Introduction

Budgeting In These Precarious Times

While 1991 saw the adoption of the income tax, 2003, brought adoption of about $1 billion in tax increases. In 1991, state programs saw major reductions; in 2003, spending cuts caused no less controversy and discord.

Thankfully, the state and national economies appear to be on the mend. The stock market is rebounding and state revenues are once again rising. The tough decisions of the past two budget cycles have meant that the state budget is beginning to return to balance.

But while prospects for the economy and the budget are looking up, the 2004 session should not be seen as an opportunity to fundamentally shift course – for that could plunge the budget back into deficit and sour the economic recovery we are seeing.

Indeed, the economic situation is still quite tenuous. While the recent recession was one of the mildest in recent memory when examining many measures, statistically it continues to be one of the worst from an employment perspective. Jobs have not been added back to the economy in large measure because corporations continue to use productivity gains to hedge against a myriad of national and international concerns. The recovery will be, at best, slow and sure: moderate growth will be the hallmark for the next two fiscal years.

Given these circumstances, lawmakers should approach this budget adjustment year with great caution. A FY 2004-05 budget is already in law, but it is in deficit. Lawmakers should concentrate on closing the shortfall that has arisen and must resist the temptation to make wholesale changes and revisit reductions made during the past few years. On the revenue side, lawmakers should be wary of piling more tax increases on an economy that has witnessed a billion dollars in increases in a 12-month period.

In short, giving in to the temptation to rip the budget wide open could have devastating consequences – to the state's bond rating, to the state's finances, and to the health of the economy. The spending cuts and tax increases of the past two years were not easy. But they were necessary and continue to be necessary if the state budget is to stay in balance and we are to correct the small structural gap that still exists.

That is why the FY 2004-05 budget adjustments submitted by Governor Rowland are just that – adjustments. The document builds on the balanced approach of the past few years. To close the hole in the budget, Governor Rowland's proposal calls for some additional and modest tax increases that do no damage to the recovery we are experiencing. The budget recommendation deliberately refuses to toy with the income, sales or corporate taxes for fear of sending a poor message to those seeking to make investments in this state at this critical time. At the same time, it calls for spending reductions, although modest in nature due to the extremely tough and even troubling cutbacks that had to be made to programs over the last two sessions.

The adjustments do add some dollars in the area of education, abused and neglected children, and to finally begin reducing the waiting list and serving those citizens with mental retardation most in need. But the additions to the adjusted budget are limited to the most pressing needs.

The budget proposal also reaches out to municipalities and local property taxpayers by using available increased revenue to remove a budgetary provision that would reduce local aid midyear and potentially devastate local budgets, services, and programs.

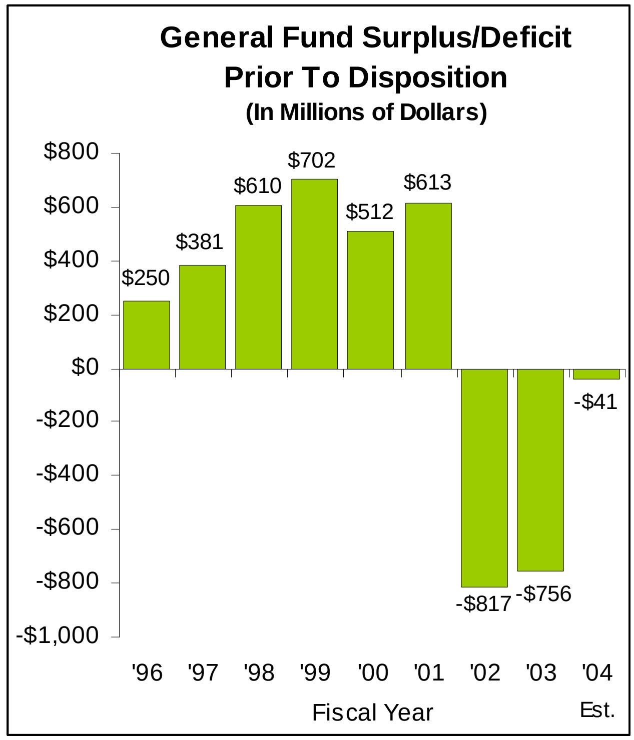
In essence, the budget seeks to limit further harm to services and programs and seeks to bring certainty back to the budget and policy-making process: certainty to citizens that rely on government programs; and certainty to businesses looking to make investments but are fearful of an increased tax burden.

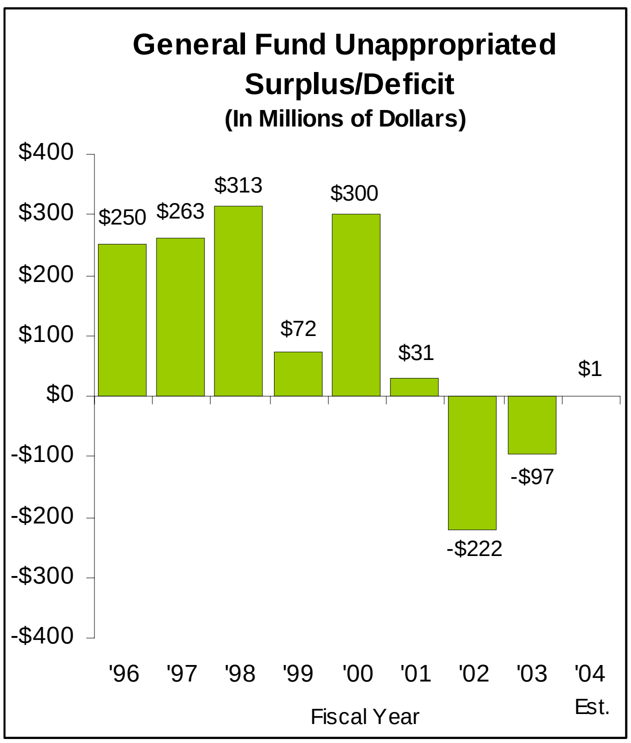
Most important, the budget stays well within the constitutional spending cap – a firewall that has served us well since its adoption and saved us from a fiscal crisis that would have been two or three times worse without the foresight of the amendment's framers more than a decade ago.

Citizens should sound the clarion now to protect this most important part of Connecticut's budgetary process.

From boom to bust and back to balance again?

The last several years have been a rocky road for both the economy and state budgets. Connecticut saw its budgetary balances disappear overnight -- moving from a gross surplus in FY 2000-01 of over $600 million to a deficit of over $800 million in FY 2001-02. It has struggled since then to close major structural gaps and limit the size of its annual deficits.





After the unprecedented surpluses of the mid-to-late 1990s evaporated, in FY 2001-02 Connecticut had to draw down its entire $600 million Rainy Day Fund because of the collapse of income tax revenues. Even then, the state had to bond about $220 million to extinguish its end of the fiscal year deficit.

In FY 2002-03, the state once again had a deficit at the end of the fiscal year, although a modest one of about $100 million. Bonds for that deficit, in addition to an estimated $25 million in lag claims for the old State Administered General Assistance Program, will be sold sometime over the next few months. The state is not expected to register a deficit in the current fiscal year if the legislature quickly adopts the revenue plan outlined later in this document.

Bonding the Deficit

(In Millions)

Fiscal Year	Amount
2002	$ 222.4
2003*	$ 125.0

** FY 2003 includes bonding for the General Assistance lag claims*

Each of those years' deficits would have been far worse if not for special sessions held to mitigate midyear growing deficits. The FY 2001-02 deficit was mitigated by some $400 million. Last fiscal year's deficit would have been as much as $756 million if not for a special session that increased taxes and reduced spending by about $650 million.

The cause of these deficits still can be traced in great measure to the unprecedented stock roll up in the mid-to-late 1990s. The stock market collapses in 2000 and 2001 caused capital gains realizations in the state of Connecticut spiraling downward.

From income years 1994 to 2000, state residents' realizations from the stock market grew over 500 percent. In income year 2001, realizations dropped 52 percent and in income year 2002 it is estimated that they dropped by between 35 percent and 40 percent more. In essence, the entire tax revenue derived from the capital gains of the 1990s are basically gone. Yet the state budget is that much bigger and it no longer has those stock gains to finance government programs!

Capital Gains Realizations
Reported By CT Residents
(In Millions)

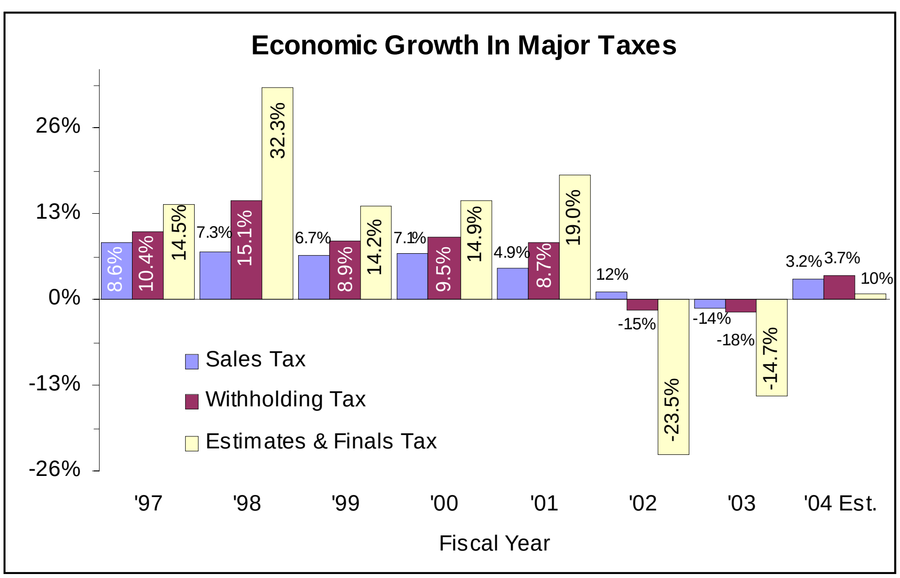
Income Year	Capital Gains	Percent Change
1994	$2,547	-16%
1995	$3,832	50%
1996	$4,732	23%
1997	$7,787	65%
1998	$9,867	27%
1999	$11,800	20%
2000	$15,435	31%
2001	$7,391	-52%

Capital Gains Realizations
Reported By CT Residents
Not Including Extension Filings
(In Millions)

Income Year	Capital Gains	Percent Change
2001*	$4,064	
2002*	$2,597	-36%

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

As noted many times before, the massive gains derived from the stock market in part helped drive growth in the withholding portion of the income tax and in sales tax receipts. Withholding grew between 9 and 15 percent annually when the markets were doing well. After the drop, the state suffered negative withholding growth despite actual growth in personal income. Sales taxes saw robust growth of between 5 and almost 9 percent annually in the boom years; but sales tax revenues dropped to minimal growth in FY 2001-02 and actually declined in FY 2002-03.

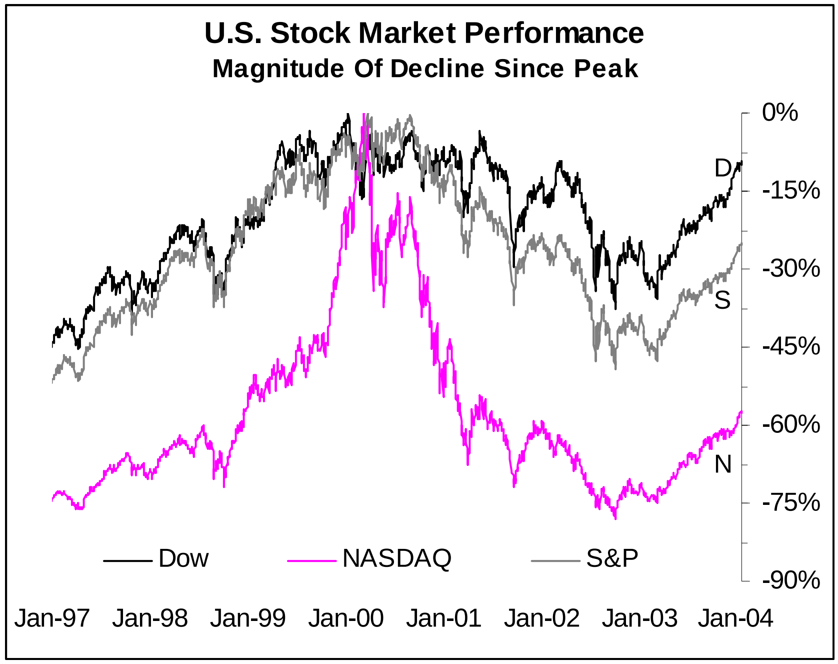


Corporate taxes surged in the good years. With the recession, they plunged, seemed to recover and are now sluggish again.

Data for income year 2003 is not yet in, but it would appear that further stock losses, if any, will be minimal for state residents because of the recent surge in stock prices. Indeed, if trends continue, the state could see its first growth in its estimates and finals portion of the income tax, which includes capital gains, in two years.

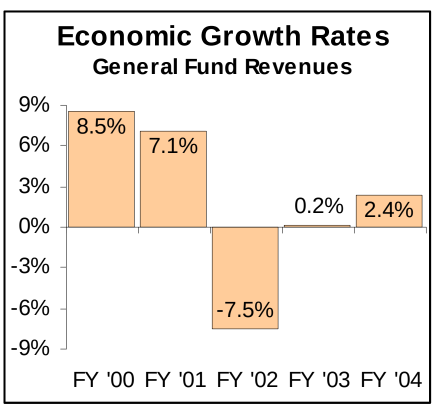
Thankfully, the stock market

registered a growth year, avoiding a fourth down year – which has not been seen since the Great Depression. In fact, stock market growth was rather robust in the last calendar year, with the Dow growing 25 percent, the S&P 500 up 51 percent, and the NASDAQ leaping 26 percent.



With the return of growth in the stock market, state revenues are slowly turning around. In FY 2001-02, the economic growth (factoring out the result of tax increases and other one-time revenues) of all General Fund revenues were down by 7.5 percent, after growing over 7 percent the previous year. In FY 2002-03, while tax increases meant more revenue to the state, economic growth rates for most taxes were still falling and overall General Fund revenues grew on an economic basis a paltry 0.2 percent.

In FY 2003-04, the General Fund is expected to register economic growth in revenues of about 2.4 percent. Withholding is expected to rebound this fiscal year to almost 4 percent on an economic growth basis, from almost a negative 2 percent last fiscal year. Sales taxes are expected to grow over 3 percent this fiscal year, while they dropped over 1 percent last fiscal year. Estimates and finals, clearly driven by capital gains realizations, dropped almost 15 percent last fiscal year. They should register at least a 1 percent growth this fiscal year. The original budget assumed a third drop in this category of 6.5 percent.



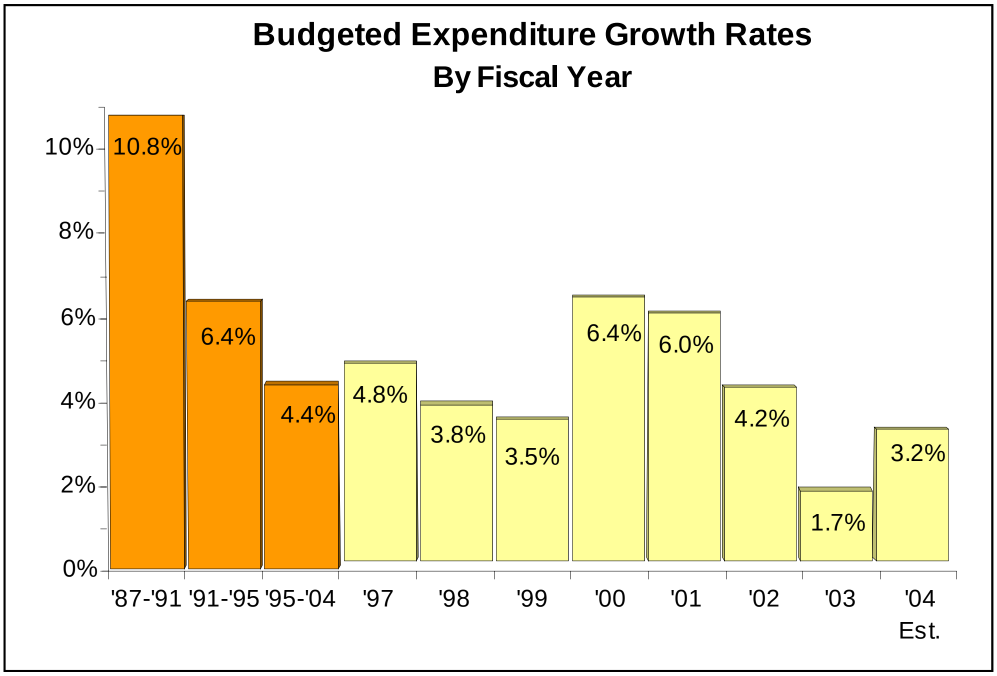
The spending cap – the taxpayers' savior

While budget deficits were major the past two fiscal years, they did not rise to the level of the year-end deficit registered for FY 1990-91. Back then, the total deficit of almost $1 billion was about 14.5 percent of General Fund expenditures -- and there was no Rainy Day Fund to liquidate any of it! At the time, it was thought the Connecticut deficit was the largest ever registered by a state as percentage of a General Fund budget.

Since that time, the major structural gaps of many states, most notably California, have easily eclipsed even the Connecticut record. But in Connecticut, deficits have been far more moderate this time around. Even if there was no Rainy Day Fund to liquidate most of the $800 plus million gross deficit in FY 2001-02, the registered deficit would still have been less than half the FY 1990-91 percentage.

What accounts for the better budgetary position going into the recession? The spending cap, of course! It has been the taxpayers' best friend these past dozen years or so.

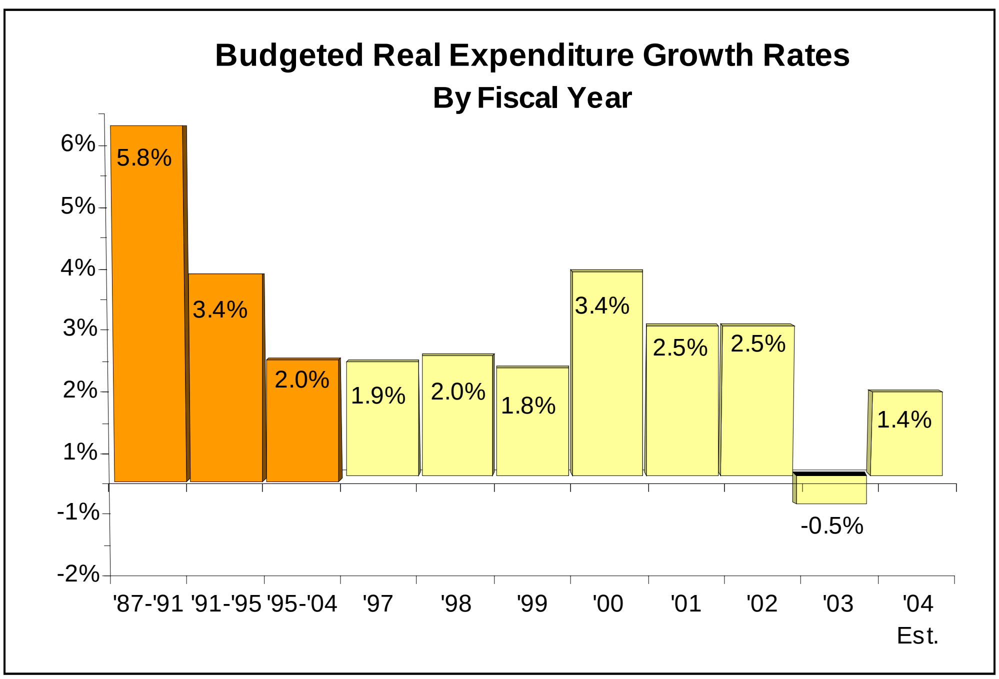
Prior to the adoption of the cap, from FY 1987-88 through FY 1990-91, average annual spending growth was almost 11 percent. Because of the presence of the spending cap, average annual



expenditure growth came down dramatically, to 6.4 percent on average annually under Governor Weicker and to about 4.4 percent with Governor Rowland's budgets thus far. At no time under Governor Rowland's tenure did budget growth exceed 6.4 percent; it has been as low as 1.7 percent in a given year. In that year, FY 2002-03, spending dropped in real terms.

