second Chance Society initiative, will provide ex-offenders with the supports necessary to achieve successful reintegration while reducing the risk that they will return to prison. Providing these opportunities will lower our crime rate, prevent recidivism and break the cycle that hurts too many families. These reforms are already being implemented and demonstrating effectiveness in other states.

Integral to the Governor's Second Chance Society initiative is reform to ineffective drug policies. Such policies have swelled Connecticut's prison population and created offenders who struggle to find work and reintegrate into society. Connecticut can send fewer non-violent individuals to jail by reducing penalties for certain drug crimes. In order to achieve this objective, Governor Malloy proposes changing the penalty for possession of drugs to a misdemeanor, unless there is evidence that an individual is selling or dealing drugs. In addition, the mandatory minimum sentences for non-violent drug possession will be eliminated, providing judges with the discretion to impose a range of sentences based on the facts and circumstances of each individual case.

As an additional measure to prevent individuals from entering the cycle of crime and punishment, the Governor is proposing another \$1 million for the School-Based Diversion Initiative (SBDI). This program is designed to prevent in-school arrests and reduce out-of-school suspensions and expulsions by increasing access for children and families to school and community-based mental health prevention as well as treatment services and supports. Such efforts are important in continuing progress in reducing the state's crime rate. SBDI engages school administrators, school social workers and counselors, and school resource officers through consultation and coordination, expert training, and capacity building activities. This new funding will allow for the expansion of the program to reach three to four schools in each of six districts per year, for a total of 18-24 schools per year. Preventing arrests of our youth keeps them from entering the criminal justice system and keeps kids in school- leading to improved student outcomes.

The Governor is providing \$312,000 to add four full-time Pardon and Parole Board members to address the fact that many non-violent, low risk inmates have their parole hearings delayed or, in some cases, never heard by the Board because of a backlog of cases and limited resources. Additionally, the Governor is proposing a number of changes to streamline the processes, including an optional hearing process. Current law requiring a formal hearing in every parole case will not be changed. Three-person panels will continue to conduct formal hearing processes - reviewing relevant background information, using structured decision making, and making written findings in each case - but will have the option of not requiring the inmate to be present in certain cases relating to non-violent, victimless crimes.

There are too many non-violent ex-offenders for whom employment is a practical impossibility because of a felony conviction. Clarifying the expedited pardons process will help these individuals have a realistic chance of a full pardon after they complete their probation or jail sentence, followed by several years of responsible citizenship. Governor Malloy recommends eliminating some of the statutory complexity of administrative pardons, allowing the expanded Board to consider applications from those who may have been disqualified for expedited pardons under the current rules. In addition, new notifications will be given to ex-offenders when they are sentenced, when they are released from probation, and when they leave the custody of the Commissioner of Correction. These notices will inform ex-offenders of the date they will become eligible for a pardon and what they will need to do to make that pardon a reality.

The quickest and most effective way to give someone the second chance they need to be a productive member of society is to ensure access to job and housing opportunities upon release. Governor Malloy is

proposing to expand the nationally renowned Integrated Basic Education and Skills Training program (I-BEST) which provides vocational skills training simultaneously with adult basic education and aims to reduce the likelihood of recidivism. The curriculum is designed and co-taught by an adult education instructor and a specialist in the appropriate vocational field. The model helps participants improve their basic skills and/or achieve or progress towards a secondary education credential while attaining an industry-recognized credential. In addition, a partnership with community and non-profit organizations to find ex-offenders employment opportunities will be implemented. The Governor's budget includes \$1.5 million per year to enhance I-BEST program services to support approximately 125 additional individuals in Hartford annually.

Without proper supports, individuals leaving prison often cycle through the criminal justice system and social services. In addition to funding employment services for ex-offenders, Governor Malloy's budget provides an infusion of funding for additional housing opportunities for individuals who frequently cycle through the criminal justice system and homeless shelter services. \$1 million in FY 2016 and \$2 million in FY 2017 to each of the Departments of Housing (DOH) and Mental Health and Addiction Services (DMHAS) will permit the program to expand by 200 individuals over the biennium, with the intent to increase that number to 400 over the next several years. The Connecticut Collaborative on Re-entry (CCR) initiative, formerly known as Frequent User Systems Engagement (FUSE), provides access to housing while treating the underlying issues that lead to housing instability. CCR is a coordinated support system that improves outcomes by providing housing, health care, mental health and addiction services and counseling to the target population. This innovative approach has been shown to reduce recidivism from 90% to 40% for current participants.

