

CONTINUING THE PROGRESS



RECOMMENDED BUDGET ADJUSTMENTS FOR FY 2021

GOVERNOR NED LAMONT



FEBRUARY 5, 2020

Secretary Melissa McCaw
Office of Policy and Management

Introduction

Continuing the Progress

The Governor's proposed adjustments to the FY 2021 budget continue his commitment to progress

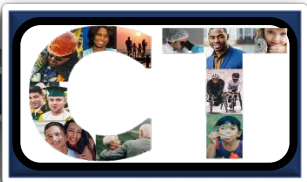
This budget is financially responsible and pro-growth. Key hallmarks include:

- Strengthening CT's Workforce and Growing the Economy
- Leading on Health Care
- Protecting and Improving the Climate and Environment
- Enhancing the Criminal Justice System and Public Safety
- Pursuing Operational Efficiencies



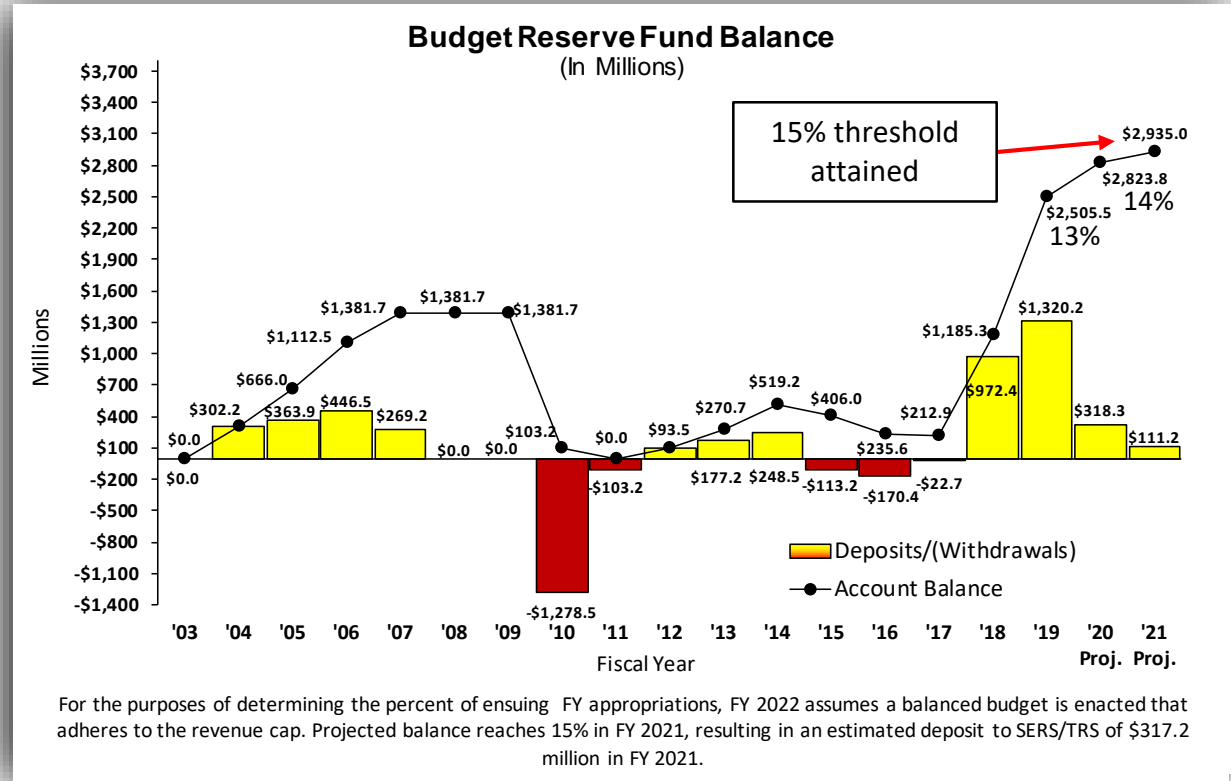
Notable Accomplishments

- Protected the middle class – maintained exemption on personal income tax for income from social security, pensions and annuities
- Protected the most vulnerable - increased nursing home rates by 2% each year, expanded childhood immunizations, expanded the testing of disorders under the newborn screening program, added funding for emergency placement of individuals with intellectual disability
- Supported business by eliminating the Business Entity Tax
- Demonstrated support for working families by increasing the minimum wage from \$11 per hour to \$15 by June 2023
- Implemented a Paid Family and Medical Leave program – will provide up to 12 weeks of paid family and medical leave so no CT resident has to choose between financial security and health of their loved one
- Drove down fixed costs by *restructuring* the state employee retirement system and teachers' retirement system, reducing the rate of return from 8% to 6.9% - a more realistic rate of return - mitigating significant liability and risk



A Record Rainy Day Fund

- An October 2019 report by Moody's Analytics regarding state preparedness to withstand fiscal stress found Connecticut would need reserve balances totaling at least 10.1% of General Fund revenues to withstand a moderate recession scenario and 14.8% in a severe recession, which is consistent with the statutory 15% Budget Reserve Fund target
- Moody's concluded that while Connecticut is relatively well-positioned for a moderate recession (ranked 18th of the 50 states), the state has insufficient resources to weather a severe downturn (ranked 21st of the 50 states) without having to raise taxes or cut spending



Improving Fiscal Health

- In March 2019, Standard and Poor's improved the outlook on the state's credit – the first positive outlook or rating improvement for Connecticut by a rating agency in 18 years
- In December 2019, Bloomberg News reported that the state “is being rewarded by Wall Street for taking steps to stabilize its finances.” And that “Connecticut has gone from trading like a triple B to an A rated bond”
- Nevertheless, a record 12 years have passed since the commencement of the last U.S. recession – we need to be prepared for the next inevitable downturn in the business cycle



Budget Overview



Summary of Appropriation Changes for FY 2021

(In Millions)

| | Enacted ¹ Appropriation <u>FY 2021</u> | Net Adjustments <u>FY 2021</u> | Recommended Appropriation <u>FY 2021</u> | % Growth Over <u>Enacted</u> |
|--------------------------------------------------|---------------------------------------------------------|--------------------------------------|------------------------------------------------|------------------------------------|
| General Fund | \$ 20,086.3 | \$ 117.4 | \$ 20,203.7 | 0.6% |
| Special Transportation Fund | 1,816.3 | 7.1 | 1,823.4 | 0.4% |
| Banking Fund | 28.8 | (0.2) | 28.6 | -0.7% |
| Insurance Fund | 113.3 | (0.3) | 113.0 | -0.2% |
| Consumer Counsel and Public Utility Control Fund | 28.5 | (0.2) | 28.3 | -0.7% |
| Workers' Compensation Fund | 28.7 | (0.6) | 28.0 | -2.2% |
| Mashantucket Pequot and Mohegan Fund | 51.5 | - | 51.5 | 0.0% |
| Regional Market Operation Fund | 1.1 | (1.1) | - | -100.0% |
| Criminal Injuries Compensation Fund | 2.9 | - | 2.9 | 0.0% |
| Tourism Fund | <u>13.1</u> | <u>(0.0)</u> | <u>13.1</u> | <u>-0.1%</u> |
| Total | \$ 22,170.4 | \$ 122.0 | \$ 22,292.4 | 0.6% |

Notes:

¹ Enacted 2021 appropriation per Public Act 19-117 as amended by Public Act 19-1 (December Spec. Sess.)