Further, the spending cap has held down the growth of spending in good times, thereby keeping the structural gaps to a minimum as the economy turns and revenues dry up. Indeed, without the spending cap, it is clear that our deficits would have rivaled those registered in California, New Jersey, and elsewhere. The size of the deficits would have been double or triple what they were – as would the out-year structural gaps. And a number of states, especially California, continue to suffer from major financial woes. While Connecticut still has some structural issues with its budget, the cap has ensured the ability to close that hole much more easily.

While the spending cap has been exceeded on several occasions by agreement between the Governor and legislature, the monies were spent largely on debt avoidance and retirement and one-time projects that did not add to ongoing spending growth. And at no time were the extra expenditures added to the spending base so as to inflate spending in the out-years or to create new programs with ongoing costs.



The lesson learned: while many complained about the supposed inflexibility of the spending cap in good revenue times, it did exactly what the framers expected it would do – it controlled everyone's appetite to grow beyond our long-term means.

And during the last fiscal year, the spending cap had an ancillary benefit: it ensured that closing the structural gap did not come entirely from the revenue side. It forced spending reductions that meant a fairly balanced approach to the problems in the budget. Taxes did go up, but they could only go up so much because the spending cap limited growth in spending as personal income growth began to contract. It signaled that spending cuts were also necessary.

As we move forward, the spending cap will continue to stymie some lawmakers' desires to increase spending and taxes far too much. If the history of the spending cap is any indication, tampering with the cap will have disastrous consequences. We will return to the days of the late 1980s, when spending was out of control and no amount of tax increases could save the state from the greatest fiscal calamity. For that reason, Governor Rowland remains steadfast in his commitment to defend the spending cap and the current statutory definitions. No good would come of tampering with the success of the spending cap.

The 2003 session and enacting the FY 03-05 biennial budget

As noted above, the 2003 legislative session was a long, labyrinthine and torturous one for both administration officials and lawmakers. The structural gaps that were faced were enormous when the Governor proposed his biennial budget in March of 2003. By the time the budgets for each of the succeeding two years were passed in August, the structural hole for FY 2004-05 had grown to almost $2.8 billion.

Complicating the budget balancing for lawmakers was the fact that current services in each year were $800 million to $1 billion over the spending cap.

As mentioned above, the presence of the spending cap ensured a balanced approach to dealing with the structural gap. In the end, spending cuts and tax increases were both plentiful, with one-time revenues and other revenue enhancements filling the void.

When looking at the FY 2004-05 budget that was finally adopted in August of 2003, the structural gap was closed with about $900 million in permanent or temporary tax increases; a net of $1.66 billion in spending reductions, including almost $300 million in layoff and early retirement

Closing the FY 2005 Gap
Between February 28, 2003 and August 16, 2003
(In Millions)

Gap Prior to Passage of the Deficit Mitigation Plan		$ (2,540.8)
Additional Deterioration between 2/28/2003 and 8/16/2003		(222.7)
Fiscal 2005 Gap		(2,763.5)
Revenue Actions		
Permanent Tax Increases	$ 741.5	
Temporary Tax Increases	101.0	
Permanent Tax Decreases	(116.4)	
All Other Non-tax Revenue Changes	381.1	
Total Revenue Changes		1,107.2
Expenditure Actions		
Deficit Mitigation Plan Expenditure Reductions	148.4	
Early Retirement Incentive Plan Savings	140.4	
Estimated Layoff Savings	144.2	
Governor's Rescissions	61.2	
Expenditure Reductions contained in the Biennial Budget	1,162.3	
Total Expenditure Reductions		1,656.5
Final Balance as of 8/16/2003		$ 0.2

February 28, 2003 is the date the Governor signed into law the deficit mitigation plan and August 16, 2003 is the date the Governor signed into law the biennial budget.

savings; and a net of about $400 million in one-time revenues and other revenue enhancements.

Be wary of further tax increases

While the adjusted budget plan does call for some minimal tax increases, lawmakers should be extremely wary of raising taxes further. Indeed, during the 2002 and 2003 session, permanent taxes have been raised in excess of $900 million.

The original 4.5 percent income tax rate has been raised to 5 percent, for an increase on taxpayers of $446 million annually. The property credit has been dropped from $500 to $350 and eliminated entirely for upper-income taxpayers, for a net cost of $112 million. There have been sales tax increases as well, most notably the drop in the clothing exemption from $75 to $50 which cost taxpayers $35 million.

Lawmakers should be especially wary of increasing taxes on businesses. Total ongoing taxes for businesses have increased by over $100 million in recent years.

Permanent General Fund Tax Increases Since 2002
Impact on FY 2005
(In Millions)

2002 Legislative Session		**FY 2005**
Cigarette Tax to $1.11	$	125.0
Surcharge of $250 on LLC's, LLP's, and S corps		28.0
Corporation Credits- Reduce liability up to 70%		30.0
Misc. Tax Increases		2.0
	$	185.0
2003 Deficit Mitigation Legislative Session		
Income Tax- Increase 4.5% rate to 5.0%	$	445.5
Cigarette Tax to $1.51		76.0
Reduce Clothing Exemption		35.3
Health and Athletic Clubs		7.9
	$	564.7
2003 June 30th Special Legislative Session		
Property Tax Credit to $350 and Phase-Out	$	112.2
Corporation-Preference Tax and Interest Addback		40.0
Other Misc. Sales Tax Increases		19.1
Public Utilities Tax- Satellite TV at 5%		3.0
Insurance Companies-Reduce liability up to 70%		2.5
	$	176.8
2004 Legislative Session ***(proposed)***		
Cigarette Tax to $2.05, Tobacco & Snuff Taxes	$	96.1
Alcoholic Beverages-Increase Rates 10%		4.7
	$	100.8
Tax Increase Impact on FY 2005- Grand Total	**$**	**1,027.3**

In the 2002 session, the legislature capped the use of tax credits at 70 percent of pre-tax credit liability, costing businesses $30 million. A minimum levy of $250 was placed on S-corporations, LLCs and other like entities at a cost of $28 million. Over 1,000 companies will pay about $30 million more because of the increase in the charge for combined reporting from $25,000 to $250,000. A tightening of the use of interest deductions was a fair change, but it still will cost businesses at least $10 million.

On top of these permanent increases, to help balance the FY 2002-03, FY 2003-04, and FY 2004-05 budgets, businesses also are being assessed a 20 percent surcharge on their corporate tax for the 2003 income year and a 25 percent surcharge for their 2004 income year. While this surcharge goes away in 2005, these surcharges will cost businesses almost $150 million in total.

Many critics will argue that corporations have received a huge tax break over the years with the introduction of tax credits and the lowering of the overall rate from 13.8 percent to 7.5 percent today. The truth is that the level of business taxes was onerous in the late 1980s and early 1990s and forced corporations and jobs out of the state. Indeed, the lower taxation on businesses was largely responsible for the business and job creation of the mid 1990s. Businesses are paying their fair share, especially considering the permanent and temporary increases noted above and the fact that businesses pay about 45 percent of the sales tax in the state – projected to be almost $1.5 billion in

FY 2004-05.

A move now to increase business taxes would send the wrong message to companies seeking to locate or expand here. Job creation has been sluggish thus far during this recovery and a move to increase corporate taxation will only diminish job creation activities and prolong the economic displacement tens of thousands of residents have seen during the past few years. For these reasons, Governor Rowland will oppose all efforts to further increase the burden on businesses at this critical time for our economy.

Corporation Tax Surcharge Revenue
(In Millions)

Income Year	Surcharge	FY 2002-03	FY 2003-04	FY 2004-05	Total
2003	20%	$ 45.6	$ 24.6	$ -	**$ 70.2**
2004	25%	$ -	$ 50.0	$ 28.0	**$ 78.0**
Total		**$ 45.6**	**$ 74.6**	**$ 28.0**	**$148.2**

Bond raters watching Connecticut at this critical time

We must also approach this adjusted budget cautiously because investors and the bond-rating agencies they rely on for advice are watching Connecticut closely. As of this time, one major rating agency – Moody's – has lowered the state's rating, while the other two – S & P and Fitch – have thus far held our AA rating.

A lower bond rating from all three agencies would increase our debt costs considerably. While the administration has actually reduced annual bond allocations over the past several years, our debt service is scheduled to increase rather dramatically because of the need to begin paying off the five-year deficit notes issued for the FY 2001-02 deficit as well as the soon-to-be issued FY 2002-03 notes.

For sure, the agencies are going to look to several things in the adjusted budget. First and foremost are the reliable and conservative revenue estimates. The adjusted budget meets this demand by having estimates that are below what would normally be expected with current estimates of personal income growth.

The agencies, too, will look for a moderate approach to spending growth and adherence to the spending cap. The adjusted budget proposal from Governor Rowland meets this demand as well.

On the issue of structural balance, while the agencies may tolerate some one-time revenues, the raters will look to see that such revenues do not increase dramatically as a percentage of the budget. The adjusted budget meets this demand, especially by eliminating an important one-time lapse feature in the original adopted budget. On the revenue side, a minimal amount of one-time revenues are added.

The structural changes on the spending side are important

Over the past few years, important spending reductions have been passed that will play an important role in keeping down the structural gaps of the out-years. Most notable of the policy changes are important changes that occurred in the Medicaid and other human services programs. While very controversial and painful, the introduction of co-pays and premiums and the reduction in benefits, service levels, and eligibility are essential if the state is to continue to provide quality services to the most needy.

Connecticut was not alone in implementing such changes. Almost every state in the union has moved to reduce its costs in these areas and many states have adopted far more draconian changes than Connecticut.

No longer can we afford to provide an all-encompassing benefit at no cost to beneficiaries. The double-digit growth rates of health care, coupled with the aging demographics of the nation, require holding the line on changes enacted in law and now being implemented through state plan amendments and waivers from the federal government. Reversing these changes now will result in even more individuals being dropped from the benefit rolls because the state cannot afford to provide such a rich benefit. The changes made, which aim to bring Medicaid and other benefits more in line with private-sector plans, are justified on so many fronts.

Liquidating the FY 2003-04 Deficit

For the first time in several years, revenue projections are looking up and deficits are coming down.

While the Office of Policy and Management has reported deficits for the current fiscal year of as much as $85 million, as of February 1 that deficit has contracted to about $41 million. The drop is in large measure due to better-than-anticipated revenues in the month of December and January. And if the Democratic majority of the legislature passes the deficit mitigation plan proposed by Governor Rowland here, the deficit for the current fiscal year will translate to a balanced budget.

On the revenue side, the Governor is proposing accelerating the implementation of his FY 2004-05 adjusted budget revenue plan. He is calling for revenue enhancements to be adopted in time for implementation in April.

How did the deficit come about?

As opposed to prior years, the deficit currently projected for FY 2003-04 is caused on the expenditure side of the budget. The state is currently projecting deficiencies of about $66 million.

The largest deficiency is the Department of Social Services, with a net $30.33 million over-expenditure. While a large lapse is anticipated in the child care account, Medicaid, State Administered General Assistance and ConnPACE programs are large accounts with deficiencies. Much of the deficiency can be traced to the late passage of the biennial budget and the inability to get savings plans on line in a timely manner.

The Department of Children and Families is anticipated to have a $20 million deficiency in large measure tied to two things: the implementation of a staffing mandate as part of the ongoing consent decree, which eroded retirement savings and caused overruns in personal services; and a greater than anticipated residential caseload and costs for abused and neglected children.

Eight other agencies are anticipating minor deficiencies totaling about $16 million.

The early retirement incentive plan (ERIP) will also save less money than originally projected. In total, the ERIP was budgeted to save $153 million in FY 2003-04. The General Fund savings will be $18.8 million less, in large measure because of lower than anticipated savings in pension calculations, higher-than budgeted personnel refills in DCF, a $1.1 million set aside in personal services savings in DMR for waiting list clients, and $3 million set aside in personal services savings in DMHAS for enhanced mental health services as a result of fewer public personnel.

It is also anticipated that the budget in place will also be short another $5.2 million as a result of surplus adjustments.

On the reduction end, the Governor implemented $12 million in rescissions in December that will reduce the deficit by that amount.

Under the constitutional spending cap amendment, deficiencies can only be appropriated if there is available revenue to cover the spending. Because of recent revenue increases and those proposed to bring the budget into balance by year's end, the $66 million in spending needs are recommended to be appropriated rather than transferred from

FY '04 Additional Estimated Expenditures

(In Millions)

Ethics Commission	$ 0.15
Freedom of Information Commission	0.12
Office of the State Comptroller	1.00
Department of Administrative Services	1.60
Department of Public Works	3.00
Department of Mental Health & Addiction Services	4.50
Department of Mental Retardation	2.50
Department of Social Services	30.33
Department of Correction	3.00
Department of Children and Families	20.00
Total - General Fund Additional Requirements	**$ 66.20**

available lapse dollars. This creates some additional room under the spending cap in FY 2004-05 to pay for the overruns.

On the revenue side, for the first time in several years, collections are out-performing what was budgeted. Revenues in the General Fund are up over the original budgeted estimate by about $37 million, offsetting in part the excess expenditures outlined above. Corporate taxes are estimated to be $83 million under the budgeted amount. The income tax is estimated to be $124 million over what was estimated at passage, with all other revenues down a net of $4.3 million.

FY '04 Major Revenue Revisions

	Budgeted	Feb. 4th Forecast	Diff.
Income Tax	$ 4,475.9	$ 4,600.0	$124.1
Corporation Tax	607.5	524.5	(83.0)
Real Estate Conveyance	130.4	134.0	3.6
Oil Company Tax	97.5	90.0	(7.5)
Indian Gaming Payments	410.0	405.0	(5.0)
R & D Credit Exchange	(14.0)	(17.0)	(3.0)
All Other	6,744.8	6,752.4	7.6
Total G.F. Revenues	$12,452.1	$12,488.9	$36.8

Deficit mitigation plan

To extinguish the remaining $41.1 million deficit, Governor Rowland is proposing that the taxes he has included in his adjusted budget for FY 2004-05 be implemented by April 1. Implementing the cigarette tax, other tobacco products increases, and alcohol tax increases would raise $35.4 million, including corresponding sales tax revenues.

Implementing the proposed bottle escheat program as of April 1 will raise $4.5 million in FY 2003-04. Under the budget proposal, escheats revenue that arrives in July will be accrued back to the prior fiscal year.

The mitigation plan also proposes to retain the $2 million still scheduled to be deposited in the Biomedical Research Trust Fund to offset the deficit.

Closing the FY 2004 Deficit

(In Millions)

Beginning Balance- FY 2004	$ 0.1
Additional Income Tax Revenues	124.1
Corporation Tax Shortfall	(83.0)
Miscellaneous Revenue Changes	(4.3)
Agency Deficiencies	(66.2)
ERIP Savings Lost	(18.8)
Miscellaneous Adjustments	(5.2)
December Allotment Rescissions	12.1
Revised Deficit 2/1/04	(41.1)
Tax Changes effective 4/1/04	41.9
Revised Balance 6/30/04	**$ 0.8**

**Note the Governor is proposing that CATCH-F and TANF be appropriated in FY 2004, which will increase FY 2004 revenue by $31.7 million and expenditures by a corresponding amount.*

The proposals above raise $41.9 million, meaning the budget will be in surplus by about $800,000.

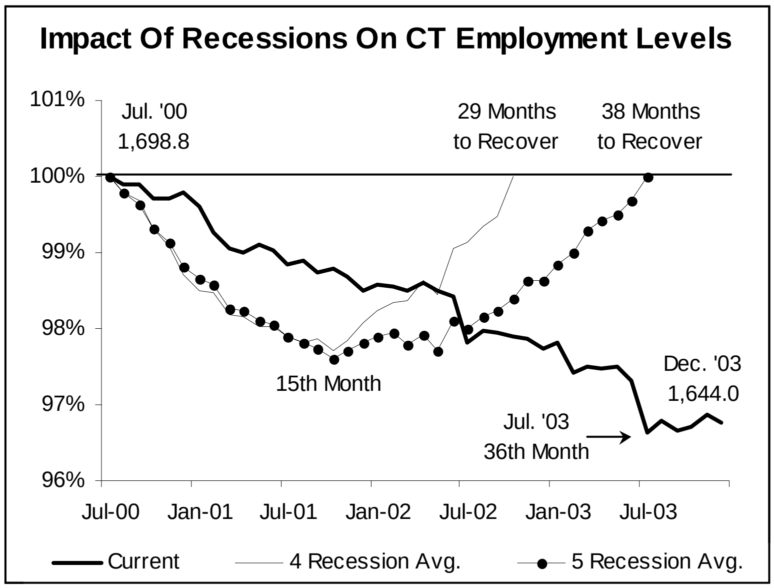
The budget also proposes to appropriate in FY 2003-04 about $11.7 million in TANF High Performance Bonus money received from the federal government and appropriate the $20 million originally intercepted for tourism, arts and culture. The $20 million will not impact the availability of such funding. In neither case do these appropriations impact the bottom line in the current fiscal year. Each proposal is described in greater detail later in this document.

The Economic Outlook

By most economic measures, this recession was one of the mildest the nation and Connecticut have seen in recent memory. Even with the 9/11 tragedy deepening and prolonging the recession, from the standpoint of GDP and GSP, personal income, and the absolute number of jobs lost, we were statistically better off in percentage of jobs lost than during past recessions. Historic low interest rates and refinancings allowed consumers to make up for disposable income lost when overtime or part-time jobs went away. Thus, consumer demand and spending buoyed the economy.

Strangely, though, we now find ourselves in the odd position of talking about the longest recession in recent memory – at least when looking at the length of time it has taken to add jobs back to the economy. Today, from the standpoint of employment growth coming out of recession, both the nation and Connecticut are enduring the worst of times.

Job losses during this recession were about a third of those lost during the early 1990s recession in Connecticut, but thus far the state has failed to add jobs back. While the national economy saw four months of fairly good job growth in the second half of 2003, the jobs added to the economy consistently missed economists' predictions by wide numbers. In December, the national economy added just 1,000 jobs nationwide. Here in Connecticut, the largest number of job losses for any month since employment peaked in July of 2000 came in July of 2003 – when the economy was well on the way to recovery. That month we lost 11,600 jobs, bringing the job losses for the recession to a peak of 57,400. Since then, each month we have bounced between job losses and job gains. In December, surprisingly, the state economy lost 1,100 jobs. Since July, just 2,600 jobs have been added in the state.



What explains the jobless recovery and the failure to be adding jobs back? As mentioned before, thus far businesses have used the nation's and the state's consistently high productivity – usually a positive attribute that offset higher costs – to hedge against external forces and continuing uncertainty in the economy. Productivity gains have been businesses' way of adding to the bottom line and expanding without necessarily adding back the jobs they shed in recent years.

What does the future hold?

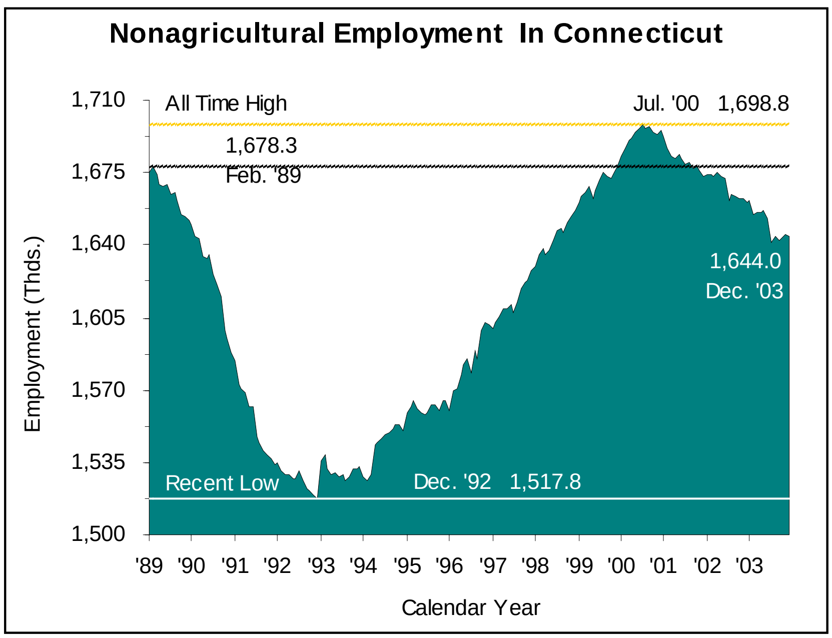
The good news is that by any number of business measures as well as consumer measures are now beginning to do so well that businesses presumably have to begin adding jobs back. After all, productivity gains can only go so far. The supply management index the bellwether for business sentiment on the economy – is now in the high 60s and appears to be charging on. The same can be said for the index of leading indicators. And while the consumer confidence index has been fickle of late and remains low, it is also heading upward.

