GOVERNOR DANNEL P. MALLOY
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We live in changing times. You don't have to take my word for it. You hear it from your constituents every day – a visceral feeling that our country and our state are not going back to how things were before the Great Recession.

Families are budgeting differently. Their expectations are changing. They know they can't rely on the same economy their parents and grandparents did where wages and home values steadily increased. They know it's tougher to save – for retirement, for a college education, or just for the inevitable repairs to their car or their home.

Businesses feel it too, both large and small. They're making different decisions about how they hire, and the kind of benefits they offer. They're looking at new technologies to fundamentally change how they operate, because if they don't – they won't survive.

In short, Connecticut families and businesses alike are adapting to a new economic reality. We in Connecticut are not alone. Thirty other states are seeing less revenue from peak years.

Our national economy while making progress from the Great Recession was fundamentally changed by the Great Recession. A shifting workforce, the rapid rise of technology and stagnant wage growth have made this recovery tougher for everyone, everywhere.

But here at home the problems were compounded by our inability over prior decades to make the necessary changes and investments that would've moved our economy forward more quickly. And now while we have made year-after-year progress chipping away at our structural imbalance it's clear that our work is not done – it's clear we have not gone far enough.

We have to adapt even more. Connecticut's government must re-set our expectations of what we can afford how we provide services, and how we save for our priorities.

It won't be easy and it often won't be politically popular. However, it is absolutely necessary if we want to create a more sustainable and enduring economy.

Friends, as we embark on another legislative session, my message to you is this: Connecticut is not going back to that pre-recession reality. It just doesn't exist anymore.

The people of Connecticut know it. They've accepted it. And so must their government. That's what I want to talk with you about today: how we adjust to this new economic reality. There are many ways we can do it – many ways we need to change – but I want to spend my time on just one topic: I want to talk about how we budget.

There's a simple reality that, while our economy was evolving the state budget did not change. Together this year we need to reshape the way Connecticut budgets. We need to make our budget more predictable, more transparent, and more sustainable. A more sustainable budget will help us build an economy that can be one of the strongest in the region and competitive nationally.

With that said, I'm going to lay out five budget principles. The first principle is in many ways the simplest: going forward, we need to limit our spending to available resources. We can do it by changing our "current services" budget approach. Current services is a term readily understood inside this hall. But it's a foreign concept to our constituents. Essentially, it means that we wrongly assume government can do everything it does now at ever-growing costs. It just isn't sustainable. Families and businesses do not set their budget based on the amount of money they want to have next year. Neither can the State of Connecticut. Managing our finances this way assumes we will face cuts if we don't achieve double digit growth in revenue every single year. It puts spending increases on autopilot. This must end, and this must end this year.

The budget adjustments I submit to you today are not based on current services spending. Similar to a zero based budgeting approach, my budget limits spending in the upcoming fiscal year and beyond to actual revenue projections. In other words, this budget is based not on how much we want to spend but how much money we actually have to spend.

This new method will require different decisions to keep government living within its means. It won't come without sacrifice – it will require reductions of the state workforce by hundreds, if not thousands, of employees through attrition and other means. I don't take that lightly, but I do think it's necessary. I will continue to work with our state employees to make sure those reductions are done fairly and with great care.

And, if we're going to limit ourselves to available resources, there's another way we can do it. Twenty-four years ago, the people of Connecticut voted for a Constitutional spending cap to ensure that the state could live within its means. It's time we give them what they asked for. The wisdom of the voters was correct in 1992, and it is correct now. Connecticut needs to enact a spending cap to keep spending in check. An enforceable spending cap goes hand in hand with eliminating the current services model. We cannot both constrain spending with a cap and assume government will continue to grow unchecked every year. I have previously offered this as a proposal to the General Assembly. But this year, we have to act. Otherwise, we will be forced year after year to either cut spending or look for additional revenue. Pass an enforceable spending cap, and I again will support it.

Here's the second principle: we cannot structurally balance our budget for the long run until we have addressed the primary driver of our long-term unfunded obligations. I'm talking about Connecticut's unsustainable pension and post-employment costs. In point of fact, we have made substantial progress addressing these costs. Reforms made in 2011 have saved us billions upon billions of dollars. But our work addressing this debt remains unfinished. Much of this liability is due to decisions made before most of us went into public service. The problem was made worse over the years as the state offered early retirement incentives that added billions to our long term costs. Now, it has fallen upon us to fix it.

After decades of neglect, we are finally paying our pension obligations every year. I think we all know that must continue. And yet, we still face a fiscal cliff in 2032 that would be impossible to meet. The instability created by this cliff is shaking the confidence of the business community and looming over the next generation of Connecticut residents.

This past November, my administration released a study from the Center for Retirement Research at Boston College on how we could best stabilize our pension system. It offered ideas for ensuring that we can meet our obligations to our employees, pay down our unfunded liabilities, and do so without falling off that fiscal cliff 15 years from now.

Building on that work, I've proposed ways to refinance our debt, adjust our assumed rate of return, and change our most expensive Tier One pension plan to a pay-as-you-go system. Others have put forward their proposals to address this cliff. And I appreciate those ideas. Now is the time for a frank discussion, and an honest assessment of our options.

To that end, I have directed Secretary Barnes to pull together all stakeholders - including the Treasurer and the Comptroller, SEBAC and the state employees it represents, as well as the Connecticut teachers - to work on this issue together. Using the work we've already begun this group should develop a consensus on how to best make our pension system more affordable and more sustainable. We should find the best combination of our ideas to help us support current pensions, pay off old liabilities, and strengthen our entire system for generations to come.

This work should be part of a larger, ongoing effort to align our pension and post-employment benefit system with Connecticut's new economic reality. Let me be clear – I strongly believe that working people who serve the public for decades deserve a secure retirement that is offered by a defined benefit plan. But friends must be honest with each other. If we want to support our pension system and the retirees who benefit from it, we have to change it. We have to be willing to have tough but necessary conversations about what that means. We can't put these conversations off any longer without doing further damage to ourselves and to our state.

Let's continue our work toward a long-term fix for our pension system and other post-employment benefits. Let's give our citizens and businesses the confidence that will come from having addressed that which we know needs to be done.

The third principle is this: we need to prioritize funding for core services. Simply put, every existing line item cannot be considered a core service to be funded in perpetuity. Together we must concentrate on the core functions of state government, namely: protecting the public, ensuring a social safety net, building a strong economy, safeguarding our environment, providing a public education, and administering justice.

To that end, functions that fall outside of those core services must be considered on merit alone. We must make recipients of state funding compete for available dollars based on proven results. In other words, we have to reform our earmark process. That includes state funding to outside agencies, community organizations, and special events. Funding for these items should be time-limited, and we should re-examine these expenditures regularly. Let’s reform this process and do it this year.

My budget cuts existing earmarks by more than 20 percent in order to live within our means. And, it creates new pools so that entities receiving line item earmarks and, importantly those entities that have not had the political clout to receive them – will compete on equal footing for funds.

Any state funding that falls outside our core government services must be based on merit and merit alone. Let’s make this change together.

The fourth principle is this: state agencies must be held accountable to the public and the legislature for their results. The bill I submit to you today will require agencies to post online, detailed, meaningful, timely information about how they are spending the people’s money, and precisely what that money is accomplishing.

And, at the same time we’re making agency budgets more transparent. We also need to push commissioners to find more cost-effective ways of accomplishing their respective missions. We should give them the latitude to use funds in the most efficient way possible.

By simplifying line items in the budget we can give our top executives the ability to manage their agencies while providing quality services to taxpayers in the most efficient way possible.

Just as any business does, our managers need the ability to lead their agency, adjust to shifting circumstances, and set priorities to use limited resources in the best way possible.

Together this year, we can let managers manage, and we can hold them accountable for results. Accountable to me, accountable to you, and accountable to the public.

Lastly, here’s the fifth and final principle. We’ve talked about limiting our spending. We’ve talked about our pension and post-employment cost. We’ve talked about setting priorities. We’ve talked about focusing on results. But this final principle is one that can’t be reflected in a budget book: it’s about our process.

It’s about how we work together to deliver the best product possible to the people of Connecticut. No budget will be perfect but I firmly believe that by changing how we come to a budget bill we can improve the final result. So this is my challenge to you and to me: let’s not pass a budget on the final day of this session this year.

Let’s get it done early. Let’s do it so that we can spend those final days working on other priorities – both yours and mine- and that goes for budget implementers as well. No longer should implementers be a place to pass things that we didn’t have time for during the session. If an idea didn't get a fair hearing during the legislative process, then it shouldn't be brought to the table at the eleventh hour.

Let me be clear, this is true of both Democrat and Republican ideas. While I want to get a budget done early, I also understand and respect the committee process. I have no intention of circumventing it. While committees do their work, legislative leaders and committee leadership can meet regularly with me and my staff to better understand each other's goals for this budget.