The majority of inmates incarcerated in Connecticut's prisons will return to the community. There are over 1,000 incarcerated individuals that are approved for a discretionary release within the next 18 months and many more who will discharge at the end of their sentence. As the prison population continues to decrease, corresponding with a declining crime rate, one correctional facility of approximately 600 beds will be designated as a Re-integration Unit. Activities in this unit will focus on preparation for re-integration through efforts to ensure pre-release relationships between community, parole and probation parties and the offenders. Connecticut's experience suggests that in-reach efforts combined with service delivery post-release increases engagement and reduces recidivism. Inmates will be assigned a rehabilitative path based on assessed needs. Such assessments include Statewide Collaborative Risk Offender Evaluation System, the Addiction Severity Index, and the Treatment and Programming Assessment Instrument. The pathway will directly address the inmates risk for re-offense and attendant re-entry needs.

To facilitate the efforts being made to ensure that inmates are treated equitably and consistently, the Department of Correction (DOC) is developing a Centralized Community Release Unit. Current policies and procedures are quite complicated and require that multiple staff members review the offender release application before the final decision is rendered. The Centralized Community Release Unit will simplify the review process to make it more understandable to the offender population and the line staff who interact with them. Public safety is enhanced as community release determinations will be made in a constant manner, pairing the right intensity of supervision and community treatment for each offender.

Successful results of these streamlined efforts would not be possible without ensuring proper supervision for offenders returning to the community. The Department of Correction is committed to utilizing this mechanism to support appropriate offenders in their return to law abiding society by providing a period of supervision in the community prior to the end of their sentence. The agency operates under a Community Re-integration Model which supports the offenders' successful reentry back into the community by setting expectations, assisting with the attainment of those goals and providing oversight. To that end, the Governor has included \$2.6 million for 18 Parole Officers and electronic monitoring for up to 1,000 offenders to enhance DOC's supervision needs to ensure successful re-integration of the offenders.

As a result of the initiatives included in the Governor's Recommended Budget, and the declining prison population, the Department of Correction will realign its facilities and redirect its efforts to a more intensive community re-integration strategy, saving the state an estimated \$24.3 million. The DOC will further attain savings through the utilization of scheduling software and managerial efforts to modify schedules and reassign duties in correctional facilities. Such efforts are anticipated to save an additional \$5.2 million.

Complementing the Governor's Second Chance Society initiative is a proposal to move certain functions of the Judicial Department's Court Support Services Division (CSSD) to the Department of Children and Families (DCF) and the DOC. This is consistent with DCF's mission to serve children and families, and DOC's role in serving adults involved in the criminal justice system. Combined savings of over \$20.7 million are expected to be attained through efficiencies, including the elimination of duplicative administrative functions and contracted services. These savings do not require any layoffs of existing CSSD staff.

Specific programming to be transferred to DCF includes:

- Juvenile Probation Services. Staff inform judges, enable monitoring of court-ordered conditions, and provide services to court-involved children and their families to increase the chances of successful rehabilitation. DCF currently provides parole services for committed delinquents and a variety of community-based services to help children committed as delinquent by the juvenile court to successfully re-integrate back into their communities after discharge from a facility or residential program.
- Juvenile Residential Services. Staff operate and oversee voluntary and court-ordered residential programs/centers designed to meet the needs of juveniles who come into contact with the juvenile court system. Two state-operated detention centers, located in Bridgeport and Hartford, and numerous contracted residential programs are supported. DCF currently operates two secure facilities for committed delinquents – the Connecticut Juvenile Training School serves males, and the Pueblo Unit serves females. The department also contracts with a number of different residential and/or treatment centers to treat youth in the juvenile justice system whose behavioral health needs are too acute to address in the community or who cannot be treated in the community because of family or legal issues.
- Family Services. Staff assist courts and clients to resolve family and interpersonal conflicts. Family Civil Court services provides negotiation, mediation, and evaluation and education services for families undergoing a divorce. Family Criminal Court services provide intake assessment and pre-trial supervision for individuals arrested for family violence crimes. Additionally, several programs are provided to defendants that address domestic violence (Family Violence Education Program, EXPLORE and EVOLVE). DCF intervenes with families in which children have experienced domestic violence, as well as offers variety of programs that promote positive parenting.
- 755 positions are transferred.

Specific programming to be transferred to DOC includes:

- Adult Probation. Staff works with clients to change their behavior in a positive way to enhance community and victim safety, to comply with their conditions, and to be accountable. The system also provides client eligibility determinations, program referrals, and program completion reports for diversionary programs. Often the probation period begins at sentencing, but it can also begin after incarceration, similar to DOC's parole and community services. The consolidation of community supervision into one state agency, with shared services and information, will be more efficient, accountable and less costly to administer.