Economists are predicting a stable recovery, but are being cautious in their outlook. We will not see the vigorous growth rates we saw in the mid-to-late 1990s. In fact, most projections show a peak in economic growth in this and the coming fiscal year with a moderation of activity through FY 2006-07.

Real GDP will hit 4.4 percent this fiscal year and drop into the 3 percent plus ranges in the out-years. Nationally, personal income growth will, however, continue to grow and hit 6 percent in FY 2006-07. In recognition of the slow pace of job recovery and the continued shedding of manufacturing jobs nationally, the unemployment rate will not change significantly, staying in the mid-5 percent range for the foreseeable future. This is also due to the fact that as the economy improves, previously discouraged workers who gave up looking for work will begin looking anew and be counted in greater numbers among the unemployed and looking for work.

With the prognosis for continuing low interest rates, housing starts and new vehicle sales should continue to be robust, which will help boost consumer demand. Wait one minute, though! If the recovery slows, consumers – many of whom have maxed their credit cards and have little opportunity to create additional disposable income through refinancing again -- may find themselves taking a second look at their consumption levels. While historically low, the savings rate has moved up to 2.3 percent for two years in a row (from 1.7 percent in 2001), signaling some consumer anxiety with their penchant to spend.

Generally, Connecticut will see more moderate growth in many areas than the nation. As Connecticut usually lags the national recovery by up to six months, in terms of our gross state product we will see more sluggish growth than the nation in FY 2004-05, but see slightly better growth than the nation in the following two fiscal years. But the growth is by no means robust, not even hitting 4 percent in real terms through FY 2006-07. While personal income is expected to hit 6 percent nationally, Connecticut will not go over 5 percent until FY 2006-07, which will limit the growth we see in our income and sales tax receipts.

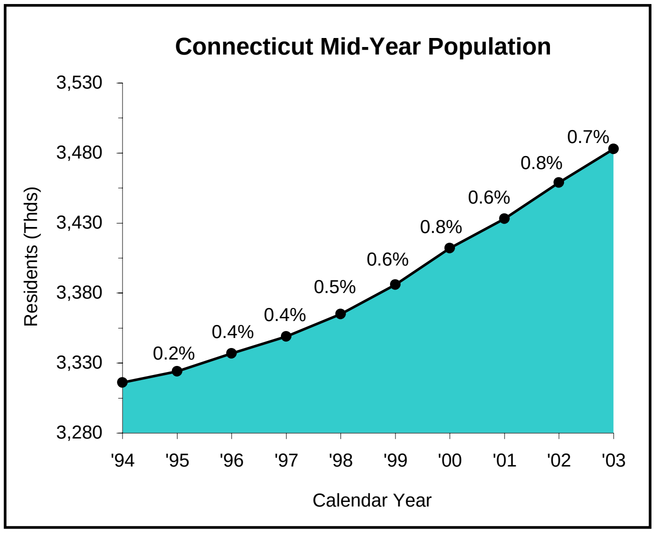


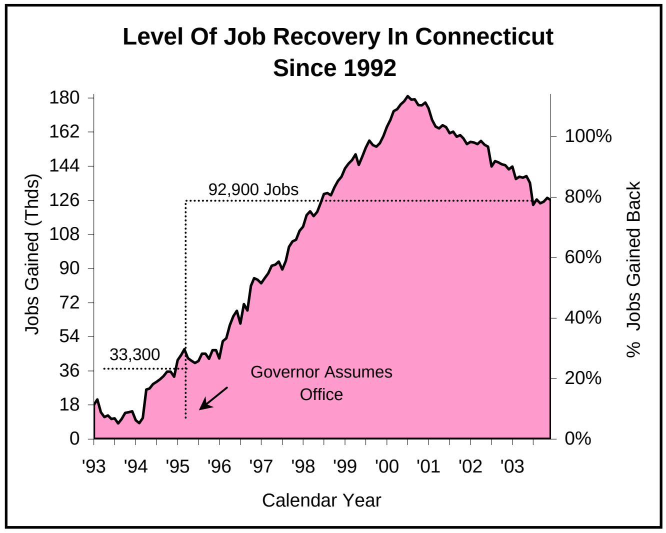
The state's unemployment rate will be about a half point below the national rate, but we will continue to see sluggish job growth. The state lost 16,100 jobs in FY 2002-03, or about 1 percent. Job gains are expected to begin to accelerate in the second half of the current fiscal year, but overall employment levels will still be down in FY 2003-04 by about eight-tenths of 1 percent, or about 13,400 jobs. Job growth in the coming fiscal year will be about 1 percent, or 16,500 jobs. In FY 2005-06 and FY 2006-07, it is projected that jobs will grow an additional 1.2 percent (20,700) and 1.3 percent (22,400), respectively. The bottom line, though, is that Connecticut will not fully regain the jobs lost in the recession until sometime in FY 2006-07. In essence, the jobless recovery phenomenon will continue for some time.

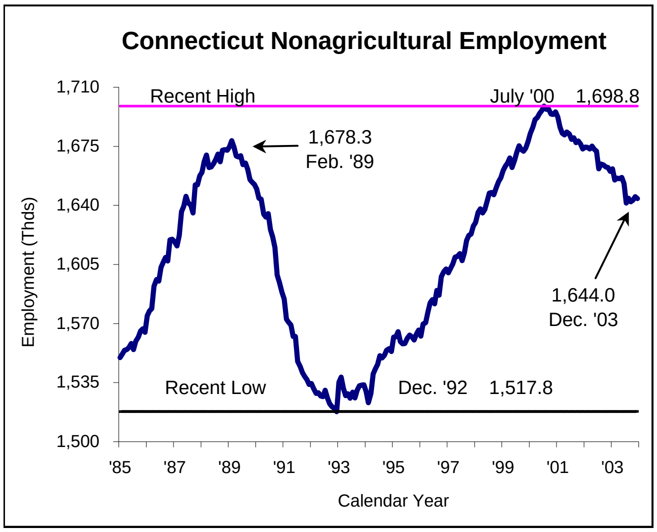
As noted continuously in these pages, an important facet of our economic prospects, especially in Connecticut, will be the stock market's rise or fall. The market holds the key to accelerating our economic fortunes or slowing us down. After three years of losses, the stock market saw vigorous growth in 2003. The NASDQ was up 50 percent and the S&P and Dow up 26 percent and 25 percent, respectively. The 2004 calendar year is off to a good start.

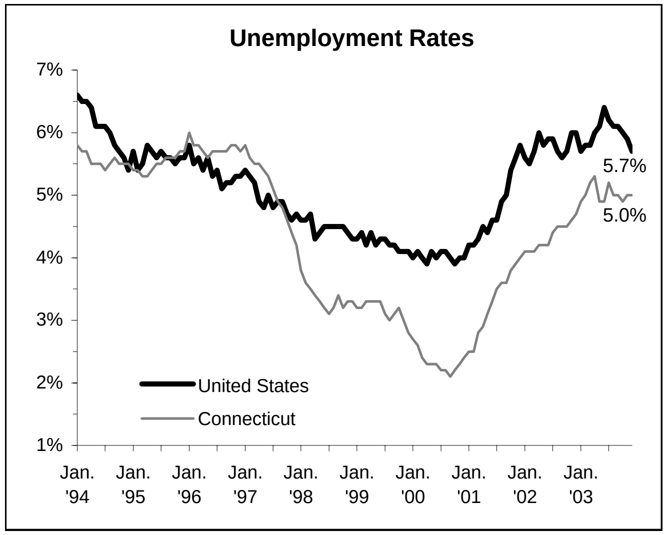
A promising sign for Connecticut is that the state's income tax payments saw a huge surge in early to late January, signaling that corporate bonus payments – almost non-existent for the past couple years - seem to be

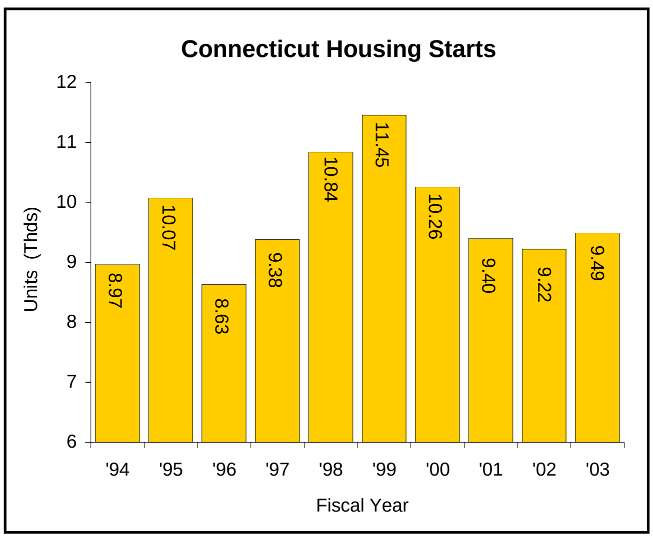
Connecticut at a Glance

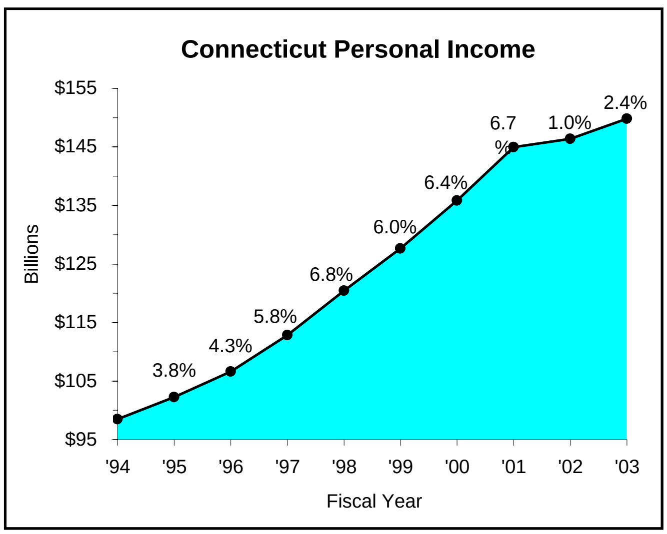




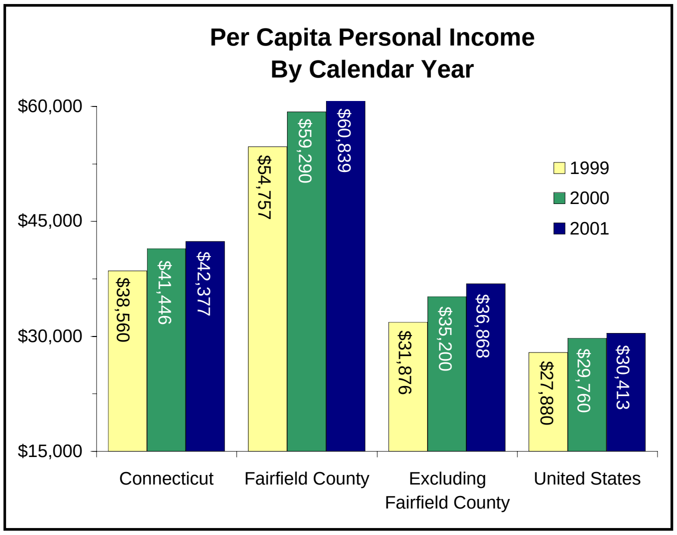








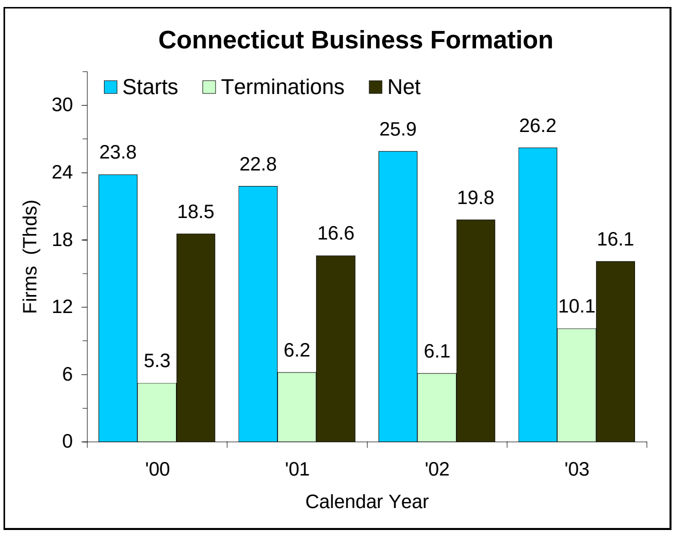
Connecticut at a Glance

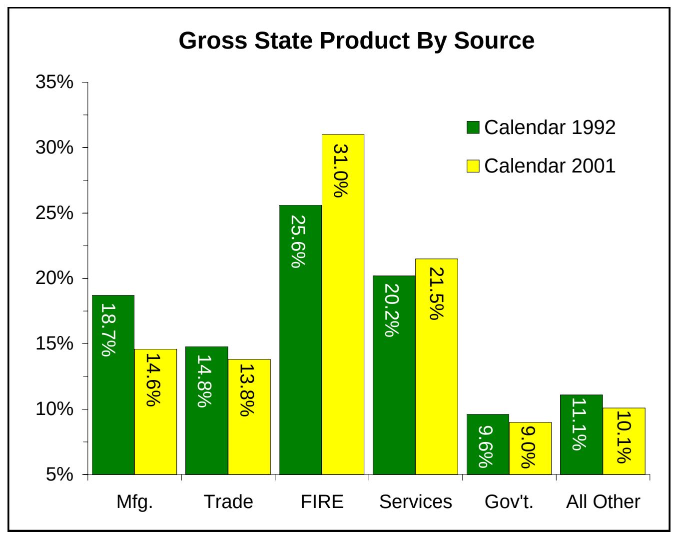


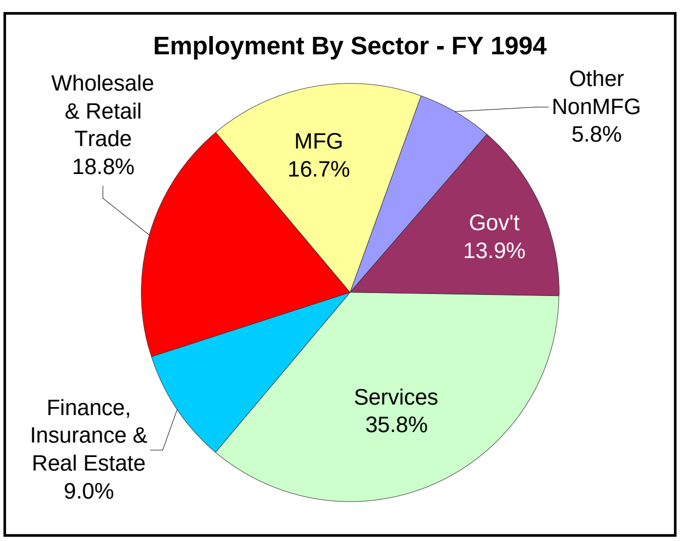
Per Capita Personal Income
Fiscal 2003 Rankings

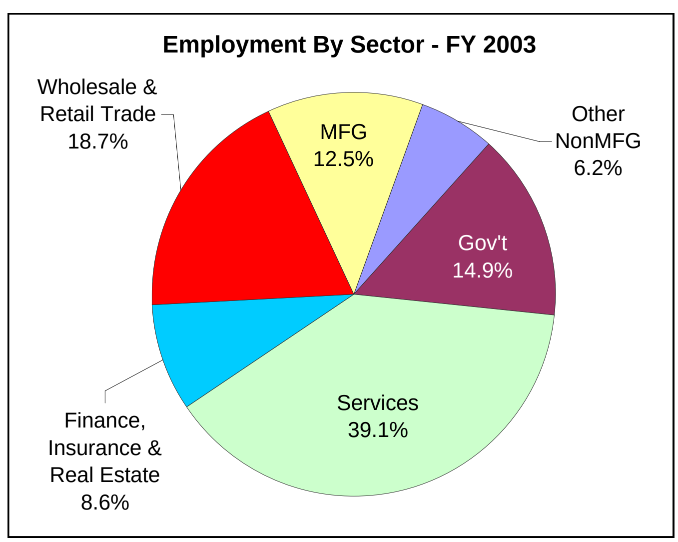
Rank	State	Per Capita Income	Rank	State	Per Capita Income
1.	**Connecticut**	**$43,013**	46.	New Mexico	$24,158
2.	New Jersey	$39,865	47.	Utah	$24,075
3.	Massachusetts	$39,244	48.	West Virginia	$23,841
4.	Maryland	$36,294	49.	Arkansas	$23,745
5.	New York	$35,887	50.	Mississippi	$22,842

U.S. Average = $31,127 - making CT 1.38 times the U.S. Average.



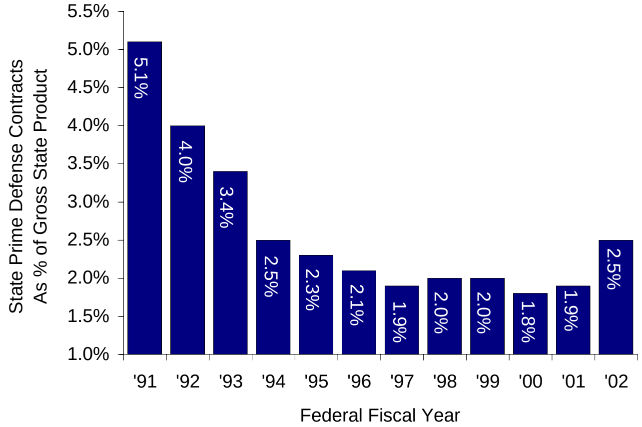






Connecticut at a Glance

Decreased Dependence Of Connecticut's Economy On Defense Contracts

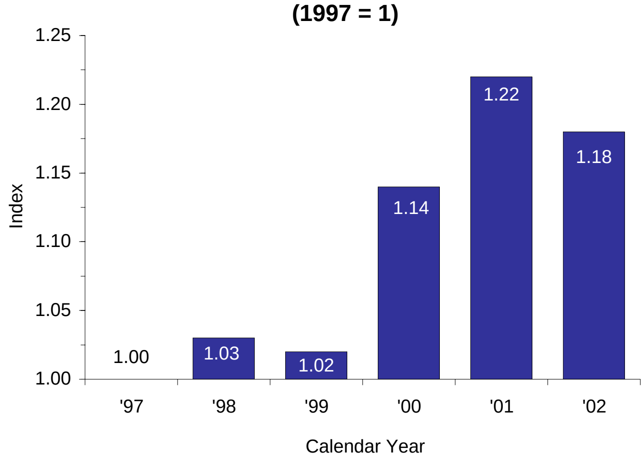


Major Corporate Headquarters In Connecticut National Rankings By Revenues

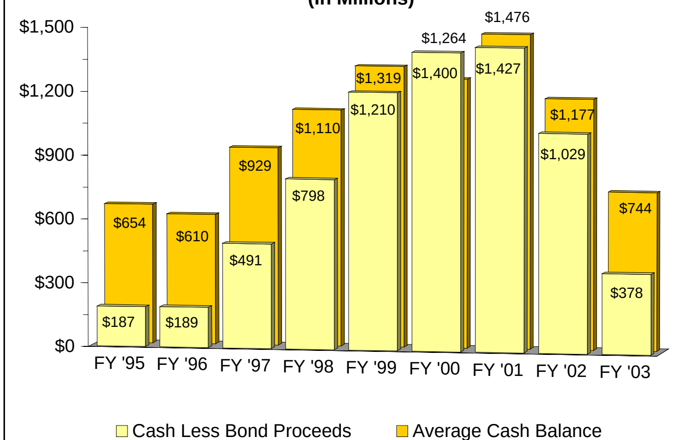
	Company	Rank		Company	Rank
1.	General Electric	5	8.	Premcor	269
2.	United Technologies	49	9.	Praxair	324
3.	International Paper	64	10.	Northeast Utilities	330
4.	Aetna	88	11.	Oxford Health	334
5.	Hartford Financial	114	12.	Asbury Automotive	360
6.	Xerox	116	13.	Pitney Bowes	368
7.	Meadwestvaco	249	14.	Emcor Group	404

Source: FORTUNE Magazine, "500 Ranked Within States" (4/13/03) Calendar 2002

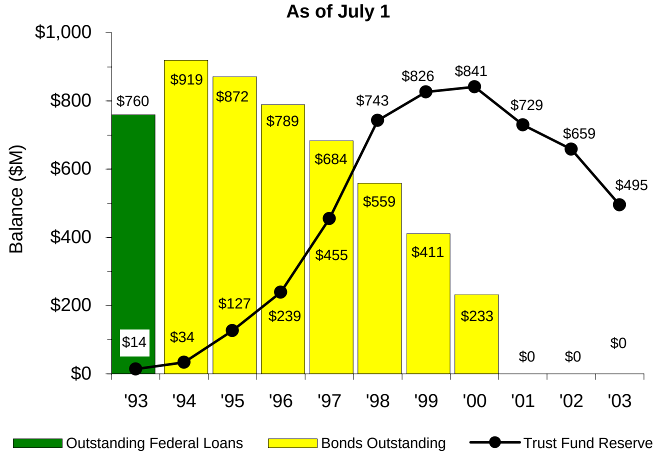
Connecticut Yearly Export Index (1997 = 1)



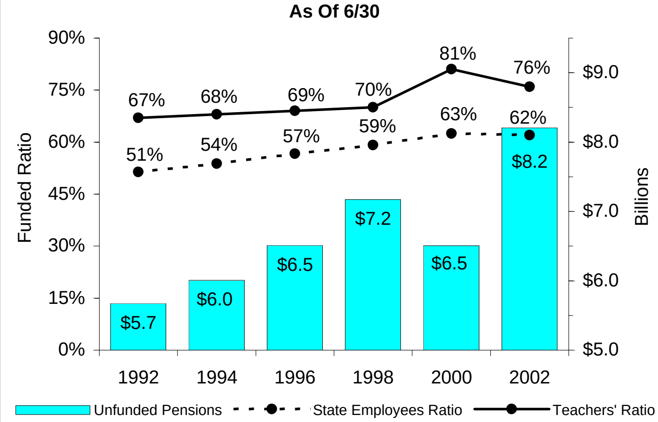
State's Average Cash Balance
(In Millions)



Funding of the Unemployment Trust Fund
As of July 1



Unfunded Pensions State Empl. & Teachers' Retirement Systems
As Of 6/30



on the mend. That in and of itself will drive economic activity in the state.