I welcome anyone to that table – Democrat or Republican. No one party, no one leader, and no one individual holds a monopoly on good ideas. Now is the time for everyone to put those ideas on the table. For us to have a bipartisan discussion throughout this session.

Of course, it needs to be a real effort; one that is seen through to a responsible conclusion. To that end, I have only two conditions for our talks. First, everyone must be willing to compromise. I know some consider compromise a dirty word. But just last November and December, Democrats and Republicans in Washington compromised on transportation and passed a Federal budget together. Compromise is necessary if we are going to address our challenges here in Connecticut.

Second, there comes a point where it isn't enough to bring your ideas, you also need to bring your votes. While every good idea should and will be heard, anyone who expects their ideas to be made reality must be ready to support a final budget bill.

That's the price of admission and the price of being part of the solution. I know this is an election year. Too often, it's easier for all of us to point fingers at one another. But I assure you, there will be time for campaign politics this fall. During the session, we can either be part of the solution or stand on the sidelines throwing stones. We cannot do both. We can't be opposed to tax increases, but unwilling to cut the spending those taxes support. We can't be for reining in spending, but oppose cuts in any one line item. We must be honest about the challenges we face, and work together to address them. That's it – those are my five principles for making our budget more predictable and our economy more sustainable. For giving confidence to our residents and our businesses that government is adjusting to a new economic reality. Equally importantly, budgeting more prudently can help us protect the services we value most.

I believe strongly that government can and should play a positive role in the lives our citizens. The measures I've laid out today aren't about cutting spending just to cut spending. This isn't a call for overzealous austerity or a departure from Connecticut's core values. Rather, they're about changing how we budget in order to preserve that which we hold dear.

In order to preserve what makes Connecticut so special. These are my ideas. I am sure there will be other ideas from those in this chamber, from leaders across the state, and citizens' concerned about our future.

All of those ideas should be heard as we take on this challenge together. For myself, in addition to what I laid out today.
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If we want to sustain the progress we have made – if we want to build on it – we have to fix how we budget. I know it will be a challenge.

As we begin this new session of the General Assembly let us resolve together that we will use fresh eyes to look for answers to old problems.

Let us take new approaches to our challenges and find innovative ways to meet them. Let us accept that we can't wish away our problems. Let us seize this moment together to address the un-finished work before us.

Let us collectively believe that we can change the way our state budgets while we hold true to our Connecticut values. We can adjust to a new economic reality while we protect our quality of life.

We can support our business community and train a 21st century workforce. We can ensure that our progress leaves no one behind. We can look to the years ahead with optimism for the future, pride in the state we all love and hope that we can achieve what is right and do it together.

Thank you and god bless you. May God bless the United States of America, and the great State of Connecticut.

We live in changing times.

The Governor's recommended mid-term budget adjustments reflect those changing times, and the uncertainty that they create.

The budget recommended here is extraordinarily challenging, and includes deep cuts to all areas of discretionary spending. It calls for spending to be reduced from the original FY 2017 budget by 2.8 percent, an increase of only one percent over FY 2016 estimated spending. Excluding debt service and fringe benefits, the General Fund budget is actually $165 million below FY 2016 spending levels. This reduction is achieved by carrying forward the cuts made in the December special session, making targeted policy changes, and ultimately by cutting 5.75 percent from all agency operating budgets, excluding only Education Equalization Grants (ECS), entitlement accounts, and mandated costs such as pension and debt service payments.

The budget is a call for action to state agencies across all branches of state government to operate in wholly new ways and to sharply reduce spending. This budget will require that we cancel contracts, eliminate grants, and economize in new ways across all our expenditures. This budget will demand that we tap into the creativity of state agencies, state employees, and private citizens to find new ways to meet the needs of our state within a severely constrained budget.

The budget will result in reductions to service levels and the number of staff who provide those services. In FY 2016 state agencies are working to reduce the number of state employees by 500 through attrition. This budget will demand that we redouble this effort, and likely will require that we make staffing cuts well beyond attrition as we concentrate our resources, our money, and our staff on the most critical core services of state government.

These adjustments also reflect a new way of budgeting, based on accountability, outcomes, and a rethinking of our expectations for state government in the coming year and beyond. These adjustments constitute a new way of budgeting to reflect a changing economic reality.

This budget does not start with the premise that we will fund every activity that we have funded before, with increases for inflation, plus new programs and expansions. The old "current services" model of budgeting served partisan and special interests while compounding the difficulty of living within our means as the public good demands. We must stop using this model now.

General Fund Expenditures
(in millions)

	FY 2017
Original Adopted Budget	$ 18,711.2
New Proposed Budget Revision	$ 18,141.7
Difference	$ (569.5)

A Principled Approach

Economic indicators, and everyday observations of Connecticut residents, point to new dynamics within Connecticut's economy. Families and businesses across the state and nation have adapted to these changing times, and Connecticut state government must do the same. These changes unquestionably include spending less money, but should not be based on indiscriminate cuts to services and funding. By taking a principled and thoughtful approach to downsizing state expenditures, we can ensure that the most critical services remain strong, and that the priorities of our citizens are reflected in the government they support.

First Principle-Reform Current Services

For many years the State of Connecticut has developed its budget based on a current services model. This model starts with a current services projection that assumes all policies stay in place and are funded in future years. Then, any policy changes, or budget options, are identified and priced, and overlaid as additions to or subtractions from the current services budget.

This method was intended to make the available policy options clear to the legislature and to assure that necessary funding would be in place for anticipated expenses.

There are significant drawbacks to current services. First, this model consistently overstates future spending, promising deficits in the future that do not materialize. Looking at the legislature's current services projections back to 2007, the average projection of spending growth is 4.9 percent, while the average projection for revenue has been 1.9 percent.

This pattern of unrealistic expectations is reflected in the balance projections made by the legislature every fall. A review of these balance projections made from 2010 through 2015 shows that the average balance projected for the year in which the projection was made was a deficit of $88 million. The average deficits projected for the three full years following each projection are $1.04 billion, $1.41 billion, and $1.46 billion. These doomsday projections were ultimately shown to be incorrect. Actual results during that time were positive in four out of six years, allowing for establishment of a $406 million balance in the Rainy Day Fund as of June 30, 2015.

The projected deficits never happened, and only existed because we have a system of forecasting budgets that wrongly projects five percent growth in expenditures in an economic environment that only produces two percent growth in revenue. We cannot afford to build these unrealistic expectations into our budget process anymore.

Current services budgeting tends to inflate budget needs by capturing new and growing expenses while ignoring the productivity gains, efficiencies, and prioritization that occurs in well-managed organizations. The best example is in the area of inflation, which is routinely built into current services budget projections based on the assumption that goods and services will cost more as inflation occurs in the overall economy. However, most organizations, including state agencies, will mitigate inflation through substitution of lower cost goods and services, efficiencies, and prioritization of expenditures. Indeed, the state has not generally budgeted for inflation for many years without harm.

Equally troubling is that the current services model assumes that all expenditures, once budgeted, should continue forever. This is in direct conflict with the well-accepted premise that government expenditures should be based on outcomes and effectiveness. Take, for example, a public health program aimed at addressing a particular chronic disease. If that disease becomes less prevalent for any reason, or if new interventions are identified that are more effective, or if other chronic diseases arise that are more urgent to address, the original program should lose funding. This is the premise of Results Based Accountability, Results First, outcomes-based funding, and any other number of models designed to improve public services while containing costs. Unfortunately, this premise is undermined by the current services model which requires spending to grow but generally does not allow it to be reduced except as a policy option.

These features of the current services model tend to reduce the authority and accountability of state agencies. By making commissioners mere stewards of budgetary inertia, funding what was included the year before, plus inflation, we deprive them of the initiative and the authority to make substantive choices in furtherance of their core agency missions.

Especially in tough times, when resources are scarce, we need to empower state agencies to find the best way to satisfy core needs, while holding commissioners and managers responsible for the outcomes. This requires that we abandon the current services model as it has been used in Connecticut in favor of an accountability model of budgeting.

Second Principle-Strengthen Pension Funding

This budget reflects the Governor's commitment to strong, affordable defined-benefit pension plans for state employees and teachers. This budget fully funds the required payments to our pension systems, and comes as the state works to implement significant reforms to those systems. These reforms will:

- Ensure long-term affordability of state pension systems by reducing interest earnings targets and setting reasonable timeframes for paying down unfunded liabilities;
- Fully fund pensions for current employees;
- Continue to make our pension system more affordable to taxpayers by reducing the cost of future benefits and by sharing the costs of our pension system equitably with employees.