- Alternative Incarceration Program. This program allows the courts to sentence individuals to various programs other than incarceration, thereby relieving the overcrowding in the state's prisons, and reducing the criminal recidivism rate. Often the providers of these programs overlap with the programs contracted for by the DOC. One comprehensive uniform contract with each service provider would eliminate the potential for differing rates for identical services, eliminate duplication of efforts by two different agencies and the providers, and eliminate unnecessary complication of the contract process.
- 753 positions are transferred.

Functions Remaining at Judicial:

- Bail/IAR (Intake, Assessment, and Referral). This program provides pre-trial information to the court and assistance to released defendants. Bail Commissioners and IAR Specialists handle pre-trial services concerning release and court appearances as well as arraignment services. Bail staff work to provide reasonable assurance of a defendant's appearance in court, while accounting for the safety of the public.

GENERAL GOVERNMENT

Department of Consumer Protection

Opioid and Substance Abuse

To assist in meeting the goals of the Governor's substance abuse and opioid overdose prevention initiative, the Department of Consumer Protection's (DCP) budget includes additional funding for one staff person and additional other expenses for the expansion of the electronic prescription drug monitoring program (PMP). The expansion will require that the dispenser of a controlled substance report patient information and identify the substance prescribed at the time it is dispensed, rather than weekly.

Department of Emergency Services and Public Protection

Charge Municipalities for Full Cost of the Resident State Trooper Program

The Resident Trooper Program allows for individualized community approaches by designing and employing preventative strategies and responses to criminal activities. Municipalities have been paying 70% of the total costs and 100% of the costs for overtime requested by the town. Requiring towns to be responsible for the actual costs of the resident state troopers still allows the municipalities the flexibility to design their community policing strategies without the expensive infrastructure and administrative costs of running a local department. The state will realize additional revenue of \$4.6 million from the receipt of payments for 100% of the costs for troopers providing services to their contracted municipalities.

HEALTH AND HUMAN SERVICES

Department of Social Services

The budget reduces programs and services in the Department of Social Services (DSS) by \$166.3 million in FY 2016 and \$238.4 million in FY 2017. After factoring in the federal share of Medicaid expenditures, DSS reductions total \$331.6 million and \$464.6 million respectively. Almost \$170 million is provided in FY 2016 and an additional \$130 million in FY 2017 to support caseload growth and annualization of FY 2015 caseload growth under Medicaid. In addition, the budget includes over \$14 million in state Medicaid funding in FY 2016 and \$38 million in FY 2017 to fund the July 2014 directive from the Centers for Medicare and Medicaid Services (CMS) requiring state Medicaid programs to cover medically necessary services for children under 21

years of age with autism spectrum disorder under their Early and Periodic Screening, Diagnostic and Treatment (EPSDT) benefits. Given the limited resources available to the state in the upcoming biennium, however, significant reductions were required to keep the budget in balance.

The majority of the reductions in DSS impact reimbursements to Medicaid providers. The state's share of Medicaid expenditures is reduced by:

- \$43.0 million in FY 2016 and \$47.0 million in FY 2017 by reducing provider rates (\$107.5 million in FY 2016 and \$117.5 million in FY 2017 after factoring in the federal share of Medicaid expenditures);
- \$10.0 million in each year of the biennium by restructuring rates to achieve the savings assumed in the enacted budget for medication administration (\$20.0 million in each year of the biennium after factoring in the federal share);
- \$6.2 million in FY 2016 and \$6.8 million in FY 2017 from changes to the pharmacy dispensing fee and reimbursement for brand name drugs (\$18.9 million in FY 2016 and \$20.6 million in FY 2017 after factoring in the federal share);
- \$5.1 million in each year of the biennium from the elimination of the supplemental pool for low-cost hospitals (\$15.1 million in each year of the biennium after factoring in the federal share);
- \$4.3 million in FY 2016 and \$5.1 million in FY 2017 from ensuring that ambulance providers do not receive a combined Medicare and Medicaid payment that is higher than the maximum allowable under the Medicaid fee schedule (\$8.6 million in FY 2016 and \$10.2 million in FY 2017 after factoring in the federal share); and
- \$250,000 in each year of the biennium from eliminating the pool of funding available for services provided by independent chiropractors for adults under Medicaid.

With changes under the Affordable Care Act, lower income households purchasing health insurance through Access Health CT qualify for significant federal subsidies, lowering the costs associated with obtaining and maintaining comprehensive health insurance coverage. These federal subsidies include advanced premium tax credits to reduce the monthly cost of health insurance premiums as well as additional cost sharing reductions lowering the out-of-pocket, point-of-service costs for obtaining medical care and/or prescription drugs. With the previous barriers to accessing affordable health care removed, the Governor is proposing to transition coverage for HUSKY A adults with income over 138% of the federal poverty level to the health insurance exchange, which will reduce state expenditures by \$44.6 million in FY 2016 and \$82.1 million in FY 2017 (\$89.2 million in FY 2016 and \$164.2 million in FY 2017 after factoring in the federal share). In addition, with enrollment under HUSKY B Band 3 at 300 children as of December 2014, Band 3, which serves children whose families' incomes are over 323% of the federal poverty level and is unsubsidized, is being eliminated as there is no need to continue to administer this component given the availability of affordable health insurance.