At the national level, President Bush's 2001 and 2003 tax cuts will continue to add disposable income to the state and invigorate economic activity. The importance of the Bush tax cuts cannot be overstated for Connecticut. While we account for just over 1 percent of the U.S. population, Connecticut's relative wealth ensures that state residents will net as much as 2.5 percent of the total tax cuts nationally. In calendar years 2004 and 2005, an additional $3.8 billion and $4.5 billion, respectively, will be in residents' pockets because of the tax reductions. By calendar 2010, $5.3 billion annually will be kept by residents.

Estimated Gain for Connecticut's Taxpayers due to President Bush's Enacted Tax Cuts
(In Millions)

Income Year		Gain
2003	$	2,270
2004	$	3,790
2005	$	4,490
2006	$	5,110
2007	$	4,500
2008	$	4,850
2009	$	5,090
2010	$	5,310
Total	$	35,410

One worry is the effect of the federal deficit on economic growth over the long term. The tax cuts have clearly bolstered economic activity and moderated the recession. Indeed, one has to wonder what the national and states' economies would look like right now if President Bush did not have the courage to fight for the right kind of fiscal stimulus to couple with the strong monetary policy of the Fed. But the combination of paying for the tax cuts, the costs of the war effort, and the introduction of the new Medicare drug benefit could combine to keep federal deficits at record levels for the foreseeable future.

Federal borrowing was on the downturn from 1996 through 2000, and state and local borrowing was tapering off from 1998 to 2000. But the impact of the recession on budgetary balances has meant all levels of government have increased borrowing substantially since then. Consumer borrowing growth has been consistently high for the last decade. Business debt has increased over that time frame as well, although the growth has moderated during the recent recession. All told, absolute debt in the public and private sector in the United States has increased by at least 5 percent almost every year over the last decade. The President is expected to unveil efforts to reduce the growth in discretionary spending to curtail the deficits, which could be important to stem a rise in inflation and interest rates over time. The total growth in U.S. debt looks eerily similar to the patterns in Japan before its decade-long economic woes.

Exports will help Connecticut's economy rebound a bit. After lackluster performance over the past few years, exports are expected to rise as the world economies continue to heal. Japan's economy is on the mend. It appears to be shedding both its recessionary and deflationary cycles. The European Union will see much more modest growth than the United States and should stay strong as long as its giants who look weak – Germany and France – continue to pull out of the doldrums. Canada – our biggest trading partner – is expected to see growth similar to the United States. The dollar continues to hit record lows against the Euro and at this point there seems no sign of the dollar's recovery. The continuing rapid depreciation of the dollar will aid U.S. exporters, but it could mean a credit crunch for the U.S. Treasury over time, especially if the deficits continue at their expected high levels.

The bright spot for Connecticut is the state economy's diversification and strong business formations, largely small entrepreneurial firms that are the cornerstone of the growing knowledge-based economy. Even during the recession, small business formations continued in good numbers. The smaller employers were very much responsible for the more moderate job losses we saw, as they were more flexible and adaptable. Their compassionate outlook and less short-term bottom line oriented approach saved workers from losing their jobs. The job growth in the economy has been driven by these smaller firms and they will continue to ignite job growth, along with some larger knowledge-based firms in the bio-tech and IT fields. If small business is to drive our future economic prospects, over time it will be essential that we revamp the corporate tax structure to ensure fairness and equity to all firms.

What does this economic forecast mean for state budgeting? Lawmakers and administration officials must be cautious. Conservative revenue estimates must be adopted to hedge against the uncertainty surrounding when and in how many numbers jobs will be added back to the work force. Holding the line on spending is a key component as well, as revenue growth will be moderate for the next several years. Unraveling major human services reforms will cause great problems for the budget. Faced with moderate revenue growth, the state budget would not be able to sustain the added burden of the double-digit health care inflation that was curtailed with the programmatic changes passed by the legislature.

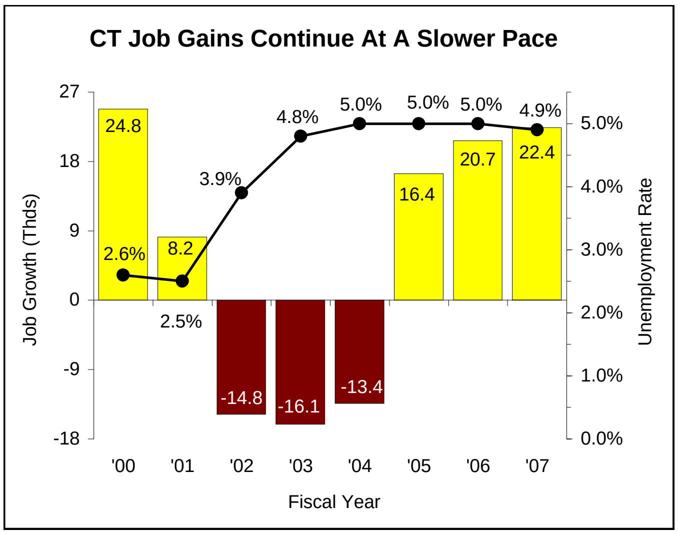
What Does the Future Hold?

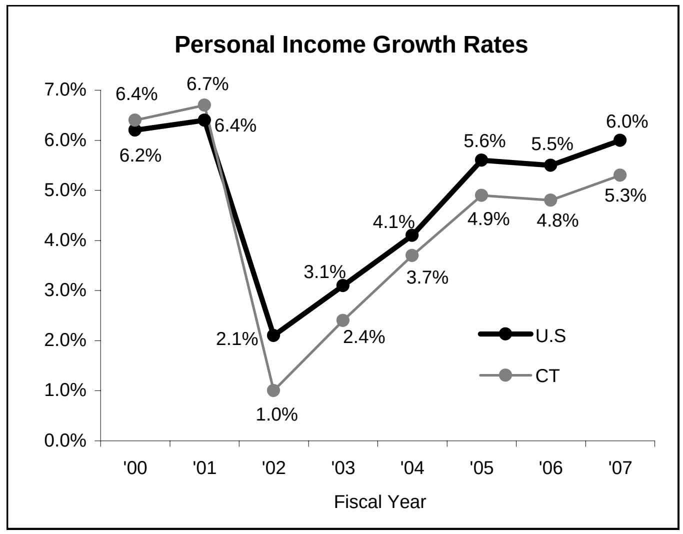
Connecticut Economic Indicators

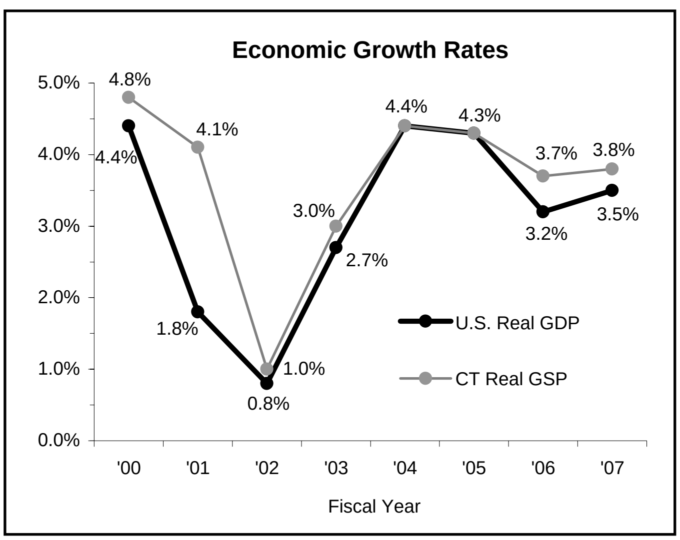
	FY '02	FY'03	FY '04	FY '05	FY '06	FY '07
Personal Income	1.0%	2.4%	3.7%	4.9%	4.8%	5.3%
Real G.S.P.	1.0%	3.0%	4.4%	4.3%	3.7%	3.8%
NonAgr. Employ.	-0.9%	-1.0%	-0.8%	1.0%	1.2%	1.3%
Mfg. Employ.	-6.5%	-4.5%	-4.5%	-1.0%	-0.7%	0.0%
Nonmfg. Employ.	0.0%	-0.4%	-0.3%	1.3%	1.5%	1.5%
Unemployment	3.9%	4.8%	5.0%	5.0%	5.0%	4.9%

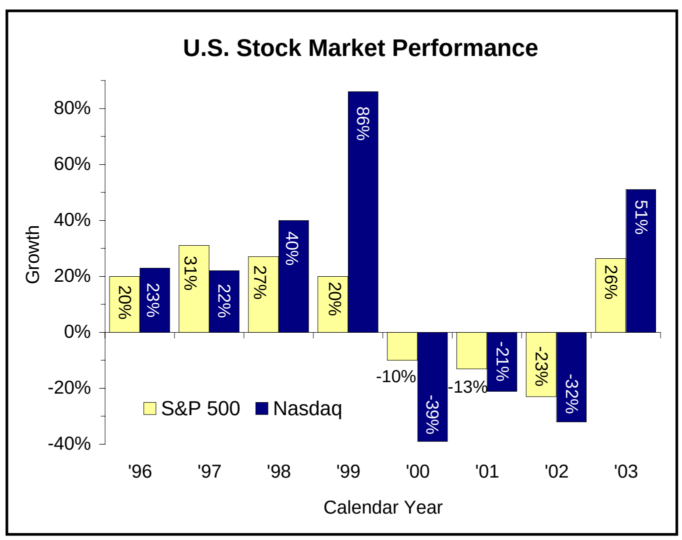
U.S. Economic Indicators

	FY '02	FY'03	FY '04	FY '05	FY '06	FY '07
Personal Income	2.1%	3.1%	4.1%	5.6%	5.5%	6.0%
G.D.P.	2.6%	4.0%	6.1%	6.1%	5.1%	5.6%
Real G.D.P.	0.8%	2.7%	4.4%	4.3%	3.2%	3.5%
Unemployment	5.5%	5.9%	6.0%	5.5%	5.5%	5.5%
CPI	1.8%	2.2%	1.8%	1.4%	1.6%	1.9%
Housing Starts (M)	1.6	1.7	1.9	1.8	1.7	1.6
Vehicle Sales (M)	16.9	16.6	17.0	17.4	17.2	17.8

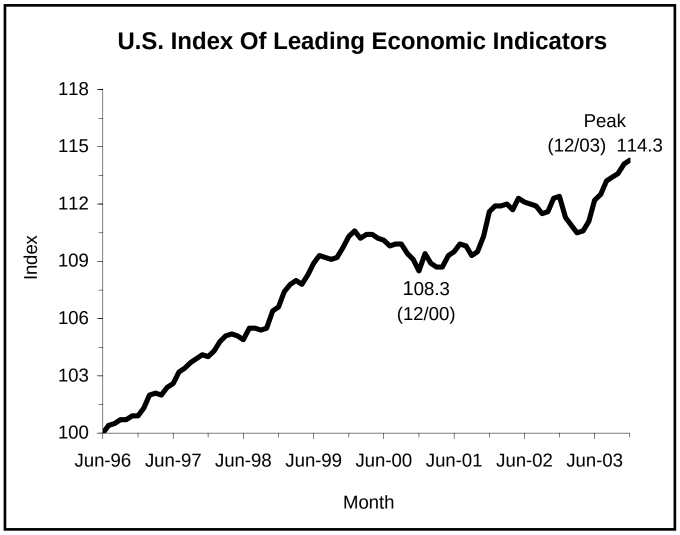


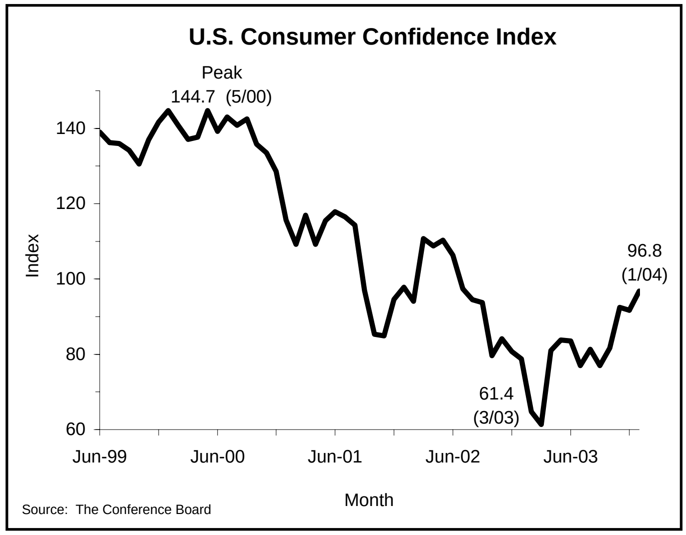


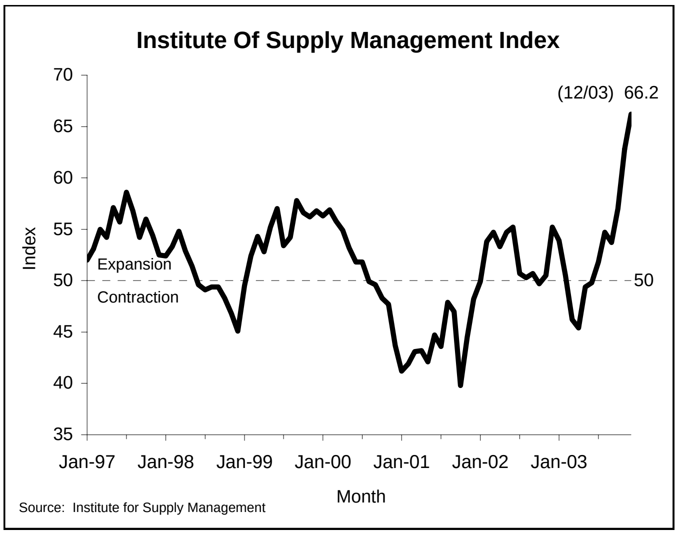


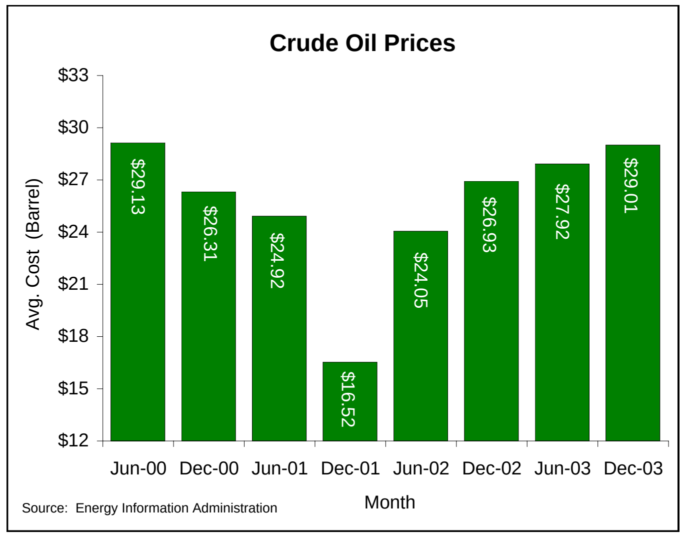


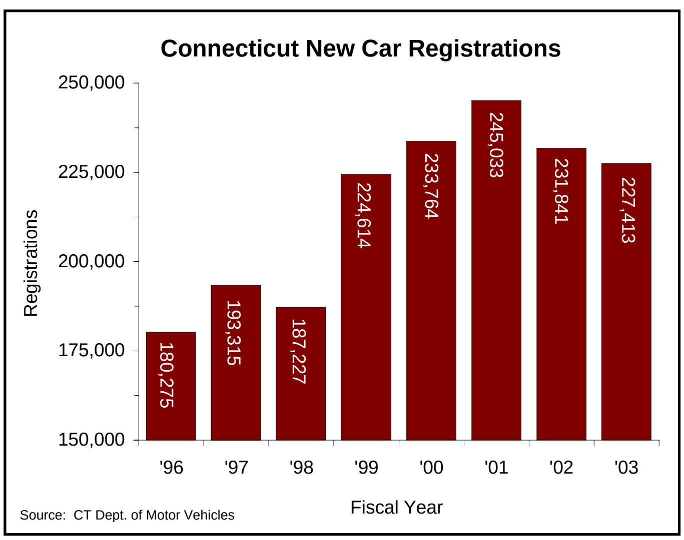
What Does the Future Hold?

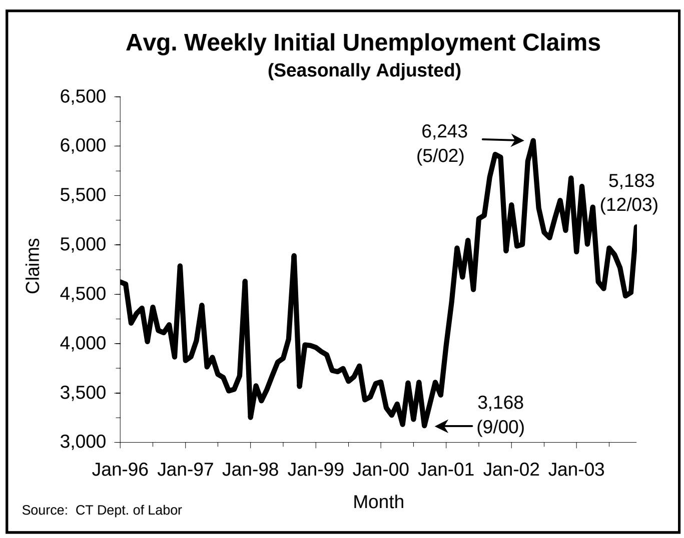












The FY 2004-05 Adjusted Budget

As noted earlier, before adoption, the FY 2004-05 budget faced an estimated $2.5 plus billion hole. The current services budget gap was closed with a combination of permanent and temporary tax increases, spending reductions, and additional one-time and permanent revenue enhancements.