Last November Governor Malloy received an analysis of the state's two largest pension funds, focusing on the sustainability of those plans and their long-term impact on Connecticut's fiscal stability. That report, authored by the Center for Retirement Research at Boston College, pointed to the significant improvements in affordability of current pensions, and identified that the unfunded liabilities in the funds are largely attributable to pensions granted years ago and never properly funded. The study prompted the Governor to endorse a series of specific recommendations intended to stabilize state pension contributions at a level that would be affordable to taxpayers now and in the future while still guaranteeing that retirement obligations would be met for current and future retirees.

Since then, others have made additional recommendations aimed at the same goals. The Governor has tasked the Office of Policy and Management (OPM) with convening stakeholders in our two largest funds to evaluate alternative approaches and make recommendations to the Retirement Commission, the Teachers' Retirement Board, and the General Assembly. These recommendations will be made in time to be reflected in the June 30, 2016 valuations of the funds, and could form the bases for calculating the actuarially determined employer contributions to the funds for the upcoming biennium.

In this budget proposal, employer contributions to pension funds are fully funded, along with debt service for the pension obligation bonds issued in 2008 to benefit the Teachers' Retirement System. These budgeted payments total $2.4 billion.

Third Principle-Fund Core Services and Reform Earmarks

Connecticut state government does many things. We protect the public. We educate our citizens. We provide health care and social services. We take care of many citizens who have special needs related to disability, illness or circumstance. We administer justice. We support our democracy.

But in addition to these and other core services, state government has entered into many other areas that are less critical and can be reduced or eliminated. We must be prepared to do so.

This budget requires that commissioners identify the core functions of government within each agency. It demands that each agency of state government review all activities that it currently supports and prioritize them based on their alignment with those core agency functions. Finally, it mandates that each agency, each contractor, each grantee and each service provider quantify the effectiveness of the state spending they control in furtherance of those core services.

Those efforts that demonstrate better outcomes and lower costs should be supported; those that are not demonstrated as cost-effective should be discontinued. This applies to services provided by state employees and by vendors or non-profit partners. It is the responsibility of commissioners to ensure that this happens with integrity within their agencies. The legislature should demand it, and the Governor will ensure it.

Fourth Principle-Hold State Agencies Accountable for Spending

Efforts in government to measure outcomes and cost-effectiveness are challenging because so many of the interventions that governments fund are intended to produce long-term improvements in complex systems which are difficult to measure in real time if at all. This is why so many accountability efforts end up measuring inputs – spending, hours on task, or participation in a program. New approaches have been developed in outcomes-based funding and contracting that should be adopted even more broadly in Connecticut. New technology in many areas of state government, coupled with the state's Open Data Portal, will also help us identify outcomes and track costs better, creating new opportunities for successful use of data in managing core state services. And, expanding the use of LeanCT will enable agencies to further streamline their processes.

In order to reduce spending by focusing state agency efforts on core services and by encouraging state agencies to find more cost-effective ways to provide those core services, we must adopt an accountability model for budgeting. Agencies should be accountable for their cost-effectiveness in conjunction with OPM. They should develop reporting methods that identify outcomes and resources used in providing core services, in real time, for the benefit of state legislators and the general public. All of state government should be held accountable for the progress and improvement we make in this regard.

We must continue to rely on the creativity and expertise of management in state government to find the best ways to provide core services. While holding them accountable, we need to give commissioners and their agencies the latitude necessary for finding new and better ways to do their jobs, by reducing the number of spending mandates that we place on agencies and granting them budgetary flexibility to use resources in new and different ways to meet their core service needs. Granting more flexibility to agency leaders goes hand-in-hand with this increased level of transparency.

This budget does this by streamlining agency budgets, and by expanding the use of new technology-based tools for reporting and evaluating programs and service outcomes across state government.

Fifth Principle-Bipartisanship

Finally, in order to adopt a new way of budgeting to meet the challenges of our changing times, we need to ensure that the views of all Connecticut residents and their elected officials are heard as we set priorities and establish budgets. Not only should we meet and discuss matters across the aisle, but we should carry out our work in a transparent way, giving legislators and the public ample time to read and consider the solutions we would ask them to consider.

Certainly, it is the business of the legislature to set its own deadlines and establish its own procedures. But in a year as challenging as this one we must work together to find the best solution to our challenges, and do it as soon as possible. The Governor and the legislative branch each have a role to play in developing and agreeing to a budget, and we stand ready to get to work on a budget, together, now.

New Ways of Budgeting

The Governor's proposed budget adjustments include some significant changes to the form and presentation of the budget, in line with the economic considerations and budget principles described above. Proposed budget changes include the following:

- In general, savings adopted in the December deficit mitigation plan are continued from FY 2016 into FY 2017;
- A limited number of additional, specific policy changes are proposed, a number of which require implementing legislation;
- Agency management flexibility is enhanced by consolidation of most appropriations into a single account in each agency for Agency Operations. Municipal aid, entitlements, and a few other accounts remain as distinct appropriations;
- In addition to the reductions mentioned above, a uniform, across-the-board reduction is applied to agency operating accounts and to non-ECS municipal aid;
- Variable fringe benefit costs are reallocated from the central accounts administered by the Comptroller into Agency Operations accounts. Funding for the unfunded accrued pension liability and for retiree health care costs, however, remains budgeted within the Comptroller's fringe benefit accounts;
- Higher education funding is converted into true block grants, and reflects fringe benefit costs in a similar manner to agencies; and
- Certain line-item earmarks are consolidated within the miscellaneous accounts administered by the State Comptroller, with funds grouped into categories.

Each of these changes is discussed in more detail below.

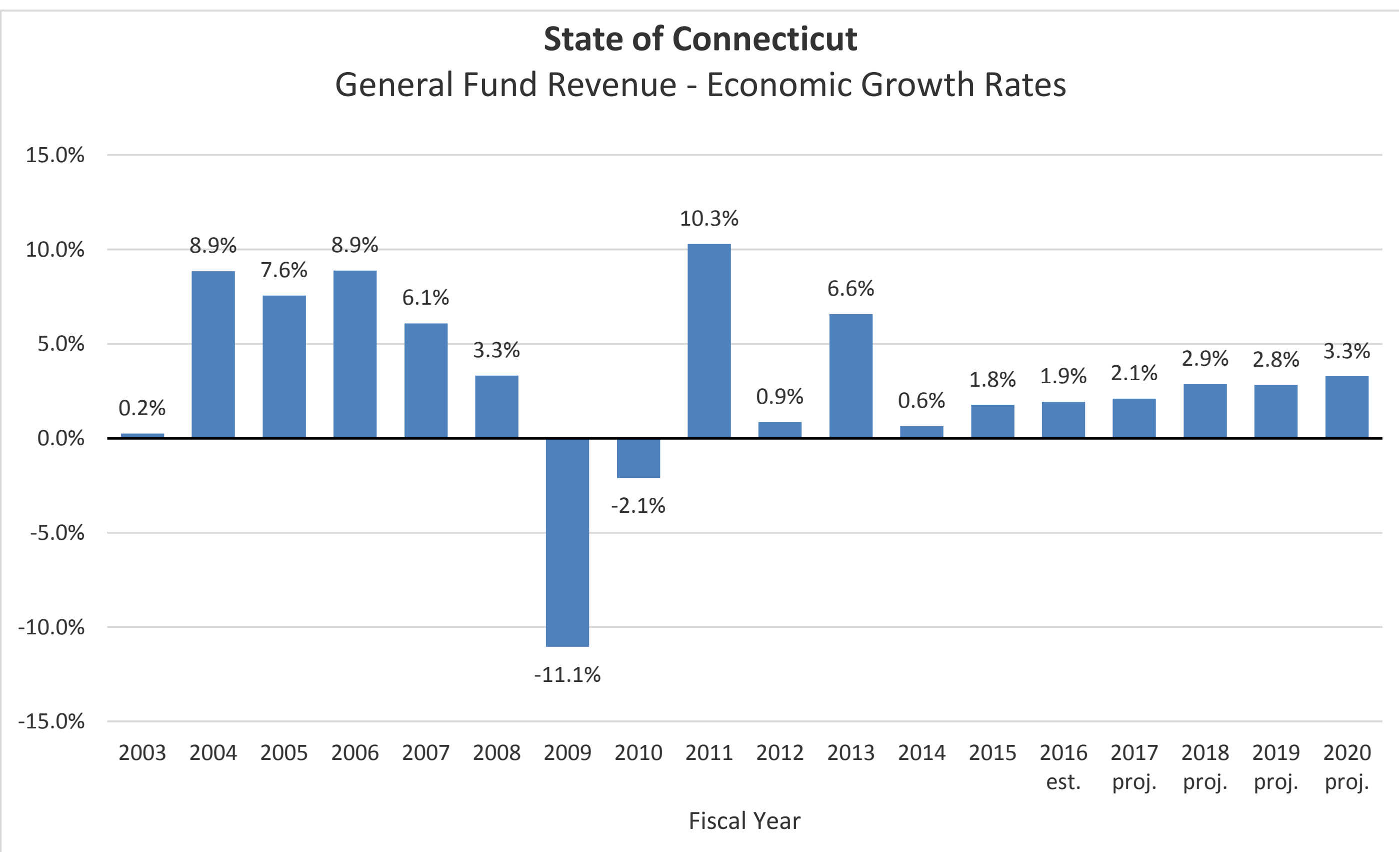
__A Budget for Changing Times__

The budget adjustments presented here are based on the available revenue identified in the January 15, 2016 consensus revenue forecast. These adjustments do not include proposals for new taxes. That revenue forecast is the product of a good-faith effort, but today we continue to face enormous uncertainty about the strength of the economy and the rate of growth in state revenue.