Governor's Proposed Adjustments to FY 2021 – General Fund

(In Millions)

| <u>General Fund</u> | PA 19-117 Adopted <u>Budget</u> | PA 19-1, DSS Hospital Settlement <u>Adjustment</u> | Nov. and Jan. Consensus <u>Updates</u> | Proposed Technical and Policy <u>Adjustments</u> | Governor's Proposed <u>Budget</u> |
|---------------------|---------------------------------------|-------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------|-----------------------------------------|
| Revenues | \$ 20,148.2 | \$ 104.3 | \$ 64.8 | \$ 40.1 | \$ 20,357.4 |
| Expenditures | <u>19,982.0</u> | <u>104.3</u> | <u>-</u> | <u>117.4</u> | <u>20,203.7</u> |
| Surplus/(Deficit) | \$ 166.2 | \$ - | \$ 64.8 | \$ (77.3) | \$ 153.7 |



Revenue Proposals



General Fund Adjustments - Revenue

Major revenue changes in FY 2021 include:

(In Millions)

Projected FY 2021 Revenues

| | |
|-----------------------------------------------------------------------------------|-------------|
| Estimated FY 2021 Revenue - Current Law - January 15, 2020 Consensus | \$ 20,317.3 |
| Proposed Revenue Changes | |
| Transfer a Portion of GAAP Amortization Funding into FY 2021 | 55.0 |
| Maintain Current 10% Corporation Tax Surcharge | 22.5 |
| Utilize Regional Performance Incentive Account Revenues for Grants Over Two Years | 12.8 |
| Captive Insurer Initiative | 7.5 |
| Delay and Extend the Elimination of the Capital Base Tax | 5.7 |
| Impose a Service Fee for Customers Utilizing a Credit Card | 2.0 |
| Transfer to the Philanthropic Match Account | (20.0) |
| Eliminate Requirement to Identify \$50 million in Fee Increases | (50.0) |
| All Other Changes (Net) | 4.6 |
| Total Changes | \$ 40.1 |
| Total Resources - FY 2021 | \$ 20,357.4 |



Corporate Tax Surcharge – Maintain Current Law

History of Corporate Surcharge

| <u>Income Year</u> | <u>Rate</u> | <u>Proposed</u> |
|--------------------|-------------|-----------------|
| 2003 | 20% | |
| 2004 | 25% | |
| 2005 | 0% | |
| 2006 | 20% | |
| 2007 | 0% | |
| 2008 | 0% | |
| 2009 | 10% | |
| 2010 | 10% | |
| 2011 | 10% | |
| 2012 | 20% | |
| 2013 | 20% | |
| 2014 | 20% | |
| 2015 | 20% | |
| 2016 | 20% | |
| 2017 | 20% | |
| 2018 | 10% | |
| 2019 | 10% | |
| 2020 | 10% | |
| 2021 & After | 0% | 10% |

Corporate Surcharge

- Current law eliminates the corporate surcharge for income year 2021
 - Proposed schedule maintains corporate surcharge at the current 10% rate indefinitely
- Since 2003, CT has imposed a surcharge in 15 of those 18 years, ranging from 10% to 25%
- Revenue impact \$22.5 million in FY 2021
- No new tax is being imposed



Capital Base Tax – Modify Phase-Out

Capital Base Tax Phase-Out Schedule

| <u>Income Year</u> | <u>Current Law Capital Base Rate (Mills)</u> | <u>Proposed Capital Base Rate (Mills)</u> |
|------------------------|------------------------------------------------------|---------------------------------------------------|
| 2019 | 3.1 | 3.1 |
| 2020 | 3.1 | 3.1 |
| 2021 | 2.6 | 3.1 |
| 2022 | 2.1 | 2.6 |
| 2023 | 1.1 | 2.1 |
| 2024 | 0 | 1.6 |
| 2025 | 0 | 1.1 |
| 2026 | 0 | 0 |

Capital Base Tax

- P.A. 19-117, Sec. 340 phases-out the Capital Base Tax by income year 2024
- Maintains current rate into FY 2021 and extends the phase-out without increasing rates
 - \$5.7 million revenue impact
 - Proposed schedule would eliminate the tax by income year 2026
- Delaying the phase-out allows CT to adapt to the reduction in revenue



Honoring Our Commitments

Pension and Annuity Exemption

- Income tax exemption for:
 - Single filers making \$75,000 or less
 - Joint filers making \$100,000 or less
- PA 17-2, JSS Sec. 340 phases-in the full income tax exemption for the above filers by income year 2025
- The exemption for pension and annuity is worth:
 - \$32.8 million in FY 2020
 - \$41.1 million in FY 2021
- The Governor's budget maintains this important commitment

Pension and Annuity Exemption

| <u>Income</u> <u>Year</u> | <u>Percent</u> <u>Exempt</u> |
|------------------------------|---------------------------------|
| 2018 | 0% |
| 2019 | 14% |
| 2020 | 28% |
| 2021 | 42% |
| 2022 | 56% |
| 2023 | 70% |
| 2024 | 84% |
| 2025 | 100% |



Encouraging the Captive Insurance Industry

- Some businesses have set up a wholly-owned insurance company to self-insure their own risk (a “captive insurer”)
- Captives are a fast growing segment of the insurance industry
- Governor proposes an incentive to relocate a firm’s captive insurer to Connecticut
- For firms that elect to participate
 - The state will use a 3 year look-back for the payment of taxes owed, plus interest
 - Penalties would be waived
 - Relocation must occur before July 1, 2021
- Will result in one-time revenue of \$7.5 million in FY 2021, with a smaller on-going component annually thereafter



Credit Card Service Fees

- Many individuals choose to pay state fees via credit card
- Fees charged by credit card companies are, in many cases, offset against revenues
- In FY 2019, the total cost to the state was \$5.2 million (see table)
- The Governor is proposing that a service fee be applied to credit card transactions to eliminate future costs to the state. This standardizes treatment across all agencies
- This change, effective 10/1/2020, is expected to prevent the loss of \$2 million in the General Fund and \$1.9 million in the Special Transportation Fund in FY 2021, which annualizes to \$5.2 million thereafter