Given the anticipated costs to the state of \$10.5 million in FY 2016 and \$15.0 million in FY 2017, the budget removes funding for the federal demonstration to integrate care for dually eligible individuals. DSS has been working with CMS on a proposal to integrate Medicare and Medicaid services and supports with the goal of improving health outcomes and the care experience for individuals eligible for both Medicare and Medicaid by promoting practice transformation, facilitating person-centered team-based care, and creating a payment structure that aligns financial incentives to promote value.

Other difficult reductions included the closure of new intake for Category 1 of the state-funded Connecticut Home Care Program, the lowest level of need under the current program, which serves individuals who are at risk of hospitalization or short-term nursing facility placement but not frail enough to require long-term nursing facility care. This results in savings of \$1.8 million in FY 2016 and \$5.6 million in FY 2017. Existing

clients receiving home care services will not be impacted. Cost sharing under the state-funded program is being increased from 7% of the cost of care to 15%, the level that was originally enacted in PA 09-5, September special session but subsequently reduced. This change will result in savings of \$2.8 million in FY 2016 and \$3.0 million in FY 2017. In addition, the budget reduces the monthly personal needs allowance for residents of long-term care facilities from \$60 to \$50 for savings of \$1.0 million in FY 2016 and \$1.1 million in FY 2017 (\$2.0 million in FY 2016 and \$2.2 million in FY 2017 after factoring in the federal share). A monthly personal needs allowance of \$50 is in line with the national average and is \$20 above the federal minimum. The budget also applies annual Social Security increases to offset the cost of care under Aid to the Aged, Blind and Disabled for savings of \$1.0 million in FY 2016 and \$1.9 million in FY 2017.

Revising the Medicaid state plan to include substance abuse residential detoxification services will also allow the state to maximize federal revenue by an additional \$2.2 million in reimbursement for expenditures currently being made in this area. Similarly, transferring funding for community health centers from the Department of Public Health (DPH) to DSS will allow the state to leverage \$2.6 million in federal funds under Medicaid.

Changes have also been made to align Connecticut with practices in surrounding states. The burial benefit funded under the State Administered General Assistance program is being reduced from \$1,800 to \$1,000 for savings of \$1.7 million in each year of the biennium. This reduction will bring Connecticut's benefit in line with the surrounding states.

In order to consolidate DSS' field operations, the Torrington regional office is being closed. The Torrington office is the department's smallest office and accounts for 2% of overall caseload in the regional offices. Twenty-eight staff will be absorbed into existing vacancies.

A number of grant-based programs funded by DSS are scaled back or eliminated; particularly programs that are not part of the agency's core mission. The Transportation for Employment Independence Program was intended to assist Temporary Family Assistance (TFA) and TFA eligible adults reach self-sufficiency through work and work-related activities. Because ridership surveys (self-reported) have indicated that only 20% of riders under this program receive TFA or are TFA eligible, funding is eliminated in DSS for savings of \$2.4 million in each year of the biennium. (Funding of \$1.9 million has been added to the Department of Transportation to maintain bus routes that are currently supported with these dollars.) Other grant reductions and eliminations in DSS total \$11.7 million in FY 2016 and \$12.1 million in FY 2017.

Department of Public Health

Approximately \$8.8 million in funding for core public health programs in the Department of Public Health (DPH) is recommended to be supported by the Insurance Fund. These programs include: AIDS Services, Breast and Cervical Cancer Early Detection and Treatment, Needle and Syringe Exchange, Venereal Disease Control and X-Ray Screening and Tuberculosis Care. An additional \$4.4 million in funding for community health centers is transferred to DSS permitting federal reimbursement on targeted payments based on acuity and performance measures. Newborn screening fees are proposed to be raised to support ongoing state laboratory costs related to newborn screening and grants for regional genetic and sickle cell treatment centers, resulting in savings of \$1.4 million. Combined savings of \$0.6 million are reflected in the Breast and Cervical Cancer Early Detection and Treatment and School-Based Health Centers programs to reflect the successful implementation of the Affordable Care Act and the resultant increase in Connecticut's insured population.