Markets are down, the global economy is slowing, oil prices have fallen through the floor, and our strong dollar hampers exports. Connecticut's real estate values have stubbornly resisted recovery. Income inequality has widened. Wages have just recently begun to grow at expected rates, after years of stagnation. On the other hand, unemployment is down to 5.2 percent. Wages are growing now. Real estate sales are up. The burden of high energy prices has been eased for Connecticut households. Incomes, economic output and consumer spending have all been enjoying sustained growth over multiple years. Just as there are flags of caution, so too are there reasons for optimism over the long-term.

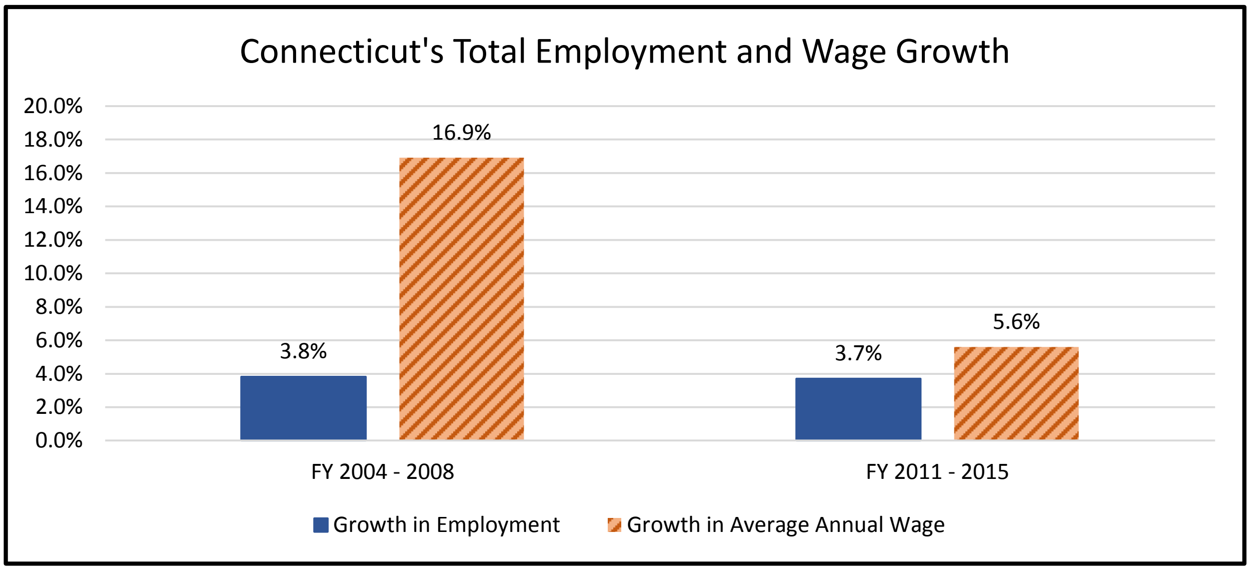
There is no question, however, that the pace of economic growth and the growth in state revenues have been slower in the past few years than historical patterns predict. In the coming year, reduced state revenue from that slower growth appears to be exacerbated by weakness in our most volatile revenue stream, taxes on capital gains. The result is over $560 million less general fund revenue to support state government in the year that ends June 30, 2017, compared to expectations when the biennial budget was adopted.

The slow growth in state revenue that is projected for FY 2017 and beyond is in line with a new, unprecedented pattern that has developed since 2010. As the chart below shows, the current recovery

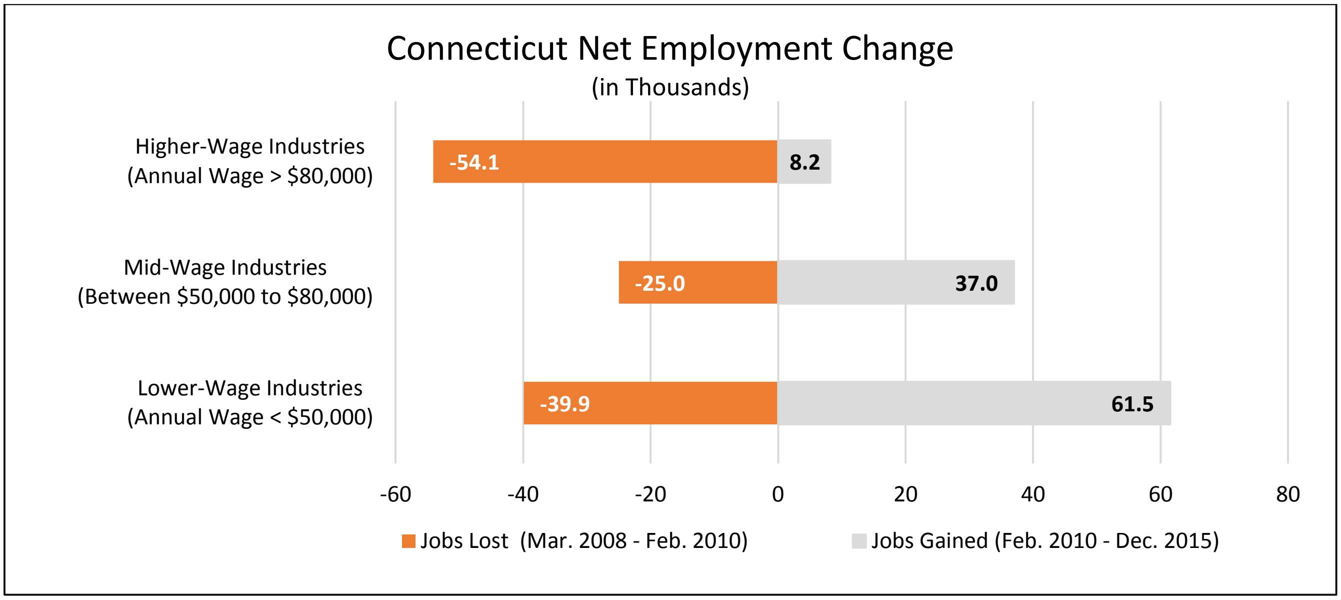


initially produced unprecedented volatility in General Fund economic growth rates (revenues adjusted for tax changes). Since 2014, however, it has settled into a pattern of annual growth around two percent, less than one-third of the growth rate that was produced during the last business cycle a decade ago. While slow growth in revenue is discouraging, we have already surpassed the normal interval between business cycles, suggesting that this recovery may be less strong but longer than previous recoveries.

The pattern of slow revenue growth links to a similar trend in wage growth. Connecticut's economy has always been relatively slow to regain jobs lost in economic downturns, largely due to the high wages and high productivity of employees in the state compared to others. This has traditionally been offset by strong wage growth, supporting state revenues. In the current recovery, employment growth has been similar to the previous recovery, yet wage growth has been much slower on average, as the chart below indicates.



This suppressed wage growth reflects a lack of wage pressure nationally, and it is predominantly the result of changes in the types of jobs gained since the last recession, especially in comparison to the jobs lost. Connecticut has lost jobs in higher paid sectors such as finance and manufacturing, and added jobs in lower wage sectors such as leisure and hospitality, and retail. There are also employment gains in higher paid sectors such as engineering and business headquarters operations, but these sectors are still too small to appreciably impact wage growth overall.



There are some other characteristics of the national and state economy that have been consistent and growing for decades. One of these characteristics is income inequality. In 1996, the top 20 percent of tax filers in Connecticut accounted for 58 percent of total reported income. The three middle quintiles accounted for about 40 percent of income in that year. In 2014, our most recent year for this data, the top 20 percent reported 67 percent of income and the middle quintiles had dropped to 31 percent. Since the gains at the top are significantly interest, dividend, and capital gains income, and not wages, this trend is in line with data showing slower wage growth. Also significant for the state budget, it portends increasing volatility in tax revenues as more income is driven by market performance rather than economic production.