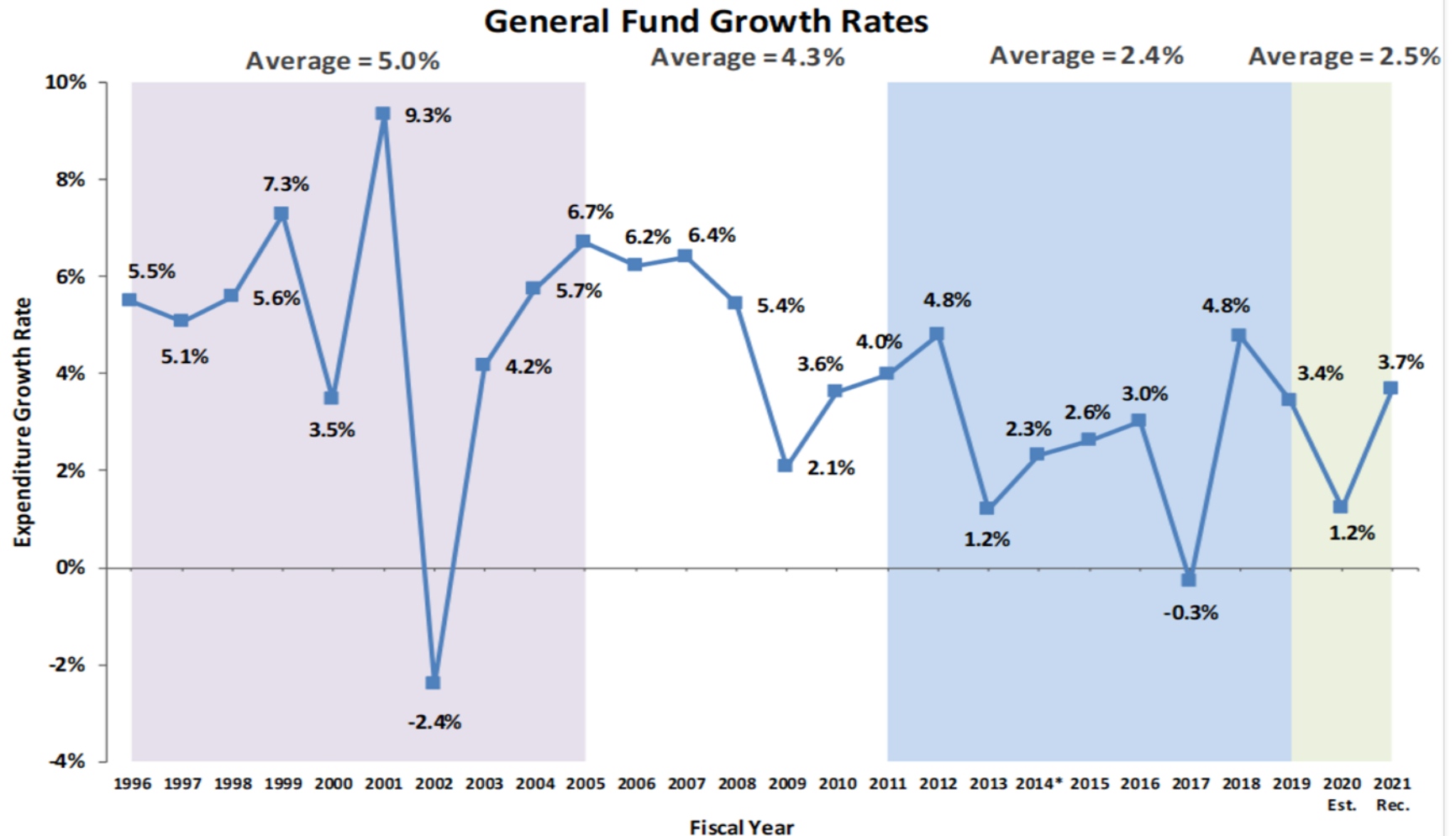
| Agency | FY 2019 Total | % of total |
|---------------------------------------------------|--------------------|---------------|
| Dept. of Agriculture | \$7,211 | 0% |
| Dept. of Administrative Services | 24,865 | 0% |
| Dept. of Consumer Protection | 715,846 | 14% |
| Dept. of Energy and Environmental Protection | 694,867 | 13% |
| Dept. of Motor Vehicles | 2,521,144 | 48% |
| Dept. of Insurance | 6,771 | 0% |
| Dept. of Public Health | 505,999 | 10% |
| Dept. of Emergency Services and Public Protection | 12,705 | 0% |
| Dept. of Revenue Services | 13,136 | 0% |
| Office of Early Childhood | 248 | 0% |
| Dept. of Education | 26,329 | 1% |
| Secretary of the State | 720,361 | 14% |
| Total | \$5,237,208 | 100% |



Expenditures



General Fund Expenditure Growth Rates



Average represents the compound annual growth rate of each shaded section

*2013 to 2014 growth has been adjusted to reflect the net budgeting of Medicaid.

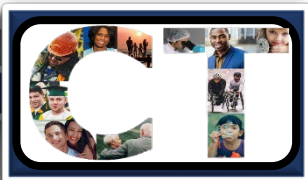


General Fund Adjustments - Spending

(In Millions)

Projected 2021 Expenditures

| | |
|---------------------------------------------------------------------------------------|-----------------|
| Adopted Appropriations FY 2021 | \$ 20,086.3 |
| Increase/(Decrease) | |
| Reflect Decreased Debt Service Cost | (15.0) |
| Adjust Subsidy to Probate Court | (8.6) |
| Reflect Reduced DAS Lease Costs | (6.5) |
| Reflect Funding for Current Staffing and Wage Increases for the Legislative Branch | (5.9) |
| Capture Savings for Charter School Closures and Reflect Funding for Approved Seats | (4.6) |
| Reflect Actual Impact of Minimum Wage on Private Providers | (4.0) |
| Reflect Reduced Retired Teachers' Healthcare Costs | (3.7) |
| Reduce Inmate Payphone Call Rate and Support Judicial Salaries Through Appropriations | 3.5 |
| Debt Free College / Guided Pathways | 4.6 |
| Provide Funds to Support Two Trooper Training Classes | 8.8 |
| Provide Additional Operating Funding for UCHC | 33.2 |
| Adjust State Employee Health Costs to Reflect Higher Claims Experience | 39.3 |
| Adjust Pension Funding to Reflect New Valuations | 43.9 |
| Adjust Funding to Reflect Current Expenditure and Caseload Trends – DSS | 47.1 |
| All Other - Net | (14.7) |
| Total Increases/(Decreases) | \$ <u>117.4</u> |
| Total Projected Expenditures FY 2021 | \$ 20,203.7 |