Department of Mental Health and Addiction Services

Even in this extremely challenging year, Governor Malloy continues his commitment to build and maintain a strong behavioral health system for Connecticut residents. The budget preserves most of the caseload growth

in the Department of Mental Health and Addiction Services. In addition to substantial caseload for high-risk youth, new funding will support additional slots in the mental health waiver to further the state's rebalancing efforts by assisting individuals with mental illness to leave nursing homes and augment existing services allowing individuals in Connecticut Valley Hospital to successfully transition to the community. Funding to support additional waiver slots for individuals with acquired/traumatic brain injuries was provided in DSS. Funds are also retained in the DSS Medicaid account to support FY 2015 rate increases for behavioral health outpatient providers.

Additionally, new funding is proposed within DMHAS to support the Governor's new Zero:2016 and Second Chance Society initiatives through additional wrap-around services for individuals in Supportive Housing who are part of the Governor's Zero:2016 initiative designed to end chronic homelessness by 2016 and the population served through the Second Chance Society initiative.

Department of Children and Families

This budget consolidates certain functions of the Judicial Department's Court Support Services Division and the State Department of Education's Youth Service Bureaus program under the DCF. Combined savings of over \$11.2 million is associated with these transfers, to reflect anticipated efficiencies in service provision. Savings of \$2.6 million result from reduced utilization of congregate care as more children are being served in their communities. An additional \$1.5 million in savings is achieved by reinstating a provider credentialing process for court-ordered evaluations of children and youth. Funding is eliminated or reduced for various programs that are not essential to DCF's core mission, resulting in savings of \$1.5 million.

To further demonstrate his commitment to assure high quality mental health and behavioral services for all Connecticut children regardless of insured payer source, Governor Malloy is proposing legislation to accompany the budget that will require private insurers to reimburse coverage that mirrors service arrays and durations provided under the state's HUSKY program for children and youth under 21 who struggle with mental health issues or autism spectrum disorders. Savings are assumed in DCF's and the Department of Developmental Services' Voluntary Services Programs in recognition of anticipated increases in coverage.

Department of Developmental Services

The Governor's budget preserves funding for critical programs in the Department of Developmental Services (DDS) through additional funding of \$21.6 million in FY 2016 and \$37.6 million in FY 2017 to support annualization of FY 2015 caseload growth and residential placements (110 in FY 2016 and 96 in FY 2017) and employment and day programs (99 in FY 2016 and 84 in FY 2017) for individuals aging out of services in DCF or local education agencies. An additional \$4 million in new funding will annualize 100 placements under the FY 2015 Waiting List Initiative designed to support services for individuals with aging caregivers.

Funding is also maintained for programs serving children and youth with autism spectrum disorders. The Governor maintains funding for the Lifetime Waiver which provides services for adults with autism spectrum disorder. Funding for the Early Childhood Autism Waiver has been removed to reflect coverage under Early and Periodic Screening, Diagnostic and Treatment programs in Medicaid. In addition, \$1.25 million also remains available to implement recommendations resulting from the Autism Feasibility Study and the Governor's Plan to address Overcrowding in Emergency Departments.

Beyond the savings assumed for new insurance mandates mentioned previously, almost \$20 million was removed from DDS's Voluntary Services program that serves children under 21 with severe behavioral problems resulting from behavioral health issues and intellectual disabilities, autism spectrum disorders or all three.

The Birth to Three program overseen by DDS is being moved to the Office of Early Childhood (OEC).

EDUCATION AND WORKFORCE

Office of Early Childhood

Pre-Kindergarten slots

Governor Malloy is committed to early childhood education. Considering the fiscal climate, rather than rolling back the number of pre-kindergarten seats, he has held them steady and provided \$2 million to annualize the 1,020 new seats that were added in FY 2015.

Birth to Three System

The budget finalizes the consolidation of early childhood programs that were previously scattered across separate agencies with the reallocation of the Birth to Three System to the Office of Early Childhood. Corresponding legislation designates the OEC as the lead agency responsible for strengthening the capacity of Connecticut's families to meet the developmental and health-related needs of their infants and toddlers who have delays or disabilities. The portion of expenditures that are billed to Medicaid will be budgeted under the Department of Social Services in order to permit better oversight of Medicaid claiming.

Reductions to the office's budget include eliminating funding for the Help Me Grow, Family School Connection and Family Empowerment Programs components in the Children's Trust Fund (\$1.2 million); eliminating lower priority programs in order to retain funding of core mission programming (\$870,000); eliminating school age funding in the Child Care Services program; and eliminating the earmarked funding for Bridgeport's ABCD Program in Head Start-Early Childhood Link.

State Department of Education

Elementary and Secondary Education

Governor Malloy's proposed budget recognizes the importance of the ECS grant and is recommending sustained funding at the FY 2015 level for ECS and the state's other major education grants.