Another indicator which is showing historically unusual results on a national and statewide basis is the housing market. Housing production across the country plummeted with the recession in 2008, dropping to the lowest level in more than half a century. While that indicator, adjusted for population, has recovered from its low, it still remains at about half the historic average rate. This indicates a lack of demand and reduced household formation which are in line with the data regarding income and wage growth and the slow pace of economic recovery.

In Connecticut, the housing market enjoyed a 120 percent long-term increase in existing median home prices from the mid-1990s to 2006. Home prices then fell 21 percent or about $67,000, and have only recovered about $18,000 since the post-recession low in 2012. Similarly, Connecticut's home sales are running at levels not seen since the mid-1990s. Given that the pre-recession build-up in home prices and sales was "bubble" driven, and taking into account slowing population growth and household formation, housing is not expected to be the same economic driver in this recovery as in the past.

Budgeted Reductions

A new fiscal reality confronts the state, one in which the post-recession economy is not growing at the same pace as in prior recoveries. To live within this new economic reality, the Governor proposes to limit budget growth to available revenues, through three major categories of changes. First, the deficit mitigation actions adopted as part of the December 2015 Special Session incorporated into agency appropriations. These reductions total $90.5 million in the General Fund. Second, a number of specific policy changes are proposed that result in reduced spending, including closure of an additional prison (discussed below); some of these proposals require implementing legislation. These specific reductions total $118.2 million. Third, and perhaps most significantly, across-the-board reductions of 5.75 percent are applied to agency operating accounts and municipal aid, with exceptions for ECS grants and entitlements. These reductions total $360.8 million in the General Fund. All told, General Fund reductions in this budget total $569.5 million.

Agency Operating Accounts

The Governor proposes budgetary revisions that will enhance state agency accountability, to the public and the legislature, for results. The current budget structure is focused more on inputs than on outcomes. By moving away from line item appropriations that specify how much is appropriated for personnel, operating expenses, contractual costs, and the like, and by consolidating funds within a single operating account, agency commissioners will have more flexibility and responsibility to achieve their missions. To address any perceived loss of accountability, the Governor supports more widespread use of business intelligence tools available for the state's accounting system, along with the Open Data Portal, that will enable agencies to report on the internet detailed, meaningful, real-time data about spending and results for the public to see. This will enhance transparency where it matters most—understanding what public money is being spent on, rather than in which line it is budgeted. The current method of budgeting is not as transparent as some believe, as agency activities may be financed across a number of distinct appropriations.

In creating agency operating accounts, the Governor recognizes that certain appropriations should remain distinct and not consolidated with other operating funds. Entitlement accounts such as Medicaid; Aid to the Aged, Blind and Disabled; Temporary Family Assistance and General Assistance will remain as distinct appropriations, as will sources of municipal aid.

Creation of agency operating accounts will also enhance transparency by reflecting the total costs of services provided by that agency. In the past, funds for fringe benefits have been centrally budgeted. Under the Governor's proposal, certain fringe benefit costs will be transferred from the central accounts administered by the State Comptroller to agency budgets, as discussed further below. This will enhance the public's ability to understand the total costs of agency operations.

Budgeting Certain Fringe Benefits Costs within Agency Operating Funds

Under the current system, agency budgets support the cost of wages paid to their employees, but most fringe benefits costs are budgeted centrally within the Comptroller's Office. As a result, agency staffing decisions are often made in consideration of only a portion of the state's full costs—and the public does not have a full picture of each agency's operating costs. The Governor's proposed budget would move a portion of fringe benefit funding into each agency's operating account in order to more closely approximate the full cost of that agency's employees.

To operationalize this concept, a budgetary rate of 37.44 percent will be applied to all General Fund and Special Transportation Fund wages. This rate is approximately equal to the average cost of Social Security and Medicare taxes (7.65 percent), healthcare benefits (21.79 percent), and the normal cost of employee pensions (8 percent). The normal cost is defined as the projected cost to the state of benefits earned by current employees in the current year. While actual fringe benefit costs vary for each employee, the proposed rate will more closely approximate the true marginal cost of employee wages and benefits in order to promote better decision making and will also more accurately illustrate the true cost of operations for each agency. Agencies will be responsible for remitting fringe benefits funding to the Comptroller to ensure these costs can be paid in full.

Under this proposal, funding for the unfunded pension liability and for retiree health care costs will remain budgeted under the fringe benefit accounts administered by the State Comptroller.

Fringe Benefits Transfers

Transfers From:		
State Comptroller - Fringe Benefits - General Fund	$	(951,133,680)
State Comptroller - Fringe Benefits - GF / Higher Ed. Portion		(432,852,693)
State Comptroller - Fringe Benefits - Special Transportation Fund		(87,466,632)
Total Transferred from Nonfunctional Comptroller's Accounts	$	(1,471,453,005)
Transfers To:		
Legislative Management	$	17,875,607
Auditors of Public Accounts		4,546,583
Commission on Aging		155,897
Permanent Commission on the Status of Women		202,556
Commission on Children		250,245
Latino and Puerto Rican Affairs Commission		156,571
African-American Affairs Commission		102,146
Asian Pacific American Affairs Commission		78,307
Governor's Office		872,904
Secretary of the State		2,316,524
Lieutenant Governor's Office		239,593
State Treasurer		1,205,434
State Comptroller		9,186,798
Department of Revenue Services		22,549,865
Office of Governmental Accountability		911,576
Office of Policy and Management		4,727,966
Department of Veterans' Affairs		8,145,334
Department of Administrative Services		19,730,557
Attorney General		12,038,582
Division of Criminal Justice		17,982,494
Department of Emergency Services and Public Protection		54,168,622
Department of Motor Vehicles		18,642,949
Military Department		1,124,683
Department of Consumer Protection		5,946,632
Labor Department		4,050,268
Commission on Human Rights and Opportunities		2,237,212
Office of Protection and Advocacy for Persons with Disabilities		863,279
Department of Agriculture		1,491,371
Department of Energy and Environmental Protection - GF		20,245,248
Department of Energy and Environmental Protection - STF		779,239
Council on Environmental Quality		68,184
Department of Economic and Community Development		3,105,500
Department of Housing		778,793
Agricultural Experiment Station		2,454,576
Department of Public Health		14,133,169
Office of the Chief Medical Examiner		1,777,179
Department of Developmental Services		88,493,733
Department of Mental Health and Addiction Services		85,603,687
Psychiatric Security Review Board		104,719
Department of Transportation		68,044,444
Department of Social Services		48,402,017
State Department on Aging		898,395
Department of Rehabilitation Services		4,104,757
Department of Education		62,015,420
Office of Early Childhood		3,255,861
State Library		2,088,779
Office of Higher Education		753,133
University of Connecticut		145,696,323
University of Connecticut Health Center		103,221,779
Teachers' Retirement Board		664,331
Board of Regents for Higher Education - System Office		198,732
Board of Regents for Higher Education - Constituent Units		183,934,591
Department of Correction		157,754,834
Department of Children and Families		107,851,550
Judicial Department		136,782,727
Public Defender Services Commission		16,440,750
Total Transfers to Agencies	$	1,471,453,005

Fringe Benefit Reform in Higher Education

The adopted FY 2017 budget includes appropriations totaling more than $700 million for the Charter Oak State College, the Regional Community Technical School System, the Connecticut State Universities System, the University of Connecticut, and the University of Connecticut Health Center. These appropriations are primarily in the form of block grants that higher education units use to support staffing costs. Under current practice, fringe benefits costs for these state-supported staff are charged to the Comptroller's fringe benefits accounts, while the fringe benefits expenditures for employees supported by tuition funds are charged directly to those funds. The result is two different treatments of fringe benefits costs for employees, depending on an arbitrary assignment to either the General Fund or tuition funds.

Because tuition funds support the full cost for tuition-funded employees (including both the marginal costs of hiring a new employee as well as fixed legacy costs for unfunded accrued pension liability), the cost of these employees exceeds their true marginal cost to the state. This is because the unfunded pension liability does not change depending upon the number of active employees. Furthermore, requiring colleges and universities to use tuition funds to support the cost of the state's unfunded pension liability exposes those funds to significant market risk during the remaining 15 years of the State Employees' Retirement System (SERS) amortization schedule. That risk is not controllable by higher education units, nor is it directly related to their current employees.

In order to address these shortcomings of the current budgetary approach, the Governor has proposed two significant changes in the treatment of block grants for higher education. The first is to remove the artificial distinction between block grant employees and tuition fund employees by treating the block grant as a true block grant—a source of revenue to support the operations of the state's colleges and universities. The second change is to specifically budget for the higher education charges related to the unfunded accrued liabilities within the SERS.

In order to keep General Fund support consistent with current levels, block grant funding for each higher education unit would be increased by the amount currently budgeted in the Comptroller's office in support of fringe benefits for those employees presently designated as General Fund employees. From that increased block grant amount, the expenditures associated with SERS unfunded accrued liabilities for *all* operating fund employees will be separated out into a distinct appropriation.