Jobs and Economic Development



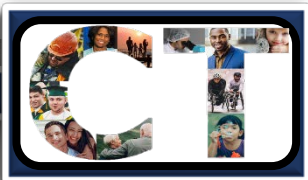
Reinvigorating the Office of Workforce Competitiveness (OWC)

- Establishes OWC as an independent office housed, for administrative purposes only, in the Office of Policy and Management (OPM)
- Responsible for unified state strategy, launching key initiatives, overseeing workforce data systems, supporting sector partnerships, and convening and aligning members of the workforce ecosystem
- Elevates the entity and invests in a system that strategically aligns education, training and the workforce into a pipeline which fosters economic growth
- Budget includes \$693,112 to support the new OWC
 - Provides funding for an Executive Director and one new position - \$310,000 new investment
 - Reallocates \$383,112 and two positions - one each from the Departments of Labor (DOL) and Economic and Community Development (DECD)



Jobs CT – An Earn-As-You-Grow Tax Credit Program

- The Jobs CT Tax Credit will be a new, simple, transparent, and targeted incentive program for existing businesses to expand or other businesses to relocate to Connecticut
 - To be eligible, businesses must:
 - Create at least 25 new full-time jobs over a two year period
 - Salaries must be at least 85% of the median household income in the municipality where the jobs will be located
 - Qualifying businesses will receive a portion of the withholding taxes in the form of a rebate for each job created, capped at \$5,000
 - For jobs created in a designated opportunity zone businesses will be eligible for 50% of withholding, all other areas will be 25%
 - Capped at \$40 million annually
 - Budgetary impact begins in FY 2024



Streamlining Occupational Licensing

- Governor Lamont is proposing the following changes to occupational licensing:
 - Transitioning additional licenses to an online renewal system
 - Expediting the process for recognizing licenses conferred by other states
 - Studying means to remove barriers of entry for vulnerable populations
 - Clarifying and limiting which criminal convictions can bar people from a licensed profession
 - Allowing initial or continuing education training for licenses to be completed via the Internet or distance learning unless otherwise requested by the appropriate board



Environment and Climate



Increasing Mosquito Surveillance, Testing and Treatment in Response to Eastern Equine Encephalitis (EEE)

- In 2019, Connecticut witnessed a resurgence of EEE activity that resulted in four human cases with three fatalities
- To combat the increase in EEE virus activity, the Governor is proposing the following funding:
 - \$150,000 for the Agricultural Experiment Station (AES) to support one full-time position, three seasonal workers and an increase in the number of trap sites by 15 to a total of 107 statewide
 - \$250,000 for Department of Energy and Environmental Protection (DEEP) for additional larvicide spraying and \$52,088 for one position to conduct additional sprayings and maintain areas that are potential mosquito breeding grounds



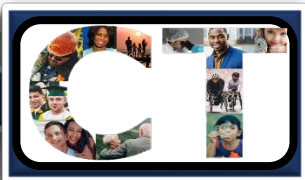
Mitigating the Harmful Impacts of Per- and Polyfluoroalkyl Substances (PFAS)

- To address concerns over the effects of PFAS, Governor Lamont recommends:
 - Establishing a Safe Drinking Water Advisory Council
 - Providing \$857,119 to address the impacts
 - \$282,599 for Department of Public Health (DPH) to support staff and operating expenses in order to facilitate laboratory testing of water for PFAS
 - \$354,000 for DEEP to initiate statewide surface water and sediment sampling
 - \$120,520 for Department of Emergency Services and Public Protection (DESPP) to replace its firefighting foam containing PFAS and to purchase minor equipment needed for use with the new foam
 - \$100,000 for consultant to assist the Safe Drinking Water Advisory Council
 - \$2.0 million bond authorization for a takeback program of PFAS containing firefighting foam and to test for PFAS in private wells and supply resources for those affected by such pollution
 - \$0.5 million from Capital Equipment Purchase Fund for the DPH Public Health Laboratory to implement PFAS testing of drinking water



Working to Improve Our Climate and Environment

- To address the impacts of climate change on Connecticut, Governor Lamont is proposing:
 - To codify the goal of having zero percent greenhouse gas emissions from electric generation by 2040
 - That DEEP:
 - Assess the impact of California's medium and heavy-duty vehicles standards and implement if they are needed to meet air quality standards or greenhouse gas reduction goals
 - Develop, in consultation with the Department of Administrative Services (DAS), regulations that implement high performance green building standards

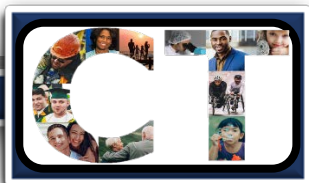


Leading on Health Care



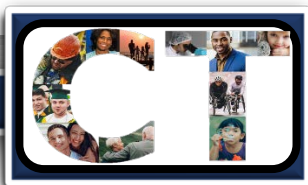
Addressing the High Costs of Health Care

- Office of Health Strategy (OHS) - Based on similar model in Massachusetts, OHS will implement EO No. 5 - a new benchmarking initiative
- Benchmarks will include
 - Targets for controlling the overall growth of total health care expenditures across all payers (public and private) set to the state's long-term economic growth rate
 - Primary care spending targets as a percentage of total health care costs with a goal of reaching 10% by 2025
 - Annual clinical quality measures
 - Annual public hearings for providers and payers that exceed benchmarks
 - Two positions and actuarial/health care econometric consulting services will support initiative designed to drive down costs, improve transparency, quality and accountability
- Department of Consumer Protection (DCP) – Pursue prescription drug reimportation
 - Durational position will submit required federal applications and develop policies/procedures for testing drugs imported from Canada



Addressing the Dangers of Vaping

- Consistent with surrounding states like Massachusetts, New York and Rhode Island, Governor Lamont proposes steps to prevent youth use of electronic nicotine delivery systems (ENDS) by going beyond federal requirements
- Ban sale of flavored ENDS and vapor products including menthol
- Cap maximum level of nicotine in ENDS and vapor products sold in Connecticut at 35 milligrams per milliliter to make them less addictive
 - Two additional special investigators at the Department of Mental Health and Addiction Services (DMHAS) to conduct compliance checks to enforce the flavor ban and monitor adherence to the nicotine cap
- Across-the-board 50% wholesale tax on ENDS liquids to align tax treatment with other tobacco products and reduce underage use
- Increase penalties for sales of tobacco and vaping products to minors
- Require schools to include vaping prevention curriculum in their health education programs