To improve urban education and reduce racial isolation, Governor Malloy is proposing more funding for school choice including the following:

- To pay for approximately 1,800 more seats, \$36 million more for magnet schools in FY 2016 and
- An additional \$12 million in FY 2016 for 1,250 new charter school seats and \$7.9 million in FY 2017 for 612 more charter school seats;
- In FY 2017, an additional \$2 million to expand grades at charter schools; and
- Increased funding for OPEN Choice in FY 2016 will include \$700,000 to bring the total number of seats in the program to approximately 3,360 and \$4.9 million more in FY 2017 to fund an additional 470 seats for expanded voluntary school transfer options in Hartford, Bridgeport, and New Haven.

Other changes to the department's budget include: extending the caps on statutory grants for Public Transportation (\$66.1 million in savings), Adult Education (\$2.3 million), Health and Welfare Services for Pupils in Private Schools (\$2 million), Excess Cost – Student based (\$51.2 million) and Non-Public School Transportation (\$1.2 million). The current limit on Magnet School funding is extended through the biennium saving \$10 million in FY 2016 and \$16 million in FY 2017.

Reductions include the Commissioner's Network (\$4.7 million), Youth Service Bureaus and Youth Service Bureaus Enhancements (\$1.3 million), Priority School Districts (\$6.5 million) and Interdistrict Cooperation (\$4.6 million).

Also, funding for lower priority or non-statewide programs (\$6.2 million) and certain pilot or earmark programs (\$1.3 million) are eliminated. General Fund support for the Healthy Foods Initiative (\$4.8 million) is ended.

Higher Education

Whereas overall block grant funding levels for higher education have declined, the Governor has continued support for major initiatives including: Next Generation CT (NextGenCT) at the University of Connecticut, Bioscience Connecticut at the University of Connecticut Health Center and Transform CSCU 2020 at the colleges and universities of the Board of Regents (BOR). However, these major initiatives will undergo modest funding changes in FY 2016 and FY 2017. Recommended funding changes from estimated FY 2015 spending levels are as follows:

Aid for Higher Education Block Grants & Major Initiatives (In Millions)					
<u>System</u>	FY 2015	FY 2016		FY 2017	
	Approp. & Transfer from CT Student Loan Foundation	FY 2016 Governor's Proposed	Percent Change From FY 2015	FY 2017 Governor's Proposed	Percent Change From FY 2015
UConn Block Grant & Next Generation	\$228.3	\$219.4	-3.9%	\$219.4	-3.9%
UHC Block Grant & Bioscience CT	\$134.9	\$137.3	1.8%	\$138.0	2.3%
BOR Block Grant & Transform CSCU 2020	\$356.4	\$336.8	-5.5%	\$336.8	-5.5%

Student Financial Aid and Governor’s Scholarship Program

The Governor understands the financial challenges college students and their families face. That is why he has protected the Governor’s Scholarship for the neediest students attending public colleges and universities who do not have the institutional student financial aid that is available at private colleges and universities.

Consequently, funding for new need or merit awards to new students attending private institutions of higher education is proposed for elimination. This plan begins with a reduction of \$4.6 million in FY 2016 and \$7.6 million in FY 2017. Students attending private institutions and already receiving awards in FY 2015 would continue to receive them, as long as they maintain eligibility.

Finally, \$150,000 in FY 2016 and \$300,000 in FY 2017 in funds from the Governor’s Scholarship program are directed to provide merit based aid to undocumented students attending public institutions of higher education in Connecticut.

Teachers’ Retirement Board

The Teachers’ Retirement Board (TRB) offers health insurance to retired teachers who are Medicare eligible. The Medicare supplement plan offers medical, pharmacy, dental, vision and hearing coverage. Retired teachers who receive health insurance through their last employing school board are eligible to receive a municipal subsidy from TRB. The Governor’s budget proposes maintaining the state’s share of health contributions at the FY 2015 authorized level during the biennium.

REVENUE PROPOSALS

In order to balance the state's budget, Governor Malloy is proposing to postpone certain scheduled tax cuts and sunset dates- measures that will not result in tax increases relative to today's tax structure. These include extending current levels of the corporation surcharge, the earned income tax credit, the income tax exemption for single filers, and credit limitations on insurance companies. However, the Governor's revenue proposal maintains tax relief in critical areas. Under the Governor's proposal, the income tax exemption for teachers' pensions and the sales tax exemption for nonprescription drugs will occur as scheduled. In total, revenue measures contained within this budget proposal would raise \$557.6 million in FY 2016 and \$356.8 million in FY 2017.