The 2003 session was a tremendous chore, but it has reaped the rewards of extinguishing the major structural problems in the state budget.

The current fiscal year

The originally enacted FY 2003-04 budget called for spending $12.452 billion in the General Fund and $13.521 billion in all funds. It was $356 million under the spending cap and had General Fund revenues in excess of appropriations of $100,000.

Appropriated Funds Of The State
(In Millions)

	Estimated FY 04	Recommended FY 05
General Fund	$12,561.7	$13,153.7
Special Transportation Fund	913.0	915.1
Mashantucket Pequot & Mohegan Fund	85.0	85.0
Soldiers', Sailors' & Marines' Fund	3.5	3.6
Regional Market Operating Fund	1.0	1.0
Banking Fund	14.9	16.0
Insurance Fund	19.1	19.6
Public Utility Control Fund	18.4	18.8
Workers Compensation Fund	21.9	21.2
Criminal Injuries Compensation Fund	1.4	1.4
Grand Total	$13,639.8	$14,235.3

In fiscal 2003-04, General Fund estimated expenditures include $20.0 million for CATCH-F and $11.7 million for TANF bonus. Special Transportation Fund expenditures include $15.5 million for a new DMV transaction processing system.

Based on the Governor's deficit mitigation plan outlined earlier, General Fund expenditures this fiscal year are expected to be $12.562 billion, with all funds being $13.640 billion. These numbers include the appropriation of the $20 million Commission on Arts, Tourism, Culture, History and Film (CATCH-F) revenue intercept to the General Fund, the carryforward (which reduces the lapse) of a one-time Department of Motor Vehicles capital project in the Special Transportation Fund (STF) to avoid issuing debt, and the appropriation of the one-time TANF Bonus money in the General Fund. Thus, General Fund expenditures will end up about $110 million above the budgeted amount, with all fund expenditures about $119 million above budget. Appropriations will end the year $259.9 million below the spending cap and the General Fund will end the fiscal year with an $800,000 surplus.

Including the CATCH-F adjustment but excluding the two one-time appropriations, all funds growth from FY 2002-03 final numbers will be 3.2 percent. In real terms, spending growth is 1.4 percent. On the same basis as the all-funds calculation, the General Fund growth this fiscal year will be 3.5 percent, or 1.7 percent in real terms.

The enacted FY 2004-05 budget called for spending $12.967 billion in the General Fund and $14.056 billion in all funds. It was $119.2 million below the spending cap and had General Fund revenues in excess of appropriations of $200,000.

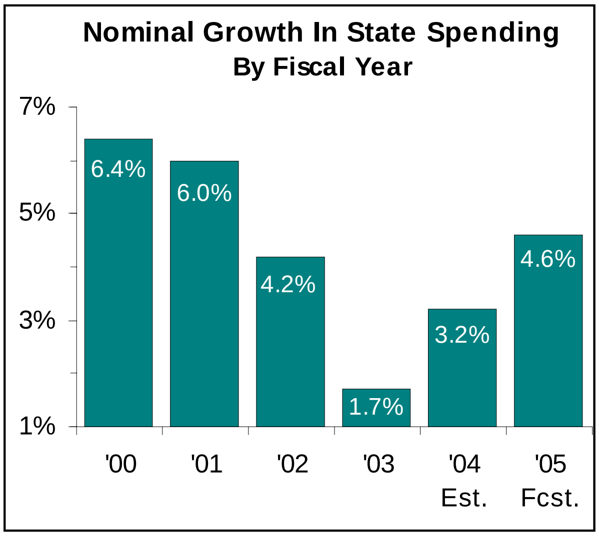
The Fiscal 2005 Budget
(In Millions)

	As Adopted	2/4/2004 Recommended
Appropriations		
General Fund Appropriations	$ 12,966.9	$ 13,153.7
Total Appropriations	$ 14,056.2	$ 14,235.3
Expenditure Cap		
Amount Under the Cap	$ (119.2)	$ (58.6)
Balance		
General Fund Surplus/(Deficit)	$ 0.2	$ 0.5

The adjusted General Fund budget Governor Rowland is recommending is $13.154 billion, or $187 million more than adopted. The Governor's all funds adjusted budget proposal is $14.235 billion, or $179 million more. The adjusted budget proposal recommended by the Governor is projected to be under the spending cap by $58.6 million and has a projected General Fund surplus of $500,000.

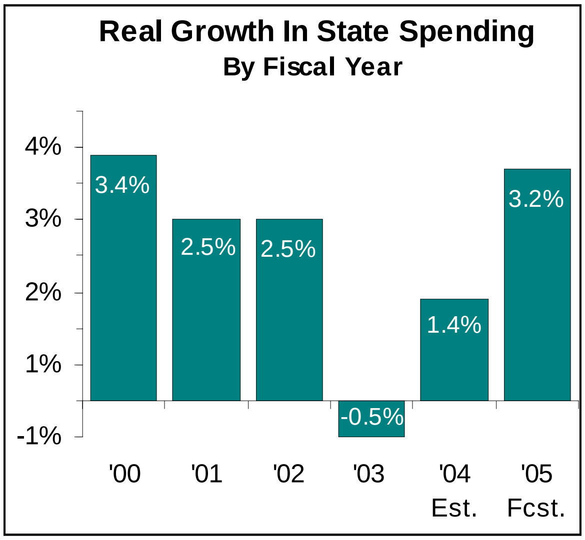
All funds growth from the current fiscal year's estimated will be $596 million. All funds growth adjusted for the CATCH-F rebasing and the one-time expenditures in FY 2003-04 will be 4.6 percent or 3.2 percent in real terms.

General Fund growth from the current fiscal year to FY 2004-05 will be $592 million. Based on the same adjustments as above, General Fund growth from the current fiscal year would be 4.8 percent, or 3.4 percent in real terms.



Closing the FY 2004-05 gap

As outlined earlier, Governor Rowland has gone out of his way in this adjusted budget recommendation to limit the further harm on both sides of the ledger. Tax increases are aimed at the least onerous to the economy and are minimalist in nature. On the spending side, reductions are small in nature in recognition of the major cutbacks over the past 12 to 24 months.



In framing the adjusted budget, the Governor was challenged by both a current services revenue gap and shrinking room under the spending cap. Before the budget adjustments, the current services revenue gap was approximately $123 million in the General Fund.

While current services was as much as $135 million below the spending cap, the adopted budget did not include needed rate increases for certain providers and did not have sufficient funding to react to the federal No Child Left Behind Act, the new Exit Plan for the Department of Children and Families consent decree, and pressing needs of clients waiting for services from the Department of Mental Retardation. Further, there was the need to eliminate the extraordinary rescission authority in the budget that could have meant a midyear cut in local aid of up to $55 million next fiscal year.

On the spending side, the General Fund adjusted budget recommendation for FY 2004-05 makes several changes:

- Net technical adjustments (further current services updates for caseload, medical inflation, lost savings due to delays in savings initiatives, inclusion of certain collective bargaining monies, roll out of deficiencies, etc.) added $94.1 million to the original adopted General Fund budget. The STF saw a minimal

Current Services Gap
(In Millions)

	FY 2004-05
General Fund	
Current Services General Fund Revenue	12,938.4
Current Services Expenditures	13,061.0
Revenue Gap- Over/(Under)	(122.6)
All Appropriated Funds	
Allowable Capped Appropriations	14,286.1
Current Services Expenditures	14,151.5
Cap Gap - Over/(Under)	(134.6)

technical add of $1.5 million. All other funds had minimal total technical changes.

- Reduction options (actual reductions to services and programs) removed $63.5 million from the originally adopted General Fund budget. The STF saw net policy reductions of about $8 million. All other funds saw minimal reductions, except the Workers' Compensation Fund with a reduction of $1 million to the rehabilitation services program.
- Expansion options (actual increases to services and programs) added $74.1 million to the originally adopted General Fund budget.
- The adjusted budget reflects the appropriation of $27.1 million for CATCH-F, which was originally budgeted as a $20 million revenue intercept.
- An addback of the $55 million extraordinary rescission lapse impacting municipal aid in the original adopted General Fund.

Closing the FY 2005 Gap

(In Millions)

Original General Fund Appropriation	$ 12,966.9
Net Technical Adjustments	94.1
Reduction Options	(63.5)
Expansion Options	74.1
CATCH-F Appropriation	27.1
Extraordinary Rescission Addback	55.0
Increased General Fund Appropriation	$ 186.8
Original Revenue Forecast	$ 12,967.1
Revisions to Revenue Forecast	(28.7)
Tax Increases	100.8
Revenue Enhancements & Federal Rev. Changes	115.0
New Revenue Forecast	$ 13,154.2
New General Fund Appropriation	13,153.7
Revised Balance 6/30/05	**$ 0.5**

On the revenue side, three major changes occurred:

- Net revenue estimates fell by $28.7 million. The corporate tax estimate was revised downward, while the income tax was revised upward.
- Tax increases of $100.8 million. They are limited to the sin tax areas.
- Delays in tax reductions, the escheats bottle proposal and all other net revenue increases account for $115 million.

State Deficiencies

FY	Amount
2004 *	$66.2M
2003	$75.7M
2002	$93.0M
2001	$139.8M
2000	$68.2M
5 Yr. Avg.	$88.6M

* Estimate

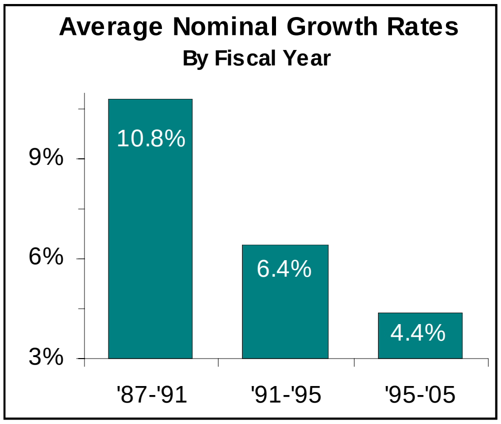
In total, spending is actually up a net of about $167 million adjusting for the CATCH-F $20 million revenue intercept. Actual adds to spending outweigh cuts by that same amount. Policy reductions amount to just $63.5 million. Actual tax increases amount to just over $100 million.

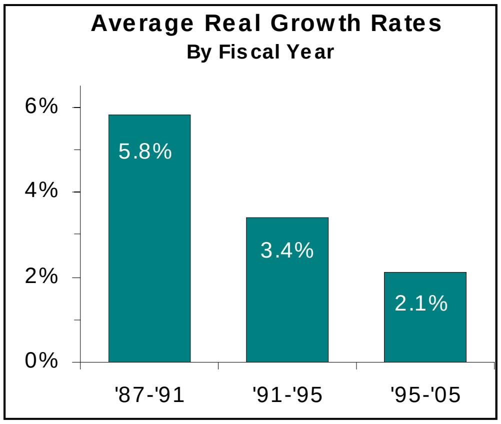
As noted above, the adjusted budget proposal has a budgetary balance of $500,000 and is just $58.6 million below the spending cap. That leaves precious little room for error in calculations. Generally, because deficiencies occur in line items throughout a given fiscal year, the Governor has always insisted that adequate room be left under the cap to appropriate for unforeseen overruns.

The average amount of deficiencies over the last five fiscal years has been about $89 million. This fiscal year, the state is anticipating deficiencies of about $66 million. The $59 million left under the cap in this adjusted budget is minimally sufficient and will require the Office of Policy and Management to aggressively

Midterm Budget Spending Plan
(In Millions)

	FY 2004-05
General Fund	
Recommended General Fund Revenue	13,154.2
Recommended GF Appropriations	13,153.7
Balance	0.5
All Appropriated Funds	
Allowable Capped Appropriations	14,293.9
Recommended Appropriations	14,235.3
Amount Over/(Under) Cap	(58.6)





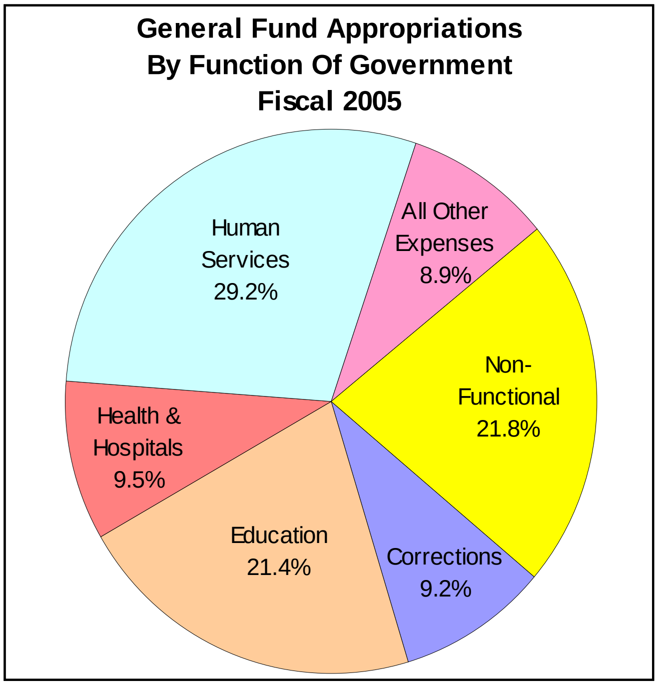
monitor appropriated accounts and make necessary cutbacks early if deficiencies begin to approach the five-year average.

While the Governor would have liked to offer a budget that was under the cap by a greater amount, the necessity to add dollars to the budget in several areas prevented him from doing so without revisiting many of the agreements he reached with the legislature last session. It is clear, though, that any final adjusted budget passed by the legislature cannot move any closer to the cap and the Governor is dedicated to preserving necessary room for exigencies.

The spending cap and the cautious budgeting of the Rowland administration continues to stet annual spending growth rates well below historic ones. The total average annual growth rates for the ten budgets under Governor Rowland's tenure is just 4.4 percent, compared with 6.4 percent under Governor Weicker and 10.8 percent in the four years just prior to Weicker's term.

Inflation adjusted average annual spending growth under Governor Rowland is just 2.1 percent for his ten budgets, compared with 3.4 percent under Governor Weicker and 5.8 percent from FY 1987-91.

As the accompanying chart shows, human services and health-related outlays continue to dominate General Fund appropriations. The two categories of human services and health and hospitals account for almost 40 percent of General Fund expenditures. Including medical fringe benefits and other health expenditures in other areas of government, about half of the state budget is dominated by areas that typically experience double-digit rates of growth. That will continue to complicate the state budgetary picture if moderate revenue growth rates continue.

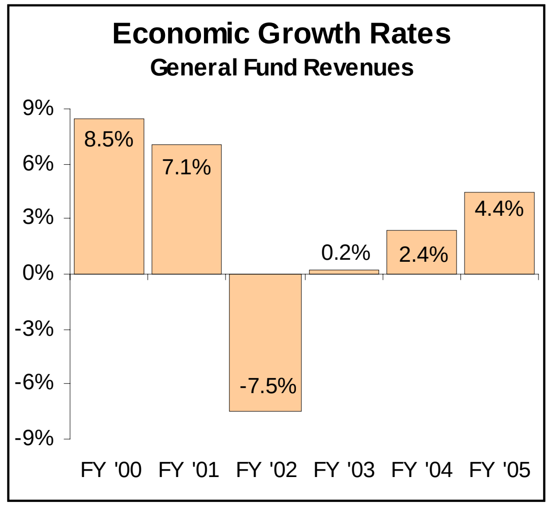


Higher and lower education continues to account for over one-fifth of the state budget. The percentage would be about one quarter of the budget if fringe benefits on professors and vo-tech teachers were counted in this category.

Revenue forecasts

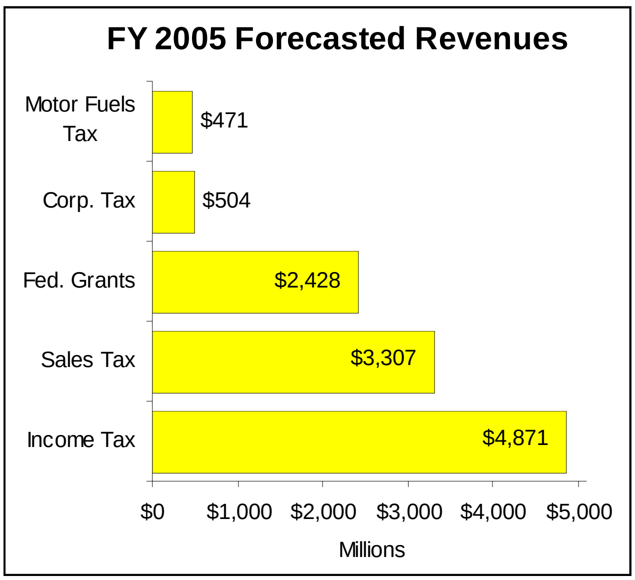
Prudent and realistic revenue forecasts are especially important in this budgetary climate. While the stock market is rebounding well from its recent lows, the uncertain future of job creation calls for caution in forecasting revenue growth.

Governor Rowland's adjusted budget proposal relies on the most conservative of estimates, recognizing that the state has bonded successive General Fund deficits and cannot afford further short-term borrowing. The forecasts are based on the prognosis for a slow and moderate recovery over the next several years, with jobs coming back at a sluggish pace through FY 2006-07.



The recovery is having a positive impact on General Fund revenues. From an economic growth perspective, General Fund revenues will be up 4.4 percent in the coming fiscal year, from a 2.4 percent expected growth this fiscal year.

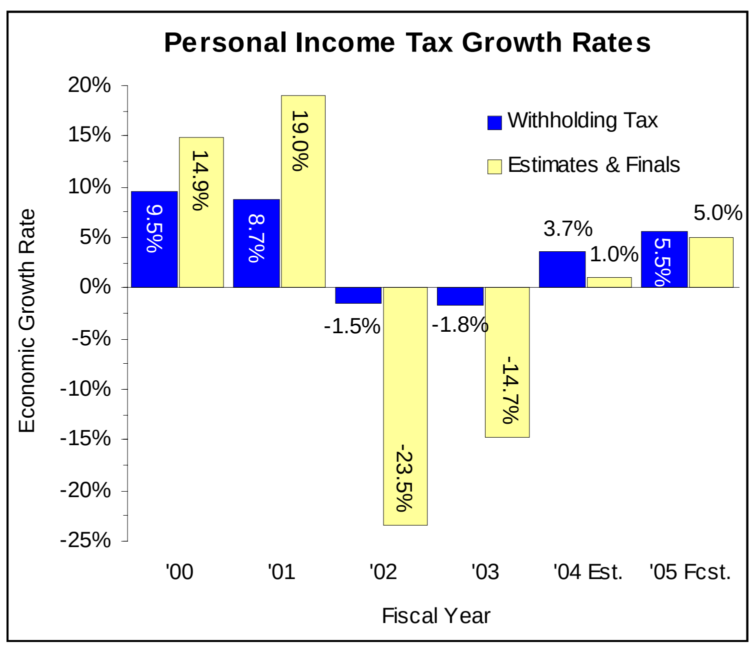
The Governor is proposing no tax increases in the area of the income tax, the state's largest tax generator. The Department of Revenue Services is recommending changes to mandate withholding for non-residents who have earnings from Connecticut LLCs and other like entities. This change raises some minimal revenue in the income tax. As such, the adjusted budget forecasts the income tax to raise $4.871 billion before refunds in FY 2004-05. This is up $75 million from the original budget estimate.