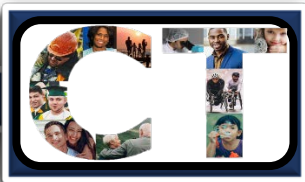
Electronic Cigarette Tax Changes

- Taxes on cigarette and tobacco products have been successful in reducing underage tobacco consumption
- The 2020-2021 biennial budget implemented a new tax structure for e-cigarette taxes:
 - A 10% tax placed on “open” e-cigarette liquids
 - A \$0.40 per milliliter tax placed on “closed” e-cigarette liquids
- The Governor is proposing eliminating the current structure in favor of a 50% wholesale tax on all e-cigarette liquid
 - Places all e-cigarette liquid products on an equal footing
 - Brings e-cigarettes closer in parity to state taxes on cigarette products
- This is expected to generate \$0.6 million in net revenue in FY 2021



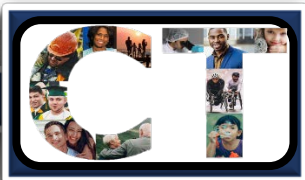
Supporting Reproductive Rights – Title X

- \$1.5 million to DPH to ensure continued access to family planning services after federal Title X changes. Funds support:
 - Planned Parenthood of Southern New England
 - Cornell Scott Hill Health Center
 - Fair Haven Community Health Care



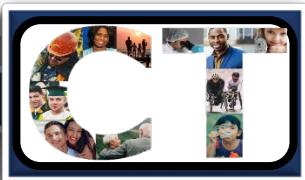
Supporting Human Services Providers

- Department of Developmental Services (DDS) incentive payment system for providers transitioning individuals to less intensive settings
 - Savings of \$1.75 million by incentivizing providers to serve individuals in less intensive settings when appropriate
 - Providers reimbursed 80% of their payment for two years for individuals that transitioned to lower levels of care
 - Payments exempt from DDS cost settlement rules
- Billing for applicable services provided by residential care homes (RCHs) under Medicaid
 - Net savings in Department of Social Services (DSS) of \$2.1 million (\$12.7 million when fully annualized)
 - Leverages federal dollars for services provided under State Supplement
 - 25% of new revenue reinvested in RCHs
- Funding for increases in the minimum wage impacting private provider agencies



Strengthening the Safety Net

- DMHAS - \$3 million to support community placements for 20 individuals at Connecticut Valley Hospital who meet discharge-ready criteria
- DDS - Reallocate almost \$800,000 from higher-intensity Community Residential Services placements to the Rent Subsidy program
 - Funds will support approximately 160 individuals with intellectual disability transitioning into residential placements
 - Individuals are supported in more cost-effective and less intensive settings
 - Results in a net savings of over \$1.0 million
- DSS, DDS and the Department of Children and Families (DCF) - Caseload needs for various entitlement and quasi-entitlement accounts addressed



Prison Health Care - Hepatitis C Treatment and Providing Medication-Assisted Treatment (MAT)

- Hepatitis C – recognizing the prevalence of this disease among those incarcerated, and the long-term health benefit to the general public
 - The enacted budget provided \$10 million in FY 2020 and \$20 million in FY 2021 to test all inmates and treat those testing positive for the disease
 - As of Dec., 89% of the incarcerated population was offered testing; of this group 80% opted to be, and have been, tested
- MAT - the Governor led the effort last session to expand MAT in correctional facilities
 - The enacted budget provided \$2 million in FY 2020 and \$6 million in FY 2021
 - The program has been implemented in 6 facilities and will be expanded to 3 more by the end of FY 2020

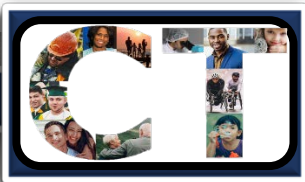


Criminal Justice and Public Safety



Fair Futures – Clean Slate Initiative

- Governor Lamont is introducing clean slate legislation to automatically clear certain misdemeanor C and D criminal convictions along with certain drug possession convictions after a waiting period of 7 years in most cases. This will help people overcome barriers and contribute more fully to Connecticut workforce and economy as well as their communities and households
- This will create an automated process spanning DESPP, the Judicial Branch, and other agencies to clear electronic records according to the eligible criminal convictions and waiting periods. This automated process will use electronic data-sharing technology, aided by the Criminal Justice Information System (CJIS), which will avoid a labor-intensive and time-consuming paper-based process
- To support this initiative, approximately \$2 million from the IT Capital Investment Program bond authorization will be used to address information technology costs in DESPP, CJIS, and the Judicial Department



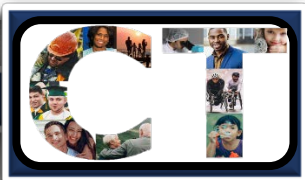
Legalizing Recreational Use of Cannabis by Adults

- Recognizing that 11 states have legalized the adult use of cannabis, and proposals in neighboring states, Governor Lamont is proposing to work with NY, RI and NJ on a regional approach
- The bill proposes to build on our experience with Connecticut's successful, highly regulated medical program and legalize adult use after taking the necessary steps to carefully create a tightly controlled and regulated market
- Sales will launch no earlier than July 1, 2022, and only after DCP and an Equity Commission, established through proposed legislation, make recommendations to the legislature in 2021 to finalize the most sensible and equitable regulatory and sales structure
- To begin the process of establishing a regulatory framework, the budget includes \$275,362 for two permanent staff and a durational project manager and associated expenses for DCP in 2021. The additional regulatory costs in the outyears will be offset by revenue from taxing cannabis



Reducing the Cost of Inmate Phone Calls

- Research shows that the maintenance of a strong and positive family support network is associated with lower recidivism
- The current contract to provide inmates with payphone services averages 23.8 cents per minute, which includes a 68% commission directed to the State of Connecticut. This rate is higher than most states
- To achieve greater parity with other states, Governor Lamont is
 - Accommodating the resulting revenue reduction by proposing an additional \$3.5 million in funding for the Judicial Department to support probation officer staffing currently funded through phone call revenues
 - Directing that the contract be renegotiated to reduce the cost of inmate calls



Enhancing Public Safety by Increasing the Number of State Troopers

- To address the critical need to replace retiring state troopers, Governor Lamont's budget proposes the necessary funding to support two large trooper training classes
- In FY 2021, DESPP is expected to graduate and deploy approximately 170 new troopers. These additional troopers are essential for maintaining public safety
- Significant efforts are underway to diversify recruitment to better reflect the communities they serve. In the upcoming class, people of color and women represent 44% of the recruits in the last stages of the testing process. This is a substantial improvement and the result of a new recruiting approach