Revisions to Higher Education Block Grants

in millions of dollars	Original Block Grant	+ FB for Block Grant employees	- SERS UAL for all employees	= New Block Grant
UConn (*incl Next Gen*)	245.5	145.7	(76.8)	314.3
UCHC (*incl Bioscience*)	137.5	103.2	(70.3)	170.4
UConn + UCHC	383.0	248.9	(147.2)	484.7
Charter Oak	2.77	1.59	(1.88)	2.48
CSU	164.2	62.3	(43.6)	182.9
CTC	164.5	120.1	(67.5)	217.1
BOR Total	331.5	183.9	(112.9)	402.5

A New Approach to Higher Education Funding

As groups such as the Planning Commission for Higher Education, the Outcomes Based Financing Task Force, and the Higher Education Coordinating Council explore how the public systems of higher education are funded, one thing is clear: the current block grant system needs to be rationalized. The true level of General Fund support for public higher education is understated, and the state's colleges and universities are struggling with unfunded pension liabilities for tuition supported faculty and staff.

The Governor's budget proposes to move away from a roster-based system of funding, with all the resulting fringe benefit complications. Instead, funding is appropriated in the form of a true block grant, to be treated by higher education constituent units as a revenue source, as described above.

Additionally, the Governor proposes establishing a $2.3 million incentive fund in the Board of Regents for outcomes-based funding. These incentive funds would be used to support the state goal of promoting student success for low-income students and reducing achievement gaps.

By establishing baselines, investing in best practices, and using metrics to measure outcomes, the Governor is changing the way agencies are funded and making them more accountable to the public and the legislature for their results, while ensuring that the most vulnerable students have pathways for success.

Transitioning Support for the Commission on Human Rights and Opportunities (CHRO) to the Office of Governmental Accountability (OGA)

Over the last few years Governor Malloy has made great strides in streamlining state government. Given the state's limited resources, this work must continue. To that end, the Governor's budget recommends the placement of the CHRO within the OGA. The proposed change will allow CHRO to benefit from centralized back office functions while preserving its core mission of enforcing civil rights laws for the people of Connecticut. Additionally, this arrangement will strengthen enforcement and compliance practices through information and knowledge sharing. At a time when resources are limited, we must seize opportunities to create efficiencies where possible.

Budgeting for Legislative Priorities – Reallocating Funding for Arts, Tourism, and Other Community Grants

One of the key principles of this budget is that recipients of state funds must demonstrate that their outcomes merit their funding. Governor Malloy believes that state funding commitments to outside agencies, non-profits, community organizations, and special events should be limited to a finite time period and should be re-examined regularly. Additionally, earmarked programs should be held accountable for their results in support of core state functions, and not automatically funded each year. Accordingly, funding for arts, tourism and other community grants is reallocated to the miscellaneous accounts administered by the Comptroller as follows:

- $3.8 million for Arts Grants;
- $0.4 million for Community Development Grants;
- $3.3 million for Tourism Grants;
- $6.0 million for Workforce Development Grants; and
- $2.3 million for Youth Development Grants.

Arts, Tourism and Other Community Grants Transferred to Comptroller			
Appropriation	**Amount**	**Appropriation**	**Amount**
2Gen - TANF	(1,425,000)	Leadership, Education, Athletics in Partnership (LEAP)	(663,178)
Amistad Committee for the Freedom Trail	(38,636)	Litchfield Jazz Festival	(45,157)
Amistad Vessel	(308,902)	Main Street Initiatives	(146,714)
Art Museum Consortium	(450,761)	Maritime Center Authority	(476,476)
Arte Inc.	(23,750)	Mystic Aquarium	(505,803)
Barnum Museum	(23,750)	National Theatre of the Deaf	(123,561)
Beardsley Zoo	(319,861)	Neighborhood Center	(237,893)
Bridges to Success	(200,000)	Neighborhood Music School	(121,932)
Central Tourism	(33,879)	Neighborhood Youth Centers	(1,112,640)
ConnectiCorps	(174,000)	New Britain Arts Council	(61,783)
Connecticut Humanities Council	(1,851,184)	New Haven Arts Council	(77,226)
Connecticut Pre-Engineering Program	(239,531)	New Haven Festival of Arts and Ideas	(650,319)
Connecticut River Museum	(23,750)	New Haven Jobs Funnel	(513,750)
Connecticut Science Center	(522,875)	Northwestern Tourism	(33,879)
Connecticut Writing Project	(67,225)	Nutmeg Games	(61,797)
Cradle to Career	(198,000)	Opportunities for Long Term Unemployed	(3,185,775)
CT Flagship Producing Theaters Grant	(407,832)	Performing Arts Centers	(1,235,606)
CT Invention Convention	(19,017)	Performing Theaters Grant	(481,258)
CT Virtuosi Orchestra	(23,750)	Quinebaug Tourism	(33,879)
Cultural Alliance of Fairfield	(77,226)	Spanish-American Merchant Association	(489,399)
Customized Services	(429,298)	Stepping Stones Museum for Children	(36,130)
Discovery Museum	(308,903)	STRIDE	(506,571)
Eastern Tourism	(33,879)	STRIVE	(231,821)
Greater Hartford Arts Council	(86,726)	Tourism Districts	(1,202,488)
Hartford Urban Arts Grant	(380,250)	Twain/Stowe Homes	(95,057)
Incumbent Worker Training	(679,975)	Women's Business Center	(380,313)
Jobs Funnel Projects	(228,263)		
TOTAL: (21,286,628)			

Second Chance Society 2.0

The Governor is proposing additional changes to the criminal justice system as an expansion to his Second Chance Society initiative. These changes are focused on young offenders, but also include bail reforms which would impact the prison population in FY 2017.

Bail Reforms

The Governor proposes eliminating bail requirements for anyone charged only with a misdemeanor except where the judge determines that the accused poses an immediate threat to the health or well-being of another person or the public in general. Additionally, if the accused has a history of failing to appear for court dates the judge could require bail. There are approximately 450 pre-trial detainees currently in the Department of Correction system that, under this change, would not be occupying jail space.

Another proposal by the Governor is to allow every defendant the opportunity to make a cash deposit of ten percent of the bail set by a judge in order to be released while awaiting trial. While this option currently exists in the rules of court, it is not in statute and is not often used. If a bond with surety is set as a condition for release by the court, the accused would have the option of either making a ten percent cash deposit to be held by the court or of accessing the services of a bail bondsman. A judge would have the opportunity to deny the accused the option of a ten percent cash deposit should the judge believe the defendant poses a significant threat to another individual or to public safety.

Youthful Offenders

The Governor is also proposing to expand the definition of the status of youthful offender to include 18 through 20 year olds, effective October 1, 2016. As under current law, youthful offender status does not apply to the most serious crimes, including murder and sexual assault, and the most serious motor vehicle crimes. Serious juvenile offenders and those with previous felony convictions are not eligible to be considered a youthful offender.

This expansion of existing statute recognizes that while certain young people may belong in adult court, they should still be afforded protection from lifelong stigma and an incentive not to reoffend. The Governor has tasked the Criminal Justice Policy Advisory Committee to study the expansion of youthful offender status for 21 to 25 year-olds.

Raise the Age

We know that the longer young people spend in the criminal justice system, the more likely they are to commit additional crimes. Research continues to show that young adult brains are not fully developed until age 25. When young people make bad decisions, the trajectory of their lives can change permanently. In order to give young, low-risk offenders a Second Chance, the Governor proposes raising the age of the juvenile justice system's jurisdiction through age 18 on July 1, 2017, through age 19 on July 1, 2018, and through age 20 on July 1, 2019. Building upon the successful implementation of the original Raise the Age effort, the Governor is designating the Juvenile Justice Planning and Oversight Committee as the stakeholder group responsible for gathering input, building consensus, incorporating feedback and overseeing implementation during this new Raise the Age effort.

Closing Another Prison

With crime at a 48-year low and recidivism down dramatically, projections indicate a continuing decline in prison population heading into FY 2017.

As of January 1, 2016, the total inmate population was 15,500. The population is down more than 600 offenders from the same time last year – a dramatic drop. The current inmate population is substantially below the all-time high of 19,894 in 2008.

The number of new prison admissions has dropped 25 percent since 2009. In 2015, there were 1,429 fewer new admissions to prison than in 2014, a drop of six percent in one year. Additionally, the pre-trial population is down three percent compared to a year ago.

The Department of Correction has already taken steps to improve offender re-entry, including a streamlined centralized release unit, as well as the opening of the Cybulski Community Reintegration Center – a recently rededicated 600-bed facility which specializes in preparing offenders for re-entry.