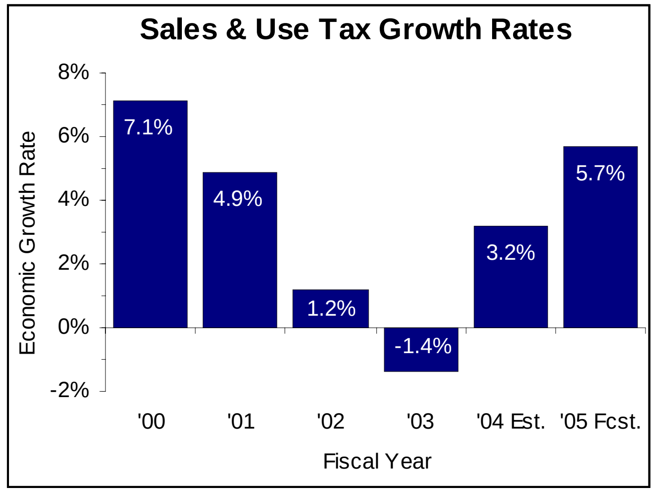
On the withholding side, which represents about two-thirds of the income tax – the budget assumes a 5.5 percent increase. This compares favorably to the projected personal income growth of 4.9 percent, up from a projected 3.7 percent increase this fiscal year (on estimated personal income growth of 3.7 percent). The current projection is actually down from the original budget projection of 6 percent.

As for the estimates and finals component of the income tax side, the budget projects a 5 percent increase, up from an expected 1 percent this fiscal year. This assumption is down from the original budget projection of 8 percent growth. Continuing growth in non-earned income filings in this category will help achieve the 5 percent projection as will the continued upswing in the market.

The Governor is proposing no tax increases in the area of the state's second largest tax generator – the sales tax. However, increases in various sin taxes, the delay in the repeal of the tax on newspapers and magazines, and the change in the funding for CATCH-F will lead to increased collections in the sales tax of about $41 million. In total, the sales tax is expected to generate $3.307 billion next fiscal year. This is up $36 million from the original budget estimate. The budget assumes an economic growth rate of 5.7 percent, up from 3.2 percent expected in the current fiscal year. The rate is a fair assumption given the expected rebound in personal income growth and is down slightly from the original budget assumption.



Corporate taxes are tracking well below original budget estimates in the fiscal year. Before refunds, the state is currently anticipating receiving $83 million less than the $608 million originally budgeted. There is the possibility that corporations are waiting until final payments in April to pay portions of the corporate tax surcharge, increased fees to file on a combined basis, and increase taxes owed due to a change in interest deductions. But, it is uncertain at this time if the shortfall is related to those issues or economic performance or other forces. As such, the adjusted budget proposal lowers the original budget estimate by $97 million, to $504 million. The assumed rate of growth has been lowered to 4.5 percent.



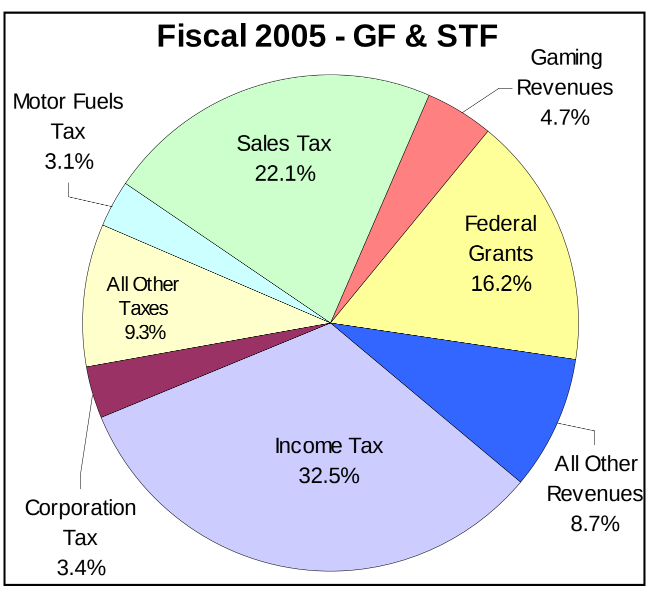
The inheritance tax will raise about $162 million in FY 2004-05, about $20 million more than is expected this fiscal year because of the six-month temporary tax put in statute last session. The state General Fund continues to lose federal revenue-sharing because the federal government is phasing out its contribution over a four-year period. By FY 2006-07, our total annual loss will cap out at $200 million.

Cigarette tax revenue will be up about $91 million from the original budget, exclusively due to the proposed increase in the tax.

Most of the forecasts for other tax categories in the General Fund are similar to the original projections. The cost of the R & D tax credit exchange has been revised upward by $3 million, to $17 million, based on the vigorous use of the program.

Gambling revenue will remain roughly as originally budgeted, except for a $5 million revision downward for Indian gaming payments.

Motor fuels are assumed to grow about 1 percent and raise just over $470 million in FY 2004-05, about the projection in the original budget.



Federal grant revenue is expected to total $2.428 billion, up about $45 million, principally because of increased needs on the spending side in the Department of Social Services budget.

As can be seen from the pie charts, the general and transportation funds – which comprise about 99 percent of state spending – continue to be supported by diverse sources of revenue. Income taxes raise about one-third of the dollars to support the two funds, while sales taxes raise almost one quarter.

One-time revenues

One-time revenues remain a concern. Given the magnitude of spending cuts and tax increases, eliminating the one-time revenues in the FY 2004-05 adopted budget was impractical. On the positive side, one-time revenues as a percentage of the General Fund budget are being reduced from FY 2003-04 to FY 2004-05.

In FY 2003-04, the General Fund will include 4.6 percent of one-time revenues. In FY 2004-05, despite the presence of the tobacco securitization revenue item, one-time revenues will drop to below 3.9 percent.

It is also important to note that not all of the items listed as one-time revenues will be unavailable after FY 2004-05. For example, if circumstances warrant, the state could continue intercepting up to $16 million in tobacco funds (earmarked under law for other purposes) and depositing it in the General Fund to support existing programs. It could further delay the repeal of the sales tax on newspapers and magazines to save another $15 million in General Fund revenue. It could continue intercepting a small portion of energy conservation funds to generate $12 million. It could continue to defer the phasedown or phaseout of other taxes to save tens of millions of dollars.

All told, one-time revenues that do not necessarily disappear as an option over time total as much as $130 million, dropping the true one-time revenues to below $400 million -- or below 3 percent of General Fund revenues.

One Time Revenues Included In The Budget
(In Millions)

	FY 2003-04	FY 2004-05
PA 03-2 (HB 6495)		
- Impose 20% Corporation Tax surcharge in IY2003	$ 24.6	$ -
- Energy Conservation and Load Management Fund	12.0	12.0
Total PA 03-2	$ 36.6	$ 12.0
PA 03-1, June Special Session (HB 6802)		
- Extend by one year the increase in the Singles Exemption	$ 0.9	$ 3.5
- Impose 25% Corporation Tax surcharge in IY2004	50.0	28.0
- Reduce Petroleum Tax transfer to Transportation Fund	10.5	8.0
- Defer Phase-down in Succession Tax for Two years	11.0	26.0
- Decouple Estate Tax from Federal Tax for Six Months	-	55.0
- Defer Phase-down in Gift Tax for Two years	-	1.0
- Part of the Unclaimed Property (5 years to 3 years)	14.3	10.3
- State Flexible Assistance	115.8	-
- Enhanced Federal Medical Assistance Percentage (FMAP)	134.3	-
- Transfer from quasi-public agencies		
- Connecticut Housing Finance Authority	2.5	2.5
- Connecticut Innovations, Inc.	5.0	5.0
- Connecticut Development Authority	10.0	10.0
- Banking Fund	5.0	-
- Wall Street Settlement	4.2	-
- Transfer from Tobacco & Health Trust Fund	12.0	12.0
- Transfer from Biomedical Research Trust Fund	2.0	2.0
Total PA 03-1, June Special Session	$377.5	$163.3
PA 03-6, June Special Session (HB 6806)		
- Transfer from Utility Accounts		
- Energy Conservation and Load Management Fund	$144.0	$ -
- Clean Energy Fund	25.0	25.0
- Tobacco Securitization	-	300.0
Total PA 03-6, June Special Session	$169.0	$325.0
Total Enacted	$583.1	$500.3
Proposed:		
- Delay Repeal of Newspapers and Magazines Tax	-	15.0
- Permanently reduce the Petroleum Tax transfer to the STF	(10.5)	(8.0)
- Transfer to Resources of the General Fund		
- From Pretrial Alcohol and Drug Account	-	1.5
- From State Marshals' Account	-	0.3
- From Tobacco & Health Trust Fund	-	0.1
- From Boating Fund	-	2.0
- Transfer from Biomedical Research Trust Fund	2.0	2.0
Total Proposed	$ (8.5)	$ 12.9
Grand Total	$574.6	$513.2
Percentage of Total General Fund Revenue	4.6%	3.9%

Tobacco securitization

Section 43 of Public Act 03-6 of the June 30 Special Session mandated that the State Treasurer and the Secretary of the Office of Policy and Management jointly develop a financing plan that would yield the state $300 million in general revenues for FY 2004-05. The Treasurer and OPM have begun an analysis of the options available. These options include:

1. Securitization of a future revenue stream such as Tobacco Settlement revenues, lottery revenues, casino revenues, or unclaimed property receipts.
2. Issuance of pension obligation bonds to reduce the state's unfunded liability, thereby lowering the annual state contribution to the pension fund.
3. Debt restructuring, whereby certain maturities would be refunded to mature at a later time.
4. Private placement of state debt or the tobacco revenue stream with the pension fund.

None of these solutions are ideal from a financial standpoint, nor do they address the structural imbalance in the budget that will dominate the FY 2005-07 biennial budget process. The Office of Policy and Management will continue to work with the Treasurer's Office to come to a feasible solution for this issue.

Because of the uncertainty of this revenue stream over time, states or other jurisdictions that seek to sell tobacco bonds are required to pay a premium in the marketplace. Typically, states receive only 30 to 40 percent of the value of the revenue stream and, more recently, have been required to dedicate other revenue as backing for the sale of the bonds should the payments from the tobacco settlement be reduced or eliminated.

The Governor is committed to reducing the state's reliance on this one-time revenue source, if economic conditions warrant. With the state poised to feel the positive effects of an economic recovery, Governor Rowland hopes that our reliance on this particular one-time revenue source can be greatly reduced or eliminated, if possible.

The Governor's adjusted budget relies on sound, conservative revenue projections to achieve fiscal balance. It is highly likely that the evidence of an improving economy that we are beginning to see will continue. If that is the case, it is probable that April tax collections will exceed our current estimates and the rollout of these collections into the next fiscal year will be significant.

Governor Rowland strongly believes that these revenues, should they appear, ought to be directed to the task of restoring structural balance to the budget and avoiding the inevitable task of having to cut programs or raise taxes in the next biennium in order maintain this balance. Accordingly, as part of his budget package, Governor Rowland is proposing legislation that would replace the current reliance upon $300 million of tobacco securitzed revenue with any additional growth in our current revenue sources.

Tax Changes and Revenue Enhancements

In light of the $1 billion in tax increases that had to be passed since the 2002 session to close major structural holes that appeared in the budget, Governor Rowland is taking a cautious approach to new taxes in this adjusted budget. As noted earlier, those increases impacted the income tax, sales tax and corporate taxes in major ways.

Total tax increases are limited to about $100 million and they deliberately are not in areas that could damage the economic recovery we see today. The income tax, sales tax and corporate taxes are not being targeted because changes there could impact job creation, investment, and consumer sentiment.

Cigarette Tax Increase to $2.05 Per Pack
Additional Revenue
(In Millions)

	FY 2003-04	FY 2004-05
Cigarette Tax	$ 22.4	$ 88.4
Floor Tax	$ 8.6	$ -
Sales and Use Tax	$ 1.8	$ 5.3
Total	**$ 32.8**	**$ 93.7**

Increasing the cigarette tax

The Governor's adjusted budget proposes to boost the tax per pack of cigarettes from the present $1.51 to $2.05, effective April 1, 2004.

The tax increase would raise $32.8 million in the current fiscal year, including the floor tax on inventory and additional sales taxes generated because of the increase, and $93.7 million in FY 2004-05, including additional sales taxes generated.

History of Cigarette Tax Rate Changes

Effective Date	Tax Per Pack
Prior	$0.21
1983	$0.26
1989	$0.40
1991	$0.45
1993	$0.47
1994	$0.50
2002	$1.11
2003	$1.51
2004 (p)	$2.05

(p) Proposed effective 4/1/04

With the increase to $2.05 per pack, Connecticut's cigarette tax would be equal to that assessed in New Jersey. Rhode Island's rate is currently $1.71, and is scheduled to increase to $1.81 on July 1. New York's and Massachusetts' rates are $1.50 and $1.51, respectively; however, New York City's total state and local rate is $3.00. Connecticut's cigarette tax rate will have increased by $1.55 since 2002.

Increasing taxes on other tobacco products

The Governor's budget also proposes to increase the taxes charged on other tobacco products (OTPs) and snuff effective April 1 as well. Although the revenue is minimal, the taxes are being raised to ensure equity with the cigarette tax.

The increase in the other tobacco products, which impacts chewing tobacco, cigars, self-roll cigarettes, and pipe tobacco, would raise a total of $500,000 in FY 2003-04, including increased sales taxes generated. In FY 2004-05, the revenue raised would be $2.4 million, including the increased sales taxes generated.

The other tobacco products tax is being increased from 20 percent of the wholesale price to 30 percent, a 50 percent increase. The snuff tax will rise from 40 cents per ounce to 60 cents per ounce, a 50 percent increase as well.

Cigarette Tax Rates

State	Tax Per Pack In Effect 2/1/04
Connecticut	$1.51
Massachusetts	$1.51
New Jersey	$2.05
New York*	$1.50
Rhode Island**	$1.71

* City of New York imposes an additional $1.50 per pack
** $1.81 on July 1, 2004

The 30 percent OTP rate will match Rhode Island's rate and still be below other neighboring states' rates. Both the OTP and snuff taxes have not been changed in Connecticut since 1989, although the snuff tax was converted from a wholesale price mechanism to a per-ounce mechanism.

Increasing alcohol taxes

The adjusted budget proposes to increase the alcoholic beverage taxes by 10 percent on April 1. The additional revenue raised, including floor taxes and increased sales taxes generated, would be $2.1 million in the current fiscal year and $4.7 million in FY 2004-05.

Alcoholic Beverage Tax Increase of 10%
Additional Revenue
(In Millions)

	FY 2003-04	FY 2004-05
Alcoholic Beverage Tax	$ 1.4	$ 4.4
Floor Tax	$ 0.6	$ -
Sales and Use Tax	$ 0.1	$ 0.3
Total	**$ 2.1**	**$ 4.7**

The 10 percent increase on rates will move the tax on a six pack of beer from 11 cents to 12 cents; the tax on one gallon of wine from 60 cents to 66 cents or about 1 cent on each standard bottle of wine; and the tax on each gallon of distilled spirits from $4.50 to $4.95.

Connecticut's current and proposed rates on beer are already well above our neighbors, which are all at 6 cents per six-pack. Connecticut's proposed rate on wine would place it somewhat above Rhode Island's and Massachusetts' rates. The proposed rate on distilled spirits would still mean a much lower rate than New York and roughly a dollar above our other neighbors.

Alcoholic Beverages Tax
10% Increase

Beverage	Current Rate	Proposed Rate
6 Pack of Beer	$0.11	$0.12
1 Gallon of		
Wine	$0.60	$0.66
Distilled Spirits	$4.50	$4.95

Delaying the repeal of the sales tax on newspapers and magazines

As part of the 2003 special session in February, the legislature removed the sales tax exemption on newspapers and magazines. The final adopted biennial budget package makes newspapers and magazines exempt again as of July 1, 2004.

Because of the continuing fiscal difficulties, the adjusted budget proposes to delay the tax break until July 1, 2005. This will mean an additional $15 million in sales tax revenue for the general fund next fiscal year.

It is hard to justify a further tax break at this time. Indeed, allowing the tax break to take effect would lead either to further spending cuts or tax increases in other areas. Contrary to the arguments of newspaper publishers, it is hard to argue that circulation is hurt by the reimposition of the tax last year. Indeed, newspapers were taxed fully less than a decade ago.

Alcoholic Beverage Taxes By State

	Distilled Spirits 1 Gal.	Wine 1 Gal.	6 Pack of Beer
Connecticut (Proposed)	$4.95	$0.66	$0.12
Massachusetts	4.05	0.55	0.06
New York	6.43	0.19	0.06
Rhode Island	3.75	0.60	0.06

Total new tax increases

Total new tax increases proposed in the adjusted budget amount to just over $100 million – with about $94 million coming exclusively from the 54 cent per-pack increase in the cigarette tax.

Appropriating CATCH-F funding

Proposed Tax Increases - 2004 Session
(In Millions)

	Effective Date	Fiscal 2005
Increase cigarette tax from $1.51 to $2.05 per pack	4/1/04	$93.7
Tobacco products from 20% to 30% of wholesale price	4/1/04	1.9
Snuff tax from 40 cents to 60 cents per ounce	4/1/04	0.5
Increase alcoholic beverages rates by 10%	4/1/04	4.7
Total		$ 100.8

As part of the adjusted budget package, the Governor is proposing to make the current Commission on Arts, Tourism, Culture, History and Film (CATCH-F) revenue intercept an appropriation. That will be done as a deficiency appropriation in the current fiscal year and is included in the adjusted budget document for FY 2004-05. Consequently, the $20 million in revenue in each year now appears as a general fund revenue item.

The change does not impact the amount of money going to tourism. But it does bring more accountability to the use of the funds and forces the agency and its programs to compete with other agencies for limited resources.

Escheating unclaimed bottle deposits to the State of Connecticut

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

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

This proposal would become effective on passage, with the first quarterly payment based upon the quarter beginning April 1, 2004 through June 30, 2004. This proposal would bring in an estimated $4.5 million in FY 2003-04 and $20 million in FY 2004-05.

Given the magnitude of the budget problems over the past several years and the fact that the budget continues to suffer from structural imbalances, it is hard to justify allowing unclaimed bottle deposits to remain with the soft drink and beer industries. Critics argue that a deal was struck many years ago to allow the unclaimed deposits to be kept by the industry to offset their costs. But the fact is that other unclaimed property escheats to the state. Indeed, during the last session, the state changed the time frame for when property escheats to the state. It also made unused gift cards a new type of property that escheats to the state when unclaimed.

Massachusetts has run a successful program for a number of years now and collects upwards of $36 million annually. Based on that state's population, the estimate included in this adjusted budget is reasonable.

Streamlined sales tax project

Connecticut, like all states, has been losing a significant amount of sales and use tax revenue from transactions that occur over the Internet or via mail order. It is estimated that in FY 2003-04, Connecticut will not collect approximately $280 million in sales tax revenue from these types of transactions. While under current law, purchasers are subject to the use tax on many of these transactions, use tax payments are difficult to assess and collect.

Recognizing that the continued expansion of these types of sales would further erode the sales tax base as well as negatively impact main street retailers, Governor Rowland issued an executive order in early 2003 to make Connecticut an active participant in the Streamlined Sales Tax Project.

The goal of the project is to streamline and simplify state tax codes across the U.S. to make them more conducive to the collection of sales tax by out-of-state retailers. A side benefit would be that this type of project will undercut the argument that the Supreme Court has been receptive to in the past that sales tax codes are too complex to require retailers without nexus in a state to collect sales taxes.

Key features of the project include:

- *Uniform definitions within tax laws*. While Legislatures still choose what is taxable or exempt in their state, common definitions of key items in the tax base will be used.
- *Rate simplification*. States will be allowed one state rate and a second rate in limited circumstances. Sales taxes applied after dollar thresholds or up to dollar caps will have to be eliminated. For example, in Connecticut clothing items costing less than $50 are exempt, under the proposal all items regardless of cost would have to be exempt or taxable.
- *State administration of all state and local sales and use taxes*. Business will no longer have to file returns with each local government within a state. Connecticut will not be affected by this provision.
- *Uniform sourcing rules*. The states will have uniform and simple rules for how they will source transactions. The rules will be destination/delivery based and, with few exceptions, uniform for tangible personal property, digital property and services.
- *Simplified exemption administration for use and entity based exemptions*. Sellers will be relieved of the "good faith" requirements that exist and will no longer be liable for uncollected tax. Purchasers will be responsible for paying the tax, interest and penalties for claiming the incorrect exemptions.
- *Uniform audit procedures*. Sellers who participate will be subject to audits of a limited scope, and states may conduct joint audits of large multi-state businesses.
- *State funding of the system.* To reduce the financial burdens on sellers, state will assume responsibility for funding some of the technology models.