Education



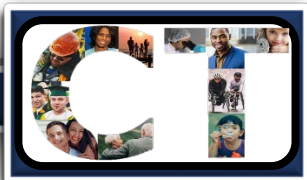
Supporting Curriculum Development

- Connecticut has a significant achievement gap, with student zip code and skin color being relatively accurate predictors of academic success
- Quality curriculum development standards are needed to address poor student outcomes and help close the student achievement gap
- The State Department of Education (SDE) has 1 consultant for reading curriculum development and implementation, compared to Massachusetts which has at least 7; similar ratios exist in math and English language support staff
- Governor Lamont proposes investing in SDE so the agency can support local and regional school districts and teachers in classrooms across the state
- The budget includes \$225,000 for two staff members in the Academic Office for additional curriculum development



Debt-Free Community College and Guided Pathways

- \$4.6 million is included to support Debt-Free Community College and Guided Pathways
- Awards to eligible students will cover all unmet tuition and fee costs after other grants and scholarships, or a minimum of \$250 per semester
- Limited available funding is directed toward recent high school graduates with greater financial need
- Guided Pathways support is crucial to the success of incoming students, including those newly eligible for free tuition
- By improving student-to-advisor ratios, Guided Pathways will increase equity and effectiveness of student support on campuses
- \$2.1 million of the recommended amount will support implementation of Guided Pathways in community colleges



Online Lottery and Debt-Free College

- In FY 2021 and FY 2022 estimated online lottery gaming revenues fall short of debt-free community college costs by \$3.1 million and \$0.2 million
 - Adjustments are proposed in this budget to address this shortfall
- Anticipated online lottery revenue is projected to exceed the cost of the debt-free community college program, as revised by the Governor's proposal, by FY 2023

(\$ In Millions)

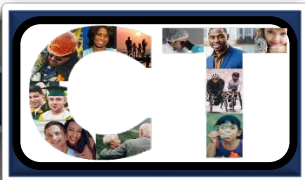
| Fiscal Year | Estimated Online Lottery Gaming Revenue | Estimated Debt-Free College Cost | Surplus / (Deficit) | Estimated Debt-Free College and Guided Pathways Cost | Surplus / (Deficit) |
|-------------|-----------------------------------------|----------------------------------|---------------------|------------------------------------------------------|---------------------|
| FY 2021 | \$ 1.5 | \$ 2.5 | (\$ 1.0) | \$4.6 | (\$3.1) |
| FY 2022 | \$ 4.4 | \$ 4.0 | \$ 0.4 | \$4.6 | (\$0.2) |
| FY 2023 | \$ 7.4 | \$ 4.3 | \$ 3.1 | \$4.3 | \$3.1 |
| FY 2024 | \$ 11.9 | \$ 4.5 | \$ 7.4 | \$4.5 | \$7.4 |
| FY 2025 | \$ 18.6 | \$ 4.7 | \$ 13.9 | \$4.7 | \$13.9 |

Note: Per Section 365 of PA 19-117 online lottery gaming revenue generated in excess of the debt-free college program costs is directed to a regionalization subaccount in the General Fund's Regional Planning Incentive Account.



Expanding Access to the U-Pass CT Program

- To facilitate higher education pathways for our youth and workforce development for our economy, the Department of Transportation (DOT) will expand the U-Pass program to all Connecticut colleges and universities that wish to participate
- U-Pass will encourage the use of public transportation, with its lower per capita carbon footprint, and ease congestion on highways
- In order to gain access to the program, a fee is charged to all students enrolled at each participating institution
- DOT's Bus Operations appropriation reduced by \$2.3 million to account for the revenue from this program

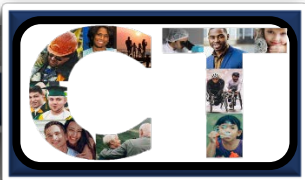


Efficiencies and Improvements to State Government Operations



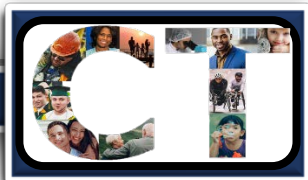
Centralizing Human Resources and Labor Relations Functions Under DAS and OPM

- Governor Lamont issued Executive Order No. 2, directing centralization of the human resources function in order to provide state government with the highest quality human resources services at the lowest possible cost
- Savings are expected to occur as a result of normal staff turnover, as DAS will be able to do more with fewer staff by implementing new technologies and other efficiencies
 - FY 2021 – Approx. \$400,000 in savings
 - Outyears – Estimated savings of \$2 million in FY 2022 and potentially even greater in FY 2023



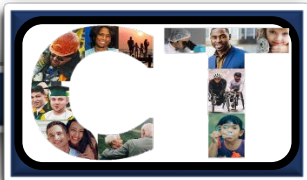
Enhancing Accountability and Transparency of the Connecticut Port Authority (CPA)

- The Governor recommends changes to CPA to re-establish trust in the authority's operations:
 - Makes the chair of the board an appointment by the Governor
 - Eliminates the two-year limit for chairmanship of the board
 - Ensures New London is represented on the board
 - Indicates that the Executive Director would be responsible for supervising administrative affairs and approving expenses
 - Requires an annual independent audit of the CPA be conducted; and
 - Mandates additional operational reporting required by all other quasi-publics



A Fresh Start for the Connecticut Retirement Security Authority (CRSA)

- 600,000 Connecticut private-sector workers lack access to a retirement savings plan through their workplace
- Employees are 15 times more likely to save for retirement if they can do so through a payroll deduction program at work (according to American Association of Retired Persons – AARP)
- Going forward, CRSA will consider a multi-state or regional approach to provide payroll deducted retirement savings for those who want it
- The budget includes \$75,000 to support a new position to provide clerical support and allows the Office of the State Comptroller (OSC) to assume operational control of the CRSA so they can move quickly from concept to reality



Creating Efficiencies in State Operations

- Centralized Purchase and Administration of Software Licenses
 - Funding from various agencies centralized under DAS for purchase and administration of licenses on a statewide basis
 - Enables uniform upgrades in technology, improvements to IT security, and leverages significant discounts

- Reducing the State's Physical Footprint
 - State Office Building renovation was completed in the fall of 2019
 - The state's constitutional officers have begun relocating there from leased space, allowing for lease savings of approximately \$6 million annually
 - Sale of 25 Sigourney Street in Hartford anticipated by the spring of 2020
 - Once the sale is complete, the state will save \$500,000 annually by no longer having to maintain the vacant property. The sale to a commercial entity will allow Hartford to put this property back on the tax rolls