In addition to the expansion of the Governor's Second Chance Society initiatives, the steps taken by the Department of Correction to improve offender re-entry, and the continuing trends in declining crime and prison admissions, the Governor proposes another prison closure in FY 2017. Current prison population projections indicate the Department of Correction will be able to close additional facility wings and annexes early in FY 2017 followed by a full facility by the end of the fiscal year. Less capacity will result in fewer posts and existing staff can be redeployed to cover posts throughout the system currently being covered by overtime. Additional savings may be achieved through attrition over the course of the fiscal year. Fewer inmates and less facility costs will produce additional savings. It is estimated $14.8 million in staff and operating costs will be saved in FY 2017.

The Department of Correction closed the Webster Correctional Institution in Cheshire in January 2010, the Gates Correctional Institution in Niantic in June 2011, the Bergin Correctional Institution in Storrs in August 2011, the Fairmount Building at Bridgeport Correctional Center in July 2015, and most recently the Niantic Annex in January of this year.

Municipal Aid

Since taking office, Governor Malloy has demonstrated strong support for municipal aid, refusing to shift the state's fiscal problems onto municipalities. Given the planned increases in municipal aid adopted during the 2015 legislative session, which are funded through a dedicated stream of receipts from Sales Tax revenue, the Governor is proposing that many of the budgeted grants for municipal aid be subject to the same level of across-the-board reductions faced by state agencies. However, the Governor has held the line on critical ECS grants by maintaining the same ECS funding level as in FY 2016. The Governor's recommended budget continues to support new municipal revenue sharing through Select Payments in Lieu of Taxes and funding for motor vehicle property tax relief. Additionally, this budget maintains municipal capital funding and sustains commitments to retirement contributions and health service costs for teachers as well as debt service for the very generous support provided to municipalities for school construction, Town Aid Road and other capital grants.

Capital Proposals

The Governor is proposing $279 million in additional general obligation (GO) bond authorizations in FY 2017. These proposed bond authorizations are in addition to those that were previously authorized by the General Assembly and become effective in FY 2017, which include $1.87 billion for various projects and programs, $266.4 million for the Next Generation Connecticut/UConn 2000 program, $95 million for the CSCU 2020 program, $21.1 million for the Bioscience Collaboration Program, $25 million for the Bioscience Innovation Fund and $20 million over the biennium for various other programs authorized in prior legislation. These authorizations are offset by the cancellation of $385.4 million in GO bond authorizations from prior years, in order to remain within the statutory debt limit.

New proposed GO bond authorizations include:

- $8 million for transit-oriented development;
- $15 million for grants to nonprofit health and human service providers for capital improvements;
- $5 million for renovations and improvements at the Department of Veterans' Affairs;
- $181 million for renovations and a new parking garage at the State Office Building;
- $10 million for the Department of Economic and Community Development programs; and
- $60 million to replace the central utility plant and utility distribution systems at York Correctional Institution in East Lyme.

The Governor is also proposing $60 million in additional special tax obligation bond authorizations for bus and rail projects. This funding is in addition to the $693.3 million previously authorized in FY 2017 for the Department of Transportation's regular program for maintaining and improving our highways and transit systems and the $520.2 million previously authorized to implement projects under the Let's Go CT! long-term transportation plan.

Transportation: Ramp Up

Governor Malloy's FY 2017 budget continues his commitment to improving Connecticut's transportation system through a multimodal approach to mitigate congestion, improve capacity, and increase mode options and availability in an effort to stimulate economic development for the state. With the passage of the five-year ramp up plan in the 2015 legislative session, the execution of the $10 billion plan ($3.8 billion state bonding, $3.2 billion federal funding, and the additional $2.8 billion in new state bonding) has begun across the various modes including roads, highways, bus, rail, maritime, and bike trails. Below is an update on capital projects:

- Highways and Bridges
  - The Department of Transportation (DOT) has started a $350 million reconstruction of I-84 east of Waterbury.
  - Other major construction initiatives include the replacement of the Q-Bridge on I-95 in New Haven, replacement of the Moses Wheeler Bridge on I-95 in Stratford, the I-95 bridge over West River in New Haven, rehabilitation of the Merritt Parkway in Stamford, and operational improvements on I-95 in Norwalk.
  - Progress has been made on planning and engineering for the replacement of the I-84 viaduct in Hartford; expansion of the I-84 corridor in Danbury; replacing the "Mix Master" (Route 8 and I-84) interchange in Waterbury; and modifications to the I-91 connection to I-84 at the Charter Oak Bridge in Hartford.

- Bus Capital Program
  - Service on CT*fastrak* began on March 28, 2015 linking downtown New Britain to downtown Hartford while providing express lane access to various other routes.
  - Construction of a new CT*transit* bus maintenance and storage facility for the Waterbury area is underway, on schedule to be completed by the summer of 2017.
  - Various studies will begin this year to design improvements for extending CT*fastrak* service east of the Connecticut River; for potential bus-rapid transit service in Fairfield County; and to grow bus service statewide by 40 percent. These studies also aim to determine the project capital costs.

- Rail Capital Program
  - The Component Change Out Building, which will provide state of the art facilities to maintain the new M8 rail cars, will open in 2016.
  - The overhead wire and catenary system that supplies power to the New Haven Line's electric trains is being replaced with an estimated completion date of 2017.
  - To ensure safety, the installation of Positive Train Control systems to monitor train activity, prevent collisions, and convey and enforce speed restrictions mandated by the Railroad Safety Improvement Act of 2008 has begun.
  - The Northeast Corridor/New Haven Line (NHL) communication and signal system will be replaced for the first time in 35 years, with construction having begun.

- DOT will complete procurement for the overhaul of fourteen diesel locomotives in the next year in an effort to improve rail service for Shore Line East and New Haven Line customers.
- The Norwalk River Railroad Bridge, the oldest movable bridge along the NHL, will be replaced through a $568 million project to enhance the reliability of service. The DOT received $161 million in federal funding for this project.
- The Hartford Line Program, a High-Speed Intercity Rail project with an estimated $570 million cost, is underway which will allow an increase in top train speeds from the current 80 MPH to 110 MPH.
- Other rail projects to be implemented this year include the new Danbury Branch Dock Yard and an analysis of a Shore Line East Station in Niantic.

- Ferries
  - In 2015, a major hull plating replacement project was completed on the Chester-Hadlyme ferry.

- Maritime
  - The capital budget provided $25 million for dredging and navigational work.
  - Future maritime project responsibilities, with the exception of those associated with the Connecticut River ferries, are expected to transition to the new Connecticut Port Authority in 2016.

- Bicycle, Pedestrian, and Related Transportation
  - Projects are underway to complete existing gaps in the Farmington Canal Heritage Greenway, the East Coast Greenway, perform bike and pedestrian safety audits, and to install bike lanes in community centers.
  - A feasibility study is taking place for a multi-use trail along the entire length of the Merritt Parkway, from the New York state line in Greenwich to the Housatonic River in Stratford.

As with the capital program, the Governor's operating budget for DOT focuses on all modes of transportation. The following adjustments are proposed:

- $250,000 is included to support the operations of the proposed Transit Corridor Development Assistance Authority (TCDAA), which will assist municipalities that wish TCDAA to help coordinate economic development within one-half mile of passenger rail or bus rapid transit stations;
- $6,145,000 is included for rail improvements and safety initiatives through Metro-North including hiring positions for maintenance, rehabilitation, and quality assurance programs to assess tracks and facilities;
- $200,000 to launch bus service between Waterbury and Torrington; and
- Over $50,000 in additional funding for continued support of the establishment of the Connecticut Port Authority.

Health and Human Services

Targeted state investments by the Department of Social Services (DSS) in primary care, care coordination and rebalancing long-term services and supports have produced positive results in terms of both health outcomes and efficiencies. Expenditure trends, when measured on a per-member per-month cost basis, experienced a sizeable drop of 5.9 percent in FY 2015. DSS is exploring a number of initiatives to further drive down costs and to assist the department in living within available Medicaid funding. Such initiatives include:

- Introducing an electronic visit verification process for home health and waiver services to facilitate scheduling and provider billing;
- Revising the payment methodology for long-acting reversible contraceptives in the perinatal period before a new mother leaves the hospital with her newborn (longer inter-pregnancy periods result in better outcomes for the mother, her newborn, and her future newborns);
- Providing care coordination and services for homeless individuals who meet certain criteria, including high utilization of health care services;
- Targeting care coordination activities to create greater efficiencies by integrating services and supports for dual eligible individuals through a health home model;
- Enhancing services for children and families experiencing adverse childhood events by integrating behavioral health services with dedicated care coordination under the health home model;
- Implementing an initiative similar to Utah's "Safe to Wait" project, which achieved cost savings by providing information about alternatives to the emergency department, connecting beneficiaries to primary care and distributing a list of the state's urgent care clinics; and
- Implementing targeted bundled payments to improve health care outcomes, reduce costs and support patient-centered delivery of health care services.