To achieve fairness and balance in approach, Governor Malloy is also proposing to reduce the sales tax rate from 6.35% to 5.95% in the current biennium, more than a 6% reduction in the overall rate. This would put the sales tax at its lowest rate since FY 1971. In order to mitigate the cost of reducing the sales tax rate, the Governor proposes to permanently eliminate the clothing exemption. The fully annualized savings to Connecticut taxpayers of \$299.5 million for the sales tax reduction greatly exceeds the annualized cost to consumers of eliminating the clothing exemption estimated at \$146.4 million, a net cut in the sales tax of \$153.1 million.

Governor Malloy is also proposing to completely eliminate the \$250 biennial business entity tax. This tax has been identified by small businesses in Connecticut as a nuisance. Income from entities which currently owe this tax is passed through to individuals' personal income tax return and subject to the state's personal income tax. The revenue loss from eliminating the business entity tax is partially mitigated by an increase of \$80 in the existing fee due to the Secretary of State's office from all such business entities. These policies result in a net reduction in taxes for Connecticut's small businesses.

Governor Malloy is proposing to close a loophole in the corporation tax which has allowed some of Connecticut's largest businesses to pay little or no taxes while benefitting from the services and infrastructure provided by Connecticut taxpayers. These changes include capping the use of net operating losses and tax credits. These proposals would raise \$357.0 million over the biennium and ensure that all taxpayers in Connecticut share the responsibility for funding state government.

Finally, the hospital provider tax is being updated to reflect 2013 total net patient revenues and to equalize the tax rate on inpatient and outpatient services. This will generate \$165 million with a corresponding increase in supplemental payments to hospitals under Medicaid. Because the state's share of Medicaid expenditures is \$55 million, updating the user fee will result in a net gain to the state of approximately \$110 million.

CAPITAL PROPOSALS

Total proposed new general obligation (GO) bond authorizations are \$1.76 billion in FY 2016 and \$1.8 billion in FY 2017. These proposed bond authorizations are in addition to those that were previously authorized by the General Assembly and become effective during the biennium, which includes \$312.1 million in FY 2016 and \$266.4 million in FY 2017 for the Next Generation Connecticut/ UConn 2000 program, \$118.5 million in FY 2016 and \$95 million in FY 2017 for the CSCU 2020 program, \$21.425 million in FY 2016 and \$21.108 million in FY 2017 for the Bioscience Collaboration Program, \$15 million in FY 2016 and \$25 million in FY 2017 for the Bioscience Innovation Fund and \$84 million over the biennium for various other programs authorized in prior legislation. The capital budget proposal also includes the cancellation of \$233.6 million in prior year GO bond authorizations that are no long needed.

Other notable proposed GO bond authorizations include:

- \$1.1 billion over the biennium to meet the commitments of the school construction program;
- \$186.4 million over the biennium for the Board of Regents for equipment, technology improvements building projects at the State Universities and Community Colleges;
- \$85 million over the biennium for information technology investments to enhance state agency efficiency and effectiveness;
- \$345 million over the biennium for housing related initiatives in the areas of affordable housing, the state's public housing portfolio, and under the state's successful supportive housing program;
- \$200 million over the biennium for the Department of Economic and Community Development (DECD) to continue to provide low interest loans to attract and retain businesses and jobs in the state;
- \$100 million over the biennium to continue the popular and successful Small Business Express Loan Program;
- \$100 million over the biennium for the Urban Act Program;
- \$20 million in each year of the biennium for redevelopment of brownfields; and
- \$60 million for the Capital Region Development Authority (CRDA) to assist with the development of housing in downtown Hartford.

The Governor is also proposing \$2.78 billion in additional special tax obligation bond authorizations over the next five fiscal years to begin to implement projects under the Let's Go CT long-term transportation plan. This funding is in addition to \$741.4 million in FY 2016 and \$763.3 million in FY 2017 for the Department of Transportation's regular program for maintaining and improving our highways and transit systems.

MUNICIPAL AID

This budget preserves aid to municipalities to help them avoid having to raise local property tax levels by preserving municipal grants, enhancing municipal capital funding, and sustaining the commitment to teachers' retirement contributions, retiree health services cost and debt service.

Municipal Grants

- ECS, including Alliance Districts, is level funded, as are the grants for special education, public and non-public school transportation, health and welfare services for pupils in private schools and adult education.
- PILOT reimbursements for state-owned real property and for private colleges and hospitals are level funded, as is the Mashantucket Pequot and Mohegan Grant.

Municipal Capital Funding

The proposed budget will continue state support for local capital projects. It will:

- Increase funding for Municipal Projects by \$3.6 million per year, providing \$60 million annually to support local infrastructure;
- Establish a new \$20 million grant for green infrastructure;
- Level fund Small Town Economic Assistance Program (STEAP) and the Local Capital Improvement Program (LoCIP);
- Sustain the commitment to local school construction with nearly \$600 million pledged annually;
- Maintain funding of \$60 million annually for Town Aid Road; and
- Reinstigate the general improvements to the school buildings grant with \$50 million annually.