Improving the Security and Fairness of Elections

- Ensuring the Integrity of Our Elections
 - \$95,000 for one position to address cybersecurity risks related to the election system is included in the Governor's budget for the Secretary of the State (SOTS)
 - This position will have a reporting relationship with the information technology and systems security staff in DAS
- Improving Election Administration - \$155,000 carried forward from FY 2020 for the Secretary of the State
 - Leverage new technologies to reduce costs and inconveniences, especially those associated with voter registration and special elections
 - Provide registrars with options to make election-day registration more convenient for voters
 - Enfranchise election-day registrants in line to register before the polls close
- Allowing Use of Campaign Funds for Childcare Expenses
 - Governor Lamont supports the recommendation of the Governor's Council on Women and Girls to allow participants in the Citizens' Election Program to use campaign funds for childcare expenses incurred as a direct result of campaign activity
 - This will create fairness for candidates who are parents, and will expand – and diversify – the pool of people who will be able to run for state office
 - No budget impact – the Citizens' Election Fund receives funds primarily from the proceeds of the sale of abandoned property in the State of Connecticut's custody, as well as voluntary donations



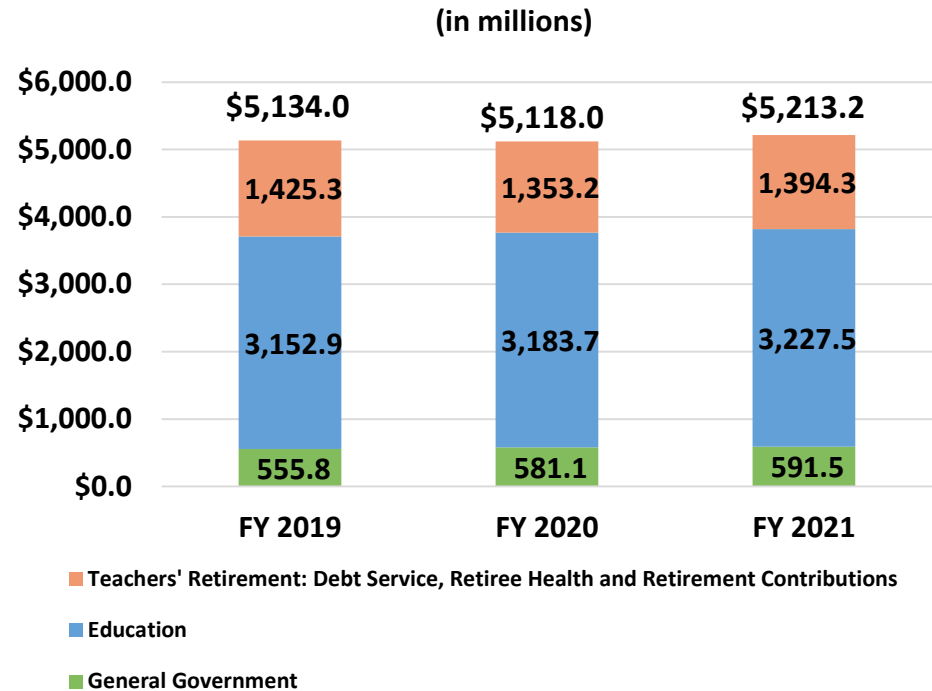
Additional Budget Initiatives



Preserving Municipal Aid

- Provides towns and cities with predictability by making no cuts to municipal aid
- Fully funds the phase-in of increases in the Education Cost Sharing (ECS) formula
- Maintains statutory payment lists and formula grants

PAYMENTS TO AND ON BEHALF OF LOCAL GOVERNMENTS



Enhancing Child Safety

- State Licensure of DCF's Solnit Center
 - DPH - one nurse consultant position to conduct inspections and complaint investigation activities
 - DCF - seven nursing and clinical positions to enhance care and treatment at Solnit North

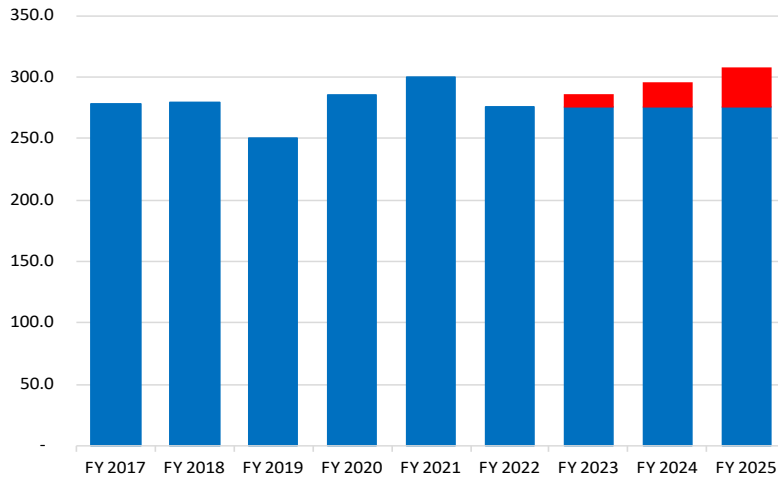
- Background Checks for Youth Camp Staff
 - DCF - two positions to conduct child abuse and neglect registry checks of licensed youth camp staff (18 and older)
 - Part of new comprehensive background checks for over 16,400 seasonal workers at an estimated 547 youth camps



Subsidy of UConn Health Center

UConn Health State Support Projections
(In Millions)

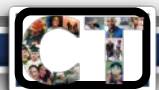
| FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 | FY 2025 |
|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 278.2 | 279.5 | 250.9 | 285.7 | 300.7 | 275.7 | 286.8 | 295.7 | 307.7 |
| | 0.5% | -10.2% | 13.9% | 5.3% | -8.3% | 4.0% | 3.1% | 4.1% |



(In Millions)

| Gain (Loss) by Line of Business | Actual 6/30/2019 |
|------------------------------------------------------------------|---------------------|
| John Dempsey Hospital | 6.6 |
| UConn Medical Group | (61.7) |
| Finance Corp. | 0.9 |
| School of Medicine | (67.4) |
| School of Dental Medicine/Clinics | (25.2) |
| Research | (46.6) |
| Institutional Support | (68.7) |
| UConn Health | (262.1) |
| Less: Pension Actuarially Determined Employer Cont. 6/30/2019 | 64.1 |
| Restated Results Without Pension ADEC | (198.0) |

- Based on June 30, 2019 results, state support to UConn Health represented 31.3% of total operating revenues
- State support to UConn Health is projected to be \$285.7 million in FY 2020 and \$300.7 in FY 2021
- Based on data from FY 2018, tuition and fee revenue represents 2.3% of overall revenue at UConn Health which compares to an average of 3.7% for U.S. public medical schools and 3.6% for private medical schools
- UConn Health results for June 30, 2019 reflected operational losses of \$262.1 million. When the annual cost of the unfunded pension contribution is removed, restated losses of \$198 million are of continuing concern
- A \$33.2 million subsidy in FY 2021 will support UConn Health operations while a long-term strategy for sustainability is developed