Revenue Loss Due To Internet & Mail Order Sales (In Millions)

Fiscal Year	Conn. Revenue Loss	Growth	U.S. E-Commerce Actual Growth
2000	$136.5		
2001	$153.4	12.4%	
2002	$180.8	17.9%	17.6%
2003	$221.0	22.2%	28.3%
2004	$280.7	27.0%	
2005	$372.7	32.8%	

This year as part of the legislative process, OPM and DRS will be meeting with legislators to educate them on what implementation of the streamlined sales tax will entail. While it would be possible for a bill to be drafted and voted on, Governor Rowland feels it will be more productive if most of the issues were mutually agreed upon prior to the drafting of a bill. Informational packets on the project will be delivered to legislators early in February.

It is anticipated that it will still be a number of years before the streamlined sales tax process is up and running and the courts clear the way for taxation of such transactions. But it is essential to pass laws soon to ensure that the project stays on track, so that in the future we can recoup the hundreds of millions of dollars we are losing each fiscal year.

Change in treatment of non-resident partners/members of pass-through entities

Under current law, partnerships, limited liability companies and S corporations ("pass-through entities") may either file a group income tax return and make group income tax payments on behalf of electing nonresident partners/members, or rely on individual nonresident partners/members to file their own income tax return and pay their own tax liability.

States have recently concluded that a significant number of nonresident partners/members of pass-through entities are not filing their own income tax return or paying their own taxes. States' efforts to enforce compliance through IRS data matching or informational reporting are, for the most part, ineffective and cumbersome. As a result, states are beginning to require pass-through entities to either file a group return and make group income tax payments on behalf of electing nonresident partners/members or withhold the tax from the distribution to the nonresident partner/member and remit it on their behalf.

Working with the private sector, the Multistate Tax Commission has adopted a uniform act for states to adopt. The DRS proposal conforms to that uniform act. It is estimated that this change will generate an additional $8.0 million in income tax collections in FY 2004-05. This estimate has been included in the revised estimates for the income tax.

Department Of Motor Vehicle Fee Increases

Fee Type	**Current Fee**	**Proposed Fee**
Assignment of a security interest in vehicle	$ 3.75	$10.00
Filing Writs for negligent operation of vehicle	5.00	20.00
Title copy record fee	12.50	20.00
Vehicle transfer fee	11.00	20.00
Record transfer fee	12.00	20.00
Auction permit fee	13.00	20.00
Flashing light permit fee	7.00	20.00
Commercial driving duplicate instructor fee	7.00	20.00
Car, camper, trailer temporary registration fee	7.00	20.00
Combination/camper temporary registration fee	11.00	20.00
In-transit temporary registration fee	10.00	20.00
Vehicles to transport passengers temporary fee	6.00	20.00
Bad check fee (15% over $200)	15.00	35.00
Commercial driving instructor fee	10.75	50.00
Vehicle suspension restoration fee	100.00	200.00
Driving school branch fee	88.00	350.00

About $500,000 and four new positions are added to the Department of Revenue Services to garner the anticipated revenues.

Special Transportation Fund changes

As part of the adjusted budget proposal, the Governor is proposing changes on both the revenue and expenditure side of the Special Transportation Fund.

On the revenue side, fee increases, as outlined in the accompanying chart, will raise about $7.6 million. On the expenditure side, increased rail and the acceleration of a bus fare increase will save the fund about $8 million in FY 2004-05 and $5.5 million annually thereafter. Combining the two means ongoing revenue or savings of about $13 million. As such, the Governor is proposing to permanently move $13 million of petroleum gross earnings currently scheduled to go to the STF back to the general fund on an ongoing basis.

Vaccine assessment reduction

One million in general fund revenue beginning in the current fiscal year is being freed up annually to reduce a new assessment on life and health insurers for the vaccine fund. Insurers were originally scheduled to pay $7.1 million in the current and next fiscal year. That amount is being reduced to $6.1 million. A further explanation can be found later in this document.

Additional one-time revenues

While limited, the adjusted budget does propose a minimal amount of further one-time revenues to help offset further spending reductions. They are:

- Sweeping excess revenue in the Pretrial Alcohol and Drug Account for $1.5 million.
- Sweeping the State Marshals Account of excess revenue for $300,000.
- Sweeping the remaining interest balance of the Tobacco Trust Fund, after funding of an asthma program in the Department of Public Health, for $100,000.
- Taking $2 million of boat registration revenue as the registration is converted to a biennial system. The $2 million is a one-time enhancement that will be made available to the general fund but will not impact

the amount of money going into the boating fund.

- Last session, $2 million of the $4 million that goes to the Biomedical Research Trust Fund was diverted to the general fund. This adjusted budget proposes that the remaining $2 million destined for the fund be diverted in the general fund in the current and next fiscal years. No tobacco dollars have arrived yet and, thus, no funds have been committed.

Ensure no loss of gas tax revenue

When the state eliminated the use of MTBE in gasoline effective on January 1, an unintended consequence may have resulted. Gasoline in the state has begun to be formulated with ethanol. On the state's books is a longstanding tax break for ethanol-based fuels of one cent less than the regular gas tax if the amount of ethanol meets or exceeds 10 percent.

It was not the law's intent to have the 1-cent decrease kick in just because of the ban on MTBE in gasoline. In truth, the discount law is an anachronism; it was put in place nationally by an aggressive lobby promising that ethanol would mean a much cleaner environment.

It is unclear whether there is enough ethanol being blended into gasoline at this time to even allow for the 1-cent discount. At the same time, it is doubtful that payers at the pump would ever see such a reduction. More to the point, the discount act may cause a loss of up to $15 million per year in highway-support funds if all ethanol-based fuels qualified. What is clear is recent data from the tax department. Based upon a sampling of gasoline distributors for the month of November, sales of gasohol represented 40 percent of the volume of fuel sold. This compares with only 4.5 percent for November of 2002. This rise can be attributed to distributors supplanting gasohol (gasoline and ethanol) for gasoline with MTBE in their inventory.

As such, the adjusted budget proposes to eliminate the archaic tax break to ensure that all gasoline remains at 25 cents per gallon and there are sufficient funds over time in the STF to maintain our roads and run mass transit in a state of good repair.

TSB fee clarifications

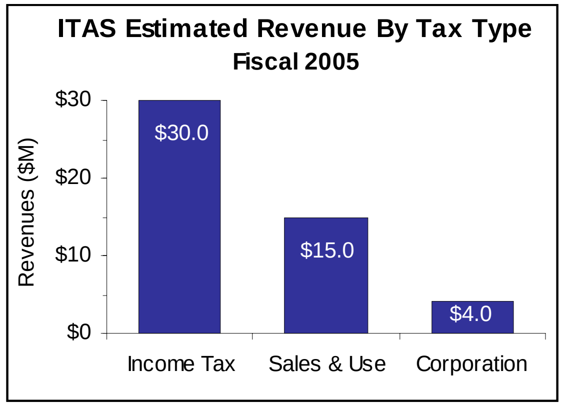
As part of the Transportation Strategy Board bill last session, fees on drivers' licenses and registrations were supposed to be increased. Renewals were indeed increased but new licenses and registrations were not subjected to the increased fees to support the TSB projects. The adjusted budget submits language to ensure that the new licenses and registration fees match the renewals. No revenue above original estimates is anticipated. However we are reflecting such changes in our tables.

Repeal the Insurance Reinvestment Tax Credit

The adjusted budget recommends that the Insurance Reinvestment Tax Credit be modified. The original purpose of the tax credit was to create new jobs by encouraging small insurance startup and speciality insurance businesses to locate in Connecticut; and by stimulating investment in companies engaged in the insurance business or providing services to insurance companies. However, the law has seen limited success and is extremely costly per job created.

The adjusted budget will disallow any tax credits for investments made after December 31, 2004. Investments made before that date will continue to be eligible for tax credits. The proposed repeal will not effect tax credits already earned.

Enhanced revenue from the new tax system



The new integrated tax system is now operational and will continue to roll out over the biennium. The original budget anticipated $49 million in enhanced revenue from income, sales and corporation taxes. The adjusted budget continues to carry that new revenue.

Adopting model tobacco language

In 1998, Connecticut and a number of other states signed an agreement, the Master Settlement Agreement (MSA), with a number of cigarette manufacturers, called Participating Manufacturers (PMs). One of the provisions of the MSA requires these PMs to pay certain funds to these states, based on specific formulas, each year. So far, Connecticut has received $540.5 million, and we expect to receive about $115 million annually for the next several years.

The payments, of varying amounts, however, are to be made in perpetuity. One of the other requirements is that the states must “diligently enforce” certain provisions of the MSA regarding cigarette manufacturers not participating in the agreement, or Non-Participating Manufacturers (NPMs). Failure to demonstrate this diligent enforcement under the MSA could jeopardize future revenue streams to the state.

The Governor is proposing legislation to protect these future payments. This legislation, using model language agreed upon by the states and the PMs, will accomplish two objectives. First, it will require all those who affix stamps to cigarette packs or sell cigarettes in the state to file periodic reports with the Department of Revenue Services (DRS). DRS will be required to maintain a directory of NPMs and their cigarette brands. Civil and criminal penalties will be established for selling or distributing cigarettes whose manufacturer is a NPM not included in the DRS directory. Second, this legislation will change language specifying conditions under which NPMs may be repaid funds they deposit into certain escrow accounts in the state based on their sales of cigarettes in the state.

A positive tax record

Notwithstanding recent tax increases totaling over $1 billion, the Rowland tenure is still remarkable in terms of the depth and breadth of important tax decreases that total about $1 billion.

Net Tax Cuts - Fully Implemented
(In Millions)

Tax Type	Pre-2002 Session	Enacted 2002	Enacted 2003	Proposed 2004	Net Tax Cut
Income	$ 711.5	$ -	$ (540.3)	$ -	$ 171.2
Sales	193.3	(8.6)	(64.3)	(5.7)	114.7
Corporate	496.6	(58.5)	(40.0)	-	398.1
Hospital	190.4	-	-	-	190.4
Gas	190.2	(25.7)	-	-	164.5
Inheritance	158.1	-	-	-	158.1
Cigarette Tax	-	(122.0)	(73.5)	(90.7)	(286.2)
Mach & Equip.	51.5	-	-	-	51.5
Other Taxes	57.8	(36.9)	(10.5)	(4.4)	6.0
Total	$ 2,049.4	$ (251.7)	$ (728.6)	$ (100.8)	$ 968.3

On the income tax side, a new lower 3 percent income tax rate was introduced by the Governor, which is key to lowering the tax burden on lower middle-income families. A property tax credit of $350 still provides additional relief to all filers.

On the sales tax side, important exemptions were signed into law under Governor Rowland which enhance manufacturers’ competitiveness.

Most importantly, Governor Rowland has amassed a strong record on corporate tax reductions -- cuts that were necessary to bring jobs back to the state in the mid-1990s and build a recovery. The corporate rate was reduced from 11 percent to 7.5 percent and important tax credits and apportionment reform were introduced and funded by the Governor.

Without these reductions, the state would never have seen such aggressive job growth over the last decade. The new competitive structure continues to make Connecticut a magnet for business seeking a highly skilled and educated work force.

Of the roughly $1 billion in remaining tax cuts, about one half are devoted to business competitiveness.

Major Tax Cuts

Income Tax

Added lower tax rate
Added a property tax credit
Phase in of higher standard deduction for single filers

Sales and Use Tax

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

Corporation Tax

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

Inheritance Tax

Phase out of the Succession tax for all classes

Motor Fuels Tax

Reduced tax 14 cents or approximately 36%

Hospital Gross Receipts Tax

Eliminated tax

Expenditure Changes

The reductions made to state services over the past few sessions have generated great controversy and discord. While it is imperative that the state stay the course in terms of the reductions made, Governor Rowland also recognizes that further reductions of great magnitude are difficult in these times.

The adjusted budget document seeks to reassure those who rely on state services that vital programs will continue to be funded and offered. To protect against major new reductions, the adjusted budget increases taxes to fill a gap that has arisen in the original adopted FY 2004-05 budget.

The adjusted budget also seeks to meet some new challenges, especially with regard to improving the abuse and neglect system in the state, improving deficient educational environments, and serving those with pressing needs on the DMR waiting list.

Finally, to protect local taxpayers from major property tax increases and erosion of local services, the adjusted budget uses available revenue to eliminate an extraordinary lapse incorporated in the original budget that threatened localities with a midyear municipal aid cut.

The budget seeks to limit harm and provide certainty to those counting on the state budget.

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

(In Millions of Dollars)

Agency Title	Fiscal Year 2003-04 Estimated	Fiscal Year 2004-05 Proposed	Change from FY 2003-04 $	%
General Fund				
Legislative Management	49.9	53.8	3.9	7.8%
Auditors	9.2	10.3	1.1	12.0%
State Comptroller	18.9	20.8	1.9	10.1%
Revenue Services	56.1	54.7	-1.4	-2.5%
Special Revenue	7.1	6.1	-1.0	-14.1%
St Insurance & Risk Management	13.7	16.3	2.6	19.0%
Policy & Management	116.6	125.6	9.0	7.7%
Administrative Services	25.5	22.0	-3.5	-13.7%
Information Technology	8.0	32.2	24.2	
Public Works	43.8	42.0	-1.8	-4.1%
Attorney General	26.7	28.0	1.3	4.9%
Div - Criminal Justice	39.2	40.5	1.3	3.3%
Public Safety	132.9	130.1	-2.8	-2.1%
Labor	42.5	43.5	1.0	2.4%
Arts, Tourism, Culture, History & Film	20.0	26.0	6.0	30.0%
Econ & Comm Developmt	20.6	17.1	-3.5	-17.0%
Public Health	68.8	67.6	-1.2	-1.7%
Mental Retardation	721.6	746.7	25.1	3.5%
Mental Hlth & Addict Serv	428.5	440.5	12.0	2.8%
Social Services	3,782.8	3,867.6	84.8	2.2%
Education	2,007.2	2,037.5	30.3	1.5%
University of Connecticut	190.0	191.8	1.8	0.9%
Teachers' Retirement Board	200.3	201.3	1.0	0.5%
Community-Tech Colleges	121.1	122.3	1.2	1.0%
Connecticut State Universtiy	135.7	134.8	-0.9	-0.7%
Correction	568.6	574.5	5.9	1.0%
Children & Families	604.1	644.6	40.5	6.7%
Judicial Department	346.0	359.5	13.5	3.9%
Public Defender	32.9	33.9	1.0	3.0%
Debt Service	1,140.4	1,332.7	192.3	16.9%
St Employee Fringe Benefits	1,182.4	1,333.2	150.8	12.8%
TANF Bonus Appropriation	11.7	0.0	-11.7	
All Other - Net	388.9	396.2	7.3	1.9%
Total General Fund-Net	12,561.7	13,153.7	592.0	4.7%
Special Transportation Fd				
Motor Vehicles	48.1	51.1	3.0	6.2%
Transportation	344.3	357.9	13.6	4.0%
Debt Service	420.3	422.9	2.6	0.6%
St Employee Fringe Benefits	79.9	87.7	7.8	9.8%
All Other - Net	20.4	-4.5	-24.9	
Total Transportation Fd-Net	913.0	915.1	2.1	0.2%
Other Appropriated Fds-Net	165.1	166.5	1.4	0.8%
Total Appropriated Fds-Net	13,639.8	14,235.3	595.5	4.4%

Education: Providing the Building Blocks of Success

Our progress as a nation can be no swifter than our progress in education. The human mind is our fundamental resource. -- John F. Kennedy

Closing the achievement gap

Under Governor Rowland's stewardship, Connecticut has created a premier educational system. Connecticut's students consistently have the highest scores in the National Assessment of Educational Progress (NAEP) tests. Still, there are troubling signs that not all of the state's children are progressing academically. In the NAEP, significant achievement gaps separated children by race and affluence.

In President George W. Bush's landmark education initiative, *No Child Left Behind (NCLB)*, the country embraced excellence as a goal for each child, regardless of race, income, or special education needs. Indeed, the United States economy cannot afford to leave any child behind academically. Our progress as a nation depends on each child succeeding in school.

In his recommended adjusted budget for FY 2004-05, Governor Rowland incorporates the President's education vision with additional resources for quality pre-school slots, a model program for poorly performing schools, and other program enhancements that will partner with the President's NCLB initiatives and goals to create an education system that is constantly progressing towards excellence.

The NCLB law requires that all children be proficient in reading and math by the 2013-14 school year. States will be required to improve student achievement and close academic gaps among students of different racial, ethnic and economic backgrounds. The law also provides for corrective actions that must take place for schools/districts that fail to improve.

In August 2003, the state Department of Education notified 149 elementary and middle schools in 34 districts that they did not make "Adequate Yearly Progress" (AYP) in reaching the goal of all students being proficient in reading and math by the 2013-14 school year. Districts need to make the AYP list for two consecutive years before the district receives a designation of "In Need of Improvement". The consequence for schools being designated as "In Need of Improvement" is a five-year cumulative set of corrective actions ranging from public school choice to alternative governance.

In an effort to help schools/districts to face the challenge offered by NCLB, Governor Rowland's recommended adjusted budget provides a comprehensive plan that offers strategies designed not only to intervene in districts that have been designated as not making "Adequate Yearly Progress", but also to proactively ensure that pre-school children in those districts will be prepared to succeed in school. For those children already in school, additional strategies are also proposed.

Early childhood expansion

The cornerstone of Governor Rowland's plan is to significantly expand the number of full-day, full-year quality preschool programs. Preschool is important because, according to a National Research Council study, (*Eager to Learn*, 2000), "good educational experiences in the preschool years can have a positive impact on school learning."

Studies done in Connecticut show that preschool programs in poor communities can: close the gap at kindergarten entry between white and African-American children, reduce retentions ("staying back"), reduce special education and tutoring needs, increase attendance, and make the children more school-ready than those children who did not attend preschool. In the Milford schools, for instance, children in quality preschool programs gained points on language, motor skills, and concept development tests.

The expansion of preschool, therefore, will help reduce some of the achievement gaps that currently exist among the state's children.

Unfortunately, it appears that children from more affluent communities are much more likely to attend preschool than children from poor communities. While 85 percent of children in Connecticut's wealthiest communities have a preschool experience, only about 58 percent from the state's poorest communities attend preschool.

To help close the gap, $14 million in new funding is provided in the adjusted budget for 2,000 additional preschool slots in the state's Early Childhood Education program. These slots will be targeted to those communities who are the poorest in the state. There are currently over 5,500 slots already in existence, which were introduced by Governor Rowland earlier in his tenure. This is in addition to the state's Head Start Enhancement program, which adds to the federal Head Start funding.

These 2,000 new slots will also reduce municipal costs for special education, tutoring, and retention costs. Milford estimated that it had a 5-year savings of $3 million (due to lower special education and transportation costs) because of the preschool programs.

More money for early reading success and summer school

For those children already in school in these poorer districts, expanded preschool programs will be supplemented with $1 million more for the expansion of the Early Reading Success program for children in grades K – 3, offering reduced class sizes and full-day kindergarten, intensive reading programs, and after-school and summer school programs. In addition, summer school programs will be expanded by $1 million to further assist impacted districts in helping their children become proficient students.

Governor's Response To Federal "No Children Left Behind" Law

(In Millions)

New Programs	**FY '05 Approp.**
- Targeted School Improvement Grants	$1.2
- Equal Opportunity Scholarships	1.5
Expansion of Existing Programs	**Expan.**
- Create New School Readiness Slots	$14.0
- Expand Early Reading Success Program	1.0
- Expand Summer School Program	1.0
Continued Commitment to Existing Public School Choice Options	**FY '05 Approp.**
- Interdistrict Magnet Schools	$61.6
- Charter Schools	17.8
- OPEN Choice	10.6
- Regional Vocation-Technical Schools	130.8

School improvement grants

Targeted state aid of $75,000 per school will be provided for the sixteen schools (from the August, 2003 list) currently designated as "In Need of Improvement" for failure to make "Adequate Yearly Progress" for at least 2 years. With this designation, the schools are in a five-year (NCLB) program that has increasing levels of sanctions.