Teachers' Retirement

- The budget continues funding for retirement contributions, retiree health services costs and debt service.

Finally, in concert with the Municipal Opportunities and Regional Efficiencies (MORE) Commission, which works to make our state and local government more affordable, a lapse savings of \$20 million is anticipated due to increased municipal efficiencies and regional cooperation.

CONCLUSION

On a current law basis, a shortfall of nearly \$1.2 billion was projected for both FY 2016 and FY 2017. The Governor's recommended budget resolves this imbalance through proposals that will increase revenue by \$557.6 million in FY 2016 and \$356.8 million in FY 2017, and cut spending by \$590.3 million in FY 2016 and \$753.4 million in FY 2017. While difficult, these decisions produce a recommended budget that is balanced and under the spending cap in each year of the upcoming biennium.

Governor Malloy is proposing an all-funds budget of \$19,669.3 million for FY 2016, a 3.3 % increase over estimated FY 2015 expenditures and 3.6% above the adopted FY 2015 budget. The proposed all funds budget for FY 2017 is \$20,286.5 million, 3.1% above the recommended level for FY 2016. The recommended budget is \$6.3 million below the spending cap for FY 2016 and \$135.8 million below the cap for FY 2017.

Appropriated Funds Of The State (In Millions)		
	Recommended FY 2016	Recommended FY 2017
General Fund	\$ 18,001.8	\$ 18,551.2
Special Transportation Fund	1,438.2	1,504.5
Banking Fund	29.9	30.1
Insurance Fund	79.9	81.3
Consumer Counsel and Public Utility Control Fund	26.6	26.6
Workers' Compensation Fund	27.3	27.0
Mashantucket Pequot & Mohegan Fund	61.8	61.8
Regional Market Operation Fund	1.1	1.1
Criminal Injuries Compensation Fund	2.9	2.9
Grand Total	<u>\$ 19,669.3</u>	<u>\$ 20,286.5</u>
<i>Totals may not add due to rounding.</i>		

General Fund

The recommended revised General Fund budget for FY 2016 represents a \$521.3 million increase over estimated FY 2015 expenditures. On a current law basis, expenditures were projected to increase by \$1,111.7 million over estimated FY 2015 levels. As a result, Governor Malloy is proposing initiatives which result in a net reduction in spending of \$590.3 million, including significant cuts in most agencies and roll-out of the rescissions taken during the current fiscal year into the upcoming biennium.

The January consensus revenue forecast by the Office of Policy and Management and the Office of Fiscal Analysis, which forms the basis for the revenues in this budget, is projected at \$17,447.4 million in FY 2016 and \$18,199.4 million in FY 2017. Programmatic changes are proposed in this budget that increase revenues by \$557.6 million in FY 2016 and \$356.8 million in FY 2017. The FY 2016 recommended revenue totals \$18,005.0 million, a 3.7% increase over estimated FY 2015 revenue.

Current Services versus Proposed Budget (In Millions)						
	Fiscal Year 2016			Fiscal Year 2017		
	<u>Current Services</u>	<u>Policy Changes</u>	<u>Proposed Budget</u>	<u>Current Services</u>	<u>Policy Changes</u>	<u>Proposed Budget</u>
<u>General Fund</u>						
Revenues	\$ 17,447.4	\$ 557.6	\$ 18,005.0	\$ 18,199.4	\$ 356.8	\$ 18,556.2
Expenditures	<u>18,592.1</u>	<u>(590.3)</u>	<u>18,001.8</u>	<u>19,304.6</u>	<u>(753.4)</u>	<u>18,551.2</u>
Surplus/(Deficit)	\$ (1,144.7)	\$ 1,147.9	\$ 3.2	\$ (1,105.2)	\$ 1,110.2	\$ 5.0

Special Transportation Fund

In the Special Transportation Fund, the proposed FY 2016 budget is \$1,438.2 million, 7.2% above the estimated expenditure level for FY 2015, and the proposed budget for FY 2017 is \$1,504.5 million, 4.6% over FY 2016. This reflects the Governor's continued commitment to transportation as a significant driver of and contributor to a strong economy.

Expenditure Cap

Due to the impact of the Great Recession on personal income, growth in the expenditure cap has been at a historic low. On a current services basis, the FY 2016 – FY 2017 biennial budget would have been above the cap by \$509.3 million in FY 2016 and \$549.4 million in FY 2017. As a result, Governor Malloy had to cut more than \$1.1 billion of expenses over the biennium just to remain below the spending cap. The Governor's proposed FY 2016 – FY 2017 biennial budget is below the cap by \$6.3 million in FY 2016 and \$135.8 million in FY 2017.