Reorganization of Services for Those with Intellectual Disabilities

To build on efforts to improve accountability for state resources, the Governor is recommending conversion of grant-funded services under the Department of Developmental Services (DDS) to a fee-for-service model, whereby providers would submit bills to and would be paid by DSS. Transitioning the current system of grants will help ensure the state is receiving federal reimbursement on all eligible services while improving compliance with Medicaid billing, provider enrollment and client eligibility. This transition will begin with funding that supports community residential services for individuals with intellectual disabilities (ID).

Building upon the success of the Behavioral Health Partnership in improving health and cost outcomes for children and adults in need of publicly-provided and funded behavioral health services, the Governor is proposing a similar model by establishing an ID Partnership. Together, DDS, DSS and OPM will be tasked with, among other things, developing a continuum of services between in-home supports and group home placement that would allow DDS to provide the right service (based on acuity) at the right time and cost, exploring options for private pay and other third party payments, developing supportive housing models tailored to persons with intellectual disabilities, exploring the potential for management of ID services by an administrative services or managed care organization and developing strategies to address and fund the DDS waiting list. To ensure the ID Partnership has the tools and flexibility needed to succeed in its mission, no reduction was applied to the $537.1 million in residential services funding that is transferred in this budget from DDS to DSS. By protecting these funds from the 5.75 percent across-the-board reduction applied to most other accounts, over $30.8 million is preserved to support community residential services. As happened with the Behavioral Health Partnership, it is expected that these changes will bring greater focus and attention to this important area and ultimately result in the development of a broader array of services that will assist in downsizing public facilities and addressing the waiting list.

Lastly, in order to right-size publicly-provided services for individuals with intellectual disabilities, DDS will continue efforts to downsize Southbury Training School and the regional centers and develop a timetable for potential closure or conversion of public facilities. The budget reflects $6.2 million in savings from the anticipated conversion of 30 state-operated residential community living arrangements (CLAs) to privately-operated CLAs during FY 2017.

Autism Lead Agency Responsibilities

To reflect the recent expansion in autism coverage under the Medicaid State Plan of medically necessary services for members under age 21 with autism spectrum disorder, lead agency responsibilities and the supporting resources are being transferred from DDS to DSS. The Early Childhood Autism Waiver is being discontinued due to the identical coverage being offered under the Medicaid State Plan.

Revenue Proposals

Over the past few years, the state of Connecticut enacted revenue and spending policies which addressed a projected annual shortfall of $3.2 billion in FY 2012 and another $1.1 billion projected shortfall in FY 2016. These shortfalls reflected the tepid economic recovery that both the nation and Connecticut experienced emerging from the Great Recession. General Fund revenue growth, when adjusted to remove the impact of various tax changes, from FY 2011 through the projected FY 2017 budget, will only achieve a 2.3 percent per annum growth rate. Inflation over that same time period will grow by 1.6 percent per annum, resulting in real revenue growth of only 0.7 percent per annum. This level of growth is insufficient to fund government services. With that in mind, the Governor's budget seeks to maintain balance by focusing exclusively on the expenditure side of the budget to align the expenditure growth rate to the state's revenue growth rate. As such, the FY 2017 budget contains no new taxes. The December 2015 special session of the legislature did enact some substantial tax reform in the area of business taxation. This included placing an overall cap on any potential additional tax burden derived from the state's switch to a unitary method of taxation, instituting single factor apportionment based upon sales for all industries, and gradually increasing the cap on the use of certain tax credits. These changes will take some time to digest and be studied for their efficacy in generating sufficient revenue while enhancing the state's competitiveness.

The FY 2017 budget revisions contain some limited revenue measures. The Governor continues his commitment to modernizing Connecticut's liquor laws in order to make them more consumer friendly and increase competitiveness with our neighboring states. Over the past few years, the state has enacted changes to allow for the retail sale of alcohol on Sundays and certain holidays while expanding the allowable daily hours of operation. This year, the Governor proposes eliminating minimum bottle pricing. This change is expected to result in additional General Fund revenue of $2.1 million, while saving money for consumers. In late December, the State Tax Panel issued its final recommendations. Although many of those recommendations will have to wait for a time when the state's revenue picture improves, the Governor's budget proposal does include some initiatives related to the Tax Panel's recommendations. These include placing a maximum cap on the amount a decedent's estate will have to remit to the Probate Court to fund its services and exempting the first $10,000 of business personal property from the local property tax. In addition, the Department of Revenue Services is moving forward with examining business taxation in the state, including the apportionment method for income derived from the sale of services, and methods to enhance nexus determinations under the sales tax for remote sales. Overall, these revenue actions are modest, but reflect the Administration's policy to concentrate on the cost structure of the state.

Small Business Tax Relief

As mentioned above, the Governor is proposing a major property tax break for small business. Under the proposal, businesses with less than $10,000 in business personal property would have the property exempt from taxation. The State Tax Panel study found such a change would eliminate the personal property tax on 46 percent of all personal property accounts, while only affecting municipal revenue statewide by 0.014 percent.

Conclusion

Governor Malloy is proposing an all funds budget of $19.87 billion for FY 2017. This is $571 million—or 2.8 percent—below the adopted budget for FY 2017 and only one percent above the estimated level of FY 2016 expenditures. This is well under the projected inflation rate for FY 2017 of 2.1 percent. The recommended budget is $648.9 million below the cap for FY 2017.

Including this budget proposal, expenditures under Governor Malloy's administration have grown by 2.6 percent per annum, well below the rate of growth of the two immediately preceding administrations (38 percent and 45 percent below the two prior administrations).

SUMMARY OF APPROPRIATION CHANGES

(In Millions)

	Enacted Appropriation FY 2017	Net Adjustments FY 2017	Recommended Appropriation FY 2017	% Growth Over Enacted
General Fund	$ 18,711.2	$ (569.5)	$ 18,141.7	-3.0%
Special Transportation Fund	1,496.1	2.8	1,499.0	0.2%
Banking Fund	29.9	0.1	30.0	0.4%
Insurance Fund	81.4	(0.9)	80.5	-1.0%
Consumer Counsel and Public Utility Fund	27.0	0.0	27.0	0.1%
Workers Compensation Fund	27.0	(0.1)	26.9	-0.2%
Mashantucket Pequot & Mohegan Fund	61.8	(3.6)	58.2	-5.8%
Regional Market Operating Fund	1.1	-	1.1	0.0%
Criminal Injuries Compensation Fund	2.9	-	2.9	0.0%
Total	$ 20,438.3	$ (571.0)	$ 19,867.3	-2.8%

FY 2017 enacted appropriation per Public Act 15-244 as amended by Public Act 15-5 (June Spec. Sess.)

General Fund

The recommended revised General Fund budget for FY 2017 includes a $10.6 million operating surplus and is $569.5 million below the adopted budget for FY 2017. The recommended budget for FY 2017 is only 0.4 percent above the level of estimated FY 2016 expenditures, the lowest rate of growth since the 2002 recession.

The January 2016 consensus revenue forecast by OPM and the legislature's Office of Fiscal Analysis, which forms the basis for the revenues in this budget, is projected at $18,150.5 million in FY 2017. Minor revenue revisions totaling a net $1.8 million are proposed, and the recommended revenues for this budget total $18,152.3 million.

Special Transportation Fund

The recommended revised Special Transportation Fund budget for FY 2017 includes a $38.7 million operating surplus and is only $2.8 million above the adopted budget for FY 2017. The recommended budget for FY 2017 is 0.2 percent above the adopted budget, and 7.9 percent above the level of estimated FY 2016 expenditures. Revenues included as part of the January 2016 consensus forecast are projected at $1,537.7 million in FY 2017.

General Fund	Estimated FY 2016	Appropriated FY 2017	Revised Recommended FY 2017
Total Recommended Budget			
Revenues	$ 18,053.9	$ 18,713.6	$ 18,152.3
Appropriations	18,060.9	18,711.2	18,141.7
Surplus/(Deficit)	$ (7.1)	$ 2.5	$ 10.6
Proposed Adjustments			
Expenditure Reductions	$ 7.1	$ -	$ -
Total Changes	$ 7.1	$ -	$ -
Revised Surplus/(Deficit)	$ -	$ 2.5	$ 10.6
Special Transportation Fund			
Beginning Balance	$ 180.0	$ 180.0	$ 180.0
Revenues	1,388.8	1,596.9	1,537.7
Total Available Resources	1,568.8	1,776.9	1,717.7
Recommended Appropriations	1,388.8	1,496.1	1,499.0
Surplus/(Deficit)	$ -	$ 100.8	$ 38.7
Projected Fund Balance 6/30	$ 180.0	$ 280.8	$ 218.7