Special Transportation Fund



Special Transportation Fund Adjustments

(In Millions)

| | |
|------------------------------------------------------------------------|------------------------|
| Estimated Fund Balance - 6/30/2020 | \$ 321.2 |
| <u>Projected FY 2021 Revenues</u> | |
| Estimated FY 2021 Revenue - Current Law - January 15, 2020 Consensus | \$ 1,876.9 |
| Proposed Revenue Change | |
| Impose a Service Fee for Customers Using a Credit Card | 1.9 |
| Total Resources - FY 2021 | \$ <u>1,878.8</u> |
| <u>Projected 2021 Expenditures</u> | |
| Adopted Appropriations FY 2021 | \$ 1,816.3 |
| Increase/(Decrease) | |
| Offset Transit Expenditures by UPass Revenue | (2.3) |
| Adjust State Employee Health Costs to Reflect Higher Claims Experience | 3.6 |
| Adjust Pension Funding to Reflect New Valuation | 6.2 |
| All Other - Net | (0.4) |
| Total Increases/(Decreases) | \$ <u>7.1</u> |
| Total Projected Expenditures FY 2021 | \$ 1,823.4 |
| Projected Operating Balance | \$ 55.4 |
| Projected Special Transportation Fund Balance - June 30, 2021 | \$ <u><u>376.6</u></u> |



Capital Budget



Proposed Capital Budget

- The Governor is recommending new General Obligation bond authorizations of \$1.4 billion per year for the biennium, which is 11% lower than the average annual recommendations over the last five years
- The Governor is also resubmitting his recommended authorizations for \$776.6 million of Special Tax Obligation bonds for FY 2020 and \$782.4 million for FY 2021 to keep our transportation infrastructure in a state of good repair

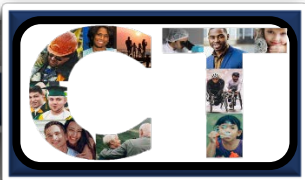


Conclusion

The Governor's budget is:

- Financially responsible and pro-growth:
 - Strengthening CT's Workforce and Growing the Economy
 - Leading on Health Care
 - Protecting and Improving the Climate and Environment
 - Enhancing the Criminal Justice System and Public Safety
 - Pursuing Operational Efficiencies
- Preserves municipal aid and honors ECS formula phase-in
- Protects health and human services programs
- Balanced and compliant with all applicable caps (spending, revenue, volatility, debt limit)

CONTINUING THE PROGRESS



Appendix



Consequences of an Insufficient Budget Reserve Fund – 2008 Recession

Connecticut's Response to the 2008 Economic Downturn Revenue Measures and Deficit Financing Implemented FY 2009, FY 2010, FY 2011, FY 2012 (in millions)

| <u>Revenue Measure</u> | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Total</u> | <u>% of Total</u> |
|-----------------------------------|------------------------|------------------------|------------------------|------------------------|--------------|-----------------------|
| 1. Deplete Budget Reserve Fund | \$ - | \$ 1,278.5 | \$ 103.2 | \$ - | \$ 1,381.7 | 14.3% |
| 2. Federal Assistance-ARRA | 407.7 | 878.9 | 960.4 | - | 2,247.0 | 23.2% |
| 3. Tax Increases | - | 845.0 | 586.7 | 2,417.7 | 3,849.4 | 39.7% |
| 4. Fee Increases | - | 108.5 | 104.0 | 111.6 | 324.1 | 3.3% |
| 5. Fund Sweeps | 250.8 | 89.8 | 76.9 | (97.9) | 319.5 | 3.3% |
| 6. Other Revenue Measures | 18.3 | 96.7 | 280.7 | 253.4 | 649.1 | 6.7% |
| 7. Economic Recovery Notes (ERNs) | <u>915.8</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>915.8</u> | <u>9.5%</u> |
| Total | \$ 1,592.6 | \$ 3,297.4 | \$ 2,111.9 | \$ 2,684.8 | \$ 9,686.6 | 100.0% |

Note: According to the National Bureau of Economic Research (NBER), the 2008 economic downturn began in December 2007 and ended June 2009.

- In aggregate, it took approximately \$9.7 billion in revenue measures, including federal American Recovery and Reinvestment Act (ARRA) assistance and deficit financing, to help address budgetary imbalance. This sum does not include significant spending cuts that were implemented!**

Federal ARRA assistance included \$1.6 billion in enhanced Medicaid and Title IV-E matching funds and \$540.0 million in education support ("State Fiscal Stabilization Fund")



Consequences of an Insufficient Budget Reserve Fund – 2008 Recession

▪ Spending cuts – frequent and significant

- \$314.5 million in reduced contributions to the State Employees' Retirement System (SERS), exacerbating the already low funded status of the pension fund (\$50 million in FY 2009, \$164.5 million in FY 2010, and \$100 million in FY 2011)
- 2009 Retirement Incentive Plan - \$147.5 million in near-term savings, but further strained the pension fund
- Employee concessions in 2009, 2011 and 2017
- Multiple deficit mitigation plans enacted (table at right)
- Reductions to all aspects of the budget, including:
 - municipal aid
 - human services
 - private providers
 - arts and tourism
- Substantial and repeated reductions to discretionary spending via rescissions (table below)

| Rescissions | FY09 | FY10 | FY12 | FY13 | FY15 | FY16 | FY17 |
|----------------|---------|--------|--------|---------|--------|---------|--------|
| # of Occasions | 5 | 2 | 1 | 1 | 3 | 2 | 1 |
| Total (\$M) | \$201.6 | \$51.1 | \$78.7 | \$170.4 | \$99.9 | \$181.5 | \$77.2 |

| Session Year | Deficit Mitigation Legislation | Spending Cuts* (\$M) |
|--------------|--------------------------------|----------------------|
| 2008 | PA 08-1, Nov. SS | \$25.6 |
| 2009 | PA 09-1 | \$44.2 |
| 2009 | PA 09-1, Dec. SS | \$12.4 |
| 2010 | PA 10-3 | \$89.6 |
| 2010 | PA 10-2, June SS | Net zero |
| 2012 | PA 12-1, Dec. SS | \$221.5 |
| 2015 | PA 15-1, Dec. SS | \$214.3 |
| 2016 | PA 16-1 | \$150.8 |
| 2017 | PA 17-51 | \$2.3 |

* Source: OFA fiscal notes



FY 2021 Recommended General Fund Budget

Total Appropriations = \$20,203.7 million