To help these schools progress academically (and to avoid increasing NCLB sanctions), a needs assessment will be done and immediate prescriptive actions identified. Completion of the needs assessment is a prerequisite for the state funding, which must be matched by $25,000 in local funding per school.

Expanding choice with equal opportunity scholarships

According to NCLB, students in schools that are "In Need of Improvement" are eligible for public school choice and 39 Hartford students did choose this public school option this year. Governor Rowland is broadening this choice option to include non-public schools for students whose schools are having problems meeting the NCLB standards. Students in the 42 elementary and middle schools that did not make "Adequate Yearly Progress" and had whole school academic deficiencies in Math and Reading will be eligible to apply for the newly created Equal Opportunity Scholarships. These scholarships can be used for tuition, books, and uniforms at non-public schools.

In addition to current public school choice options, $1.5 million is being added to the adjusted budget for the state share for these scholarships. This will provide approximately 500 children with an additional opportunity for a diverse, high-quality educational experience. The $4,000 scholarships will include a $3,000 state grant supplemented by a $1,000 local contribution. Localities will also be obligated to transport children who take advantage of these scholarships to the school of their choice as long as it is in the student's town or in an abutting town.

Equal Opportunity Scholarships

Eligibility:

Up to 500 students who attend one of the 42 schools currently identified as having "whole school achievement deficiencies" in Math and Reading under the federal "No Child Left Behind" criteria.

Scholarship Used For:

Tuition, books, and uniforms at both private and parochial schools.

Financing:

State Share: $3,000 per eligible student

Local Share: $1,000 per eligible student, plus all transportation costs

Continuing major funding for reducing racial isolation and improving urban education

In addition to the steps outlined above, Governor Rowland's budget includes significant funding for existing public school choice: Magnet Schools, Charter Schools, OPEN Choice, and the Regional Vocational-Technical School System. Public School choice is one of the options that will be available to parents when their children are in schools that have been designated as In Need of Improvement (according to NCLB).

RESC Operated Magnet School Funding Proposal

Example of Current Funding Formula:

	Montessori Magnet Urban District	Montessori Magnet Suburban District
Avg/pupil Expenditure	8,495	8,495
Less: Revenue		
State Magnet Subsidy	4,124	5,302
Sending District Tuition	2,000	2,000
Revenue Subtotal	6,124	7,302
Surplus/Shortfall per pupil	($2,371)	($1,193)

Example of Revised Funding Formula:

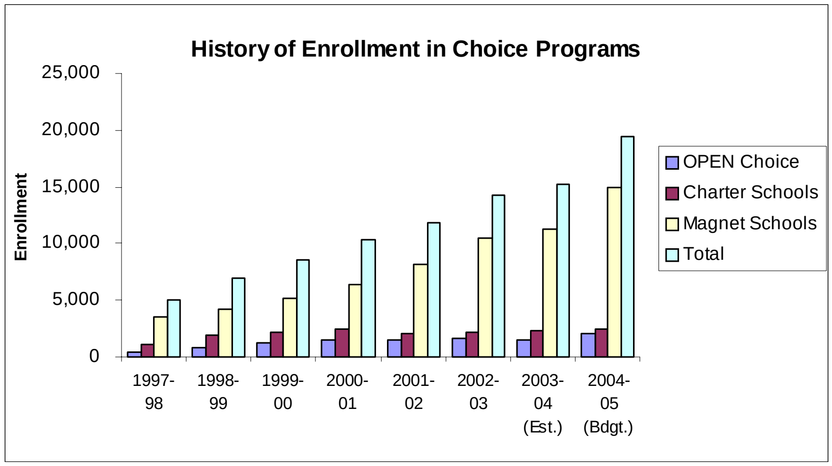
	Montessori Magnet Urban District	Montessori Magnet Suburban District
Avg/pupil Expenditure	8,495	8,495
Less: State Magnet Subsidy	4,124	5,302
Sending District Share	4,371	3,193
Surplus/Shortfall per pupil	$0	$0

Magnet School funding will increase from $55.7 million in the current fiscal year to $61.6 million in FY 2004-05. This additional funding will increase the number of schools from 36 to 48 and enrollment from about 11,300 to about 15,000, an extraordinary 33 percent increase. Since 1998, when there were only 13 magnet schools and 3,500 students, the number of students in these specialized, interdistrict, racially integrated educational settings has increased over four fold.

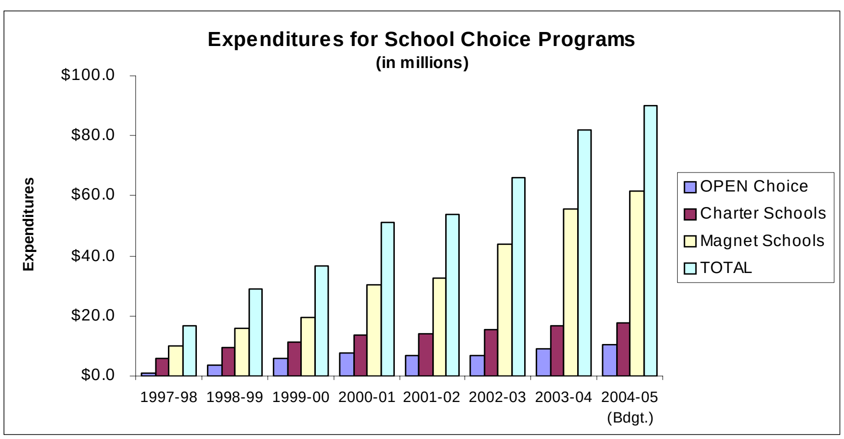
To address the ongoing funding issue for some regional magnet schools, legislation will be proposed to require districts participating in magnet schools to pay a more equitable share of the operating costs. Currently, magnet schools that are operated by Regional Education Service Centers (RESCs), especially those schools in Hartford, do not receive the local funding that is needed to operate them. Each year, there is funding added to support the RESC magnet schools, particularly those in Hartford. This additional funding creates inequities within the magnet school program by rewarding communities who do not pay the costs for their students' education.

Therefore, the adjusted budget is proposing that those districts who do not pay an equitable amount for their students in the RESC operated magnet schools will fund any balance remaining after the calculation of the average per pupil cost less the state magnet subsidy. The annual discussion regarding the subsidies for the RESC operated schools will be eliminated and there will be more incentives for these schools to control costs.

The enrollment for charter schools is projected to grow in the budget, from about 2,280 to 2,460 next year. Charter school subsidies received a one-year bonus of $250/student in FY 2003-04, bringing the total subsidy per student to $7,500. Under statute, the permanent per student subsidy is $7,250, which is the funding level in the original and recommended FY 2004-05 budget. Charter school funding will increase to $17.8 million in FY 2004-05, from $17 million in the current fiscal year.



OPEN Choice, another voluntary public school choice option, provides both education and transportation subsidies to encourage (primarily) urban students to attend (usually) suburban schools. Enrollment in OPEN Choice is scheduled to increase over 400 students, from 1,560 to 1,980 in fiscal year 2005. Funding will increase to $10.6 million in FY 2004-05, from $9.1 million in the current fiscal year.



Magnet schools and OPEN Choice are key components of the settlement agreement in the "Sheff v. O'Neill" case. To settle that case, the state agreed to significantly increase both magnet school and OPEN Choice enrollments for students in Hartford to reduce their racial isolation. Governor Rowland's budget includes funding to satisfy this agreement.

As the accompanying chart shows, funding for other important programs that promote urban education and reduce racial isolation is either maintained or increased.

Partners in education

Another key component of Governor Rowland's plan to bridge the achievement divide is to incorporate some of the themes from the Partners in Education Program. This program focuses on collaborative programs to help students succeed in school.

In the Boston program, for instance, a combination of retirees, students, and private/public sector employees, are involved in literacy/mentoring programs, math and science enrichment activities, and the in-depth examination of historical exploits.

Governor Rowland proposes to reach out to the state's active senior population to work with those students who are struggling academically. Corporate, foundation, and public sector financial support will be sought to support these mentoring and tutoring activities.

Enhancing vo-tech schools

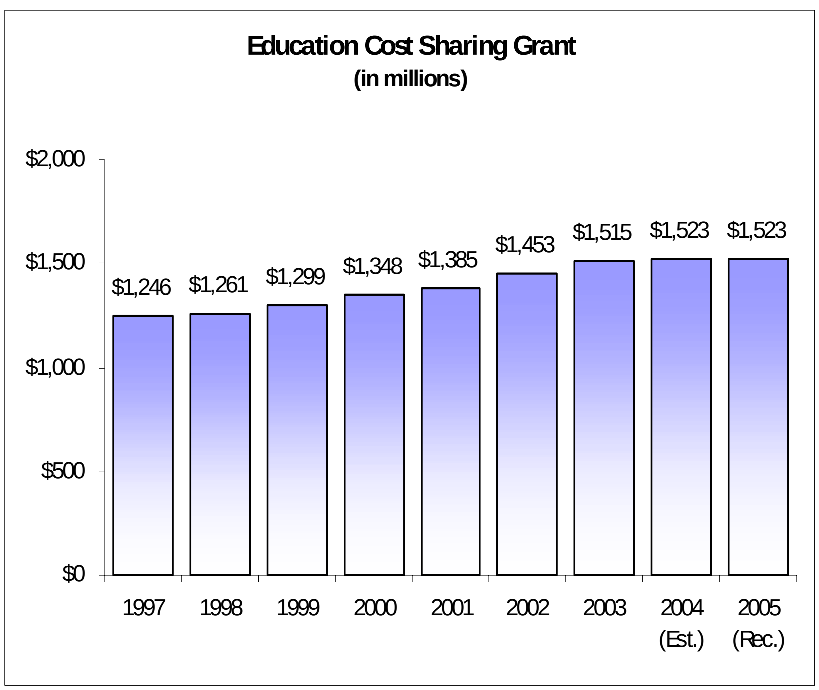
Governor Rowland's budget continues his commitment to the state's Regional Vocational-Technical High School System (RVTSS).

In 2003, based on Executive Order #24, the Governor's Task Force on the Future of the Regional High School System identified a roadmap of improvements for the RVTSS. While it is too early to evaluate the progress the system has made towards implementing this roadmap, the task force recognized what a unique and essential resource the RVTSS is for the state. It is the state's largest secondary school system, with enrollment over 11,000 students. It is a racially diverse system, with over 40 percent of the enrollment from minority groups.

Governor Rowland, in recognition of the importance of the RVTSS, permitted each teacher retiree position to be refilled, which allowed the RVTSS to maintain its enrollment, and critical education role. While enrollment was frozen for the current fiscal year, sufficient resources are included in the budget to allow some growth in student count in the coming school year.

To make sure that the air quality in each of the 17 schools is safe, Governor Rowland is recommending funding to do a myriad of tests, including radon sampling, at each school.

Further, Governor Rowland is proposing legislation to mandate the creation of a statewide industry advisory committee for each career cluster, a key recommendation of the task force.



Promoting science excellence

While most of Governor Rowland's education budget initiatives reflect his commitment to reduce the achievement gap among the state's students, he has also included $150,000 for the Jason Project. The Jason Project is a program that enhances the classroom experience - taking students and teachers on an exciting educational adventure by exploring the planet. The project exposes students to leading scientists who work with them to examine the planet's biological and geological development.

When this program is combined with the recent announcement of over $100 million in public funding for the new Connecticut Center for Science and

HISTORY OF CHOICE PROGRAMS

Interdistrict Magnet Schools:

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 (Est.)	2004-05 (Bdgt.)
Number of Schools	13	16	18	22	27	31	36	48
Enrollment (PK-12)	3,506	4,206	5,183	6,394	8,174	10,430	11,335	15,004
Funding (in millions)	$9.8	$15.8	$19.4	$30.1	$32.6	$43.7	$55.7	$61.6

Charter Schools:

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 (Est.)	2004-05 (Bdgt.)
No. of Schools (State/Local)	10/1	13/2	14/2	14/2	13*	13*	12*	12*
Enrollment (PK-12)	1,117	1,870	2,139	2,429	2,095	2,238	2,281	2,459
Funding (in millions)	$5.8	$9.6	$11.3	$13.7	$14.2	$15.5	$16.9	$17.8

*State Charters Only

OPEN Choice:

	1997-98*	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 (Est.)	2004-05 (Bdgt.)
Enrollment (PK-12)	469	793	1,222	1,477	1,540	1,576	1,559	1,976
Funding (in millions)	$1.1	$3.4	$6.0	$7.5	$6.9	$7.0	$9.1	$10.6

*Project Concern in 1997-98, administered by Hartford Public Schools

Total Enrollment in Above Programs	5,092	6,869	8,544	10,300	11,809	14,244	15,175	19,439
Total Expenditure in Above Programs	$16.7	$28.8	$36.7	$51.3	$53.7	$66.2	$81.7	$90.0

PROGRAMS TO IMPROVE URBAN EDUCATION AND REDUCE RACIAL ISOLATION

	FY 1995	FY 2005	Change
	Actual	Recommended	FY'95-FY "05
IMPROVE URBAN EDUCATION		$ In Millions	
Family Resource Centers:			
Provide holistic family services in 60 schools	$0.8	$4.8	$4.0
Head Start Enhancement:			
Subsidize full year operations for 24 Head Start programs.	$1.0	$1.8	$0.8
Priority Schools:			
Provide additional funding for the 14 academically and economically neediest communities for Priority School District grants, School Readiness, Extended School Hours, School Accountability, and Early Reading Success. Funding was added for School Improvement Grants and Opportunities for Excellence Scholarships for certain districts identified under NCLB as having "whole school achievement deficiencies" in both Reading and Math.	$11.0	$99.9	$88.9
Early Reading Program:			
Grant to improve K-3 reading; funds for full-day kindergarten, reduce K-3 class size and/or early intervention reading		$2.2	$2.2
TOTAL	**$12.8**	**$108.7**	**$95.9**
REDUCE RACIAL ISOLATION			
Interdistrict Magnet Schools:			
State subsidy for students attending Magnet Schools. For the 2003-2004 school year, 11,335 students are in Magnet Schools statewide.	$3.2	$61.6	$58.4
Charter Schools:			
$7,250 per pupil subsidy provided to state charter schools. For the 2003-2004 school year, subsidy is available for 2,281 students statewide.	$0.0	$17.8	$17.8
Interdistrict Cooperation Grants:			$0.0
Programs for 60,000 students that promote a greater understanding and appreciation of cultural diversity for students in preschool through 12th grade.	$2.1	$14.2	$12.1
Coordinate Interdistrict Activities:			
Funding for the Regional Educational Service Centers (RESCs) to plan and administer an interdistrict school choice program and to provide minority educator recruitment services to school districts; lease funds also provided.	$2.0	$1.6	($0.4)
OPEN Choice Program:			$0.0
In 2004, about 1,560 primarily urban students attend suburban schools in this voluntary program	$1.0	$10.6	$9.6
TOTAL	**$8.3**	**$105.8**	**$97.5**
GRANT TOTAL	**$21.1**	**$214.5**	**$193.4**

Exploration to be built in Hartford at Adriaen's Landing, it is clear that Governor Rowland is forging a strong path to promote science excellence in our youngsters.

Local education aid

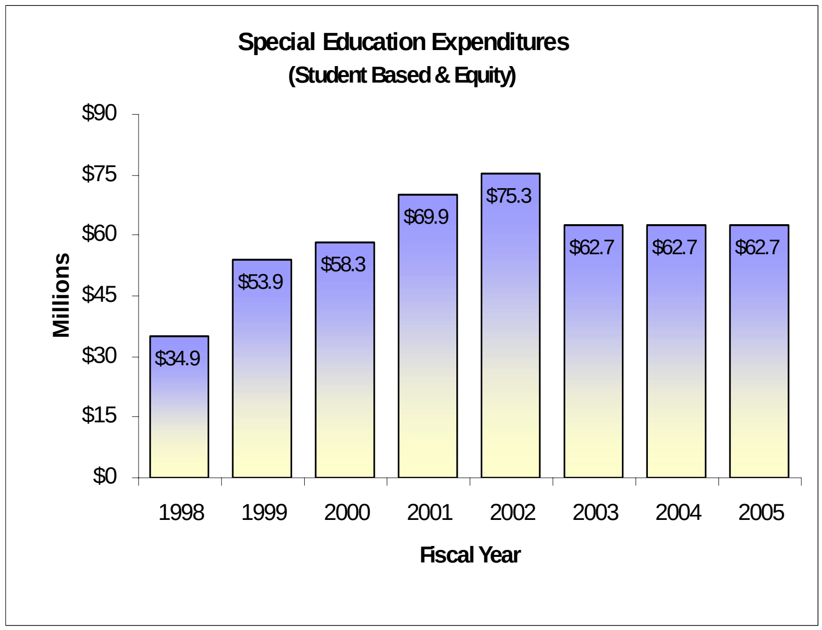
Regular local education aid in the original adopted budget for FY 2004-05 was largely frozen at the FY 2003-04 adopted levels because of the state's fiscal crisis. The adjusted budget recommendations do not reduce any of these line items of local school aid.

However, the original budget for FY 2004-05 also included a $55 million extraordinary municipal aid rescission that would have meant major midyear local aid cuts if the budget did not stay in balance.

To ensure that local school budgets have certainty and do not face major cutbacks in the middle of a school year, Governor Rowland has eliminated the $55 million municipal rescission lapse to protect local school systems. That possible cut no longer hangs over school districts' heads.

Educational technology

The FY 2004-05 bond package earmarks $5 million for the continued buildout of the Connecticut Education Network. CEN seeks to link 1,100 K-12 schools, the state's 350 libraries, and over 100 college and university campuses. There are 74 sites using the Connecticut Education Network, including Hartford Public Schools an additional 122 are being added as of January 2004.



The budget also identifies state and federal funds in the state Department of Education, Office of Workforce Competitiveness and the Department of Information Technology to staff the project.

More information is provided about CEN and regional efforts in the Economic and Workforce Development section.

The Governor's budget also proposes continued funding for the Digital Library and the Connecticut Distance Learning Consortium.

School construction

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

General Fund - Early Retirement Summary - Higher Education Based on Actual General Fund Retirees as reported by Constitutent Units 50% of Savings						
Constitutent Unit	ERIP Retirees	Total ERIP Annual Salary & Longevity	50% Annual Savings Block Grant	Contract Time Payment	2003-04 Total ERIP Cash B-1 Reduction	50% Annual Savings Block Grant
UConn	259	$17,814,135	$8,907,068	$1,782,895	$7,124,173	$8,907,068
UConn Health Ctr	49	$2,374,182	$1,187,091	$50,090	$1,137,001	$1,187,091
Comm Tech Colleges	176	$12,950,571	$6,475,286	$1,415,600	$5,059,686	$6,475,286
CSU	191	$12,984,570	$6,492,285	$1,732,937	$4,759,348	$6,492,285
Total	675	$46,123,458	$23,061,730	$4,981,522	$18,080,208	$23,061,729

Assumptions:
Contract Time: Actual for UConn and CSU. CTC and UConn Health Center payment estimated (6 pay periods).

Longevity: Based on average April 2003 bargaining unit payments.

Higher education operating commitments

Governor Rowland's pledge to improve education does not stop at the K-12 system.

The original biennial budget called for aggressive Early Retirement Incentive Program savings of about $150 million per year. While many agencies saw very aggressive refill targets, the biennial budget called for much greater flexibility for the higher education units in terms of refills. Further, the budget capped the amount of savings that could be taken from the block grants at 50 percent of total retirement savings. Thus, while many agencies saw their budgets reduced much more, higher ed block grant units were able to keep 50 percent of their block grant savings to reinvest in their systems.

The adjusted budget makes no reductions to the original adopted block grant appropriations and, as was the case in the current fiscal year, only sweeps from the block grant the 50 percent allowed in statute for the early retirement lapse. The actual block grants are reduced for the block grant unit's share of the statewide ERIP lapse. The statewide ERIP lapse has gone away and savings have been incorporated in each state agency's personal services account and in the associated central fringe accounts.

Comparing the Constituent Unit Appropriated Budgets (Less ERIP) With the Mid-Term

	SFY '04 Appropriation Less ERIP	SFY '05 Appropriation Less ERIP	SFY '05 Midterm Recommendation	Difference 05 Rec-App
UCONN	$189,972,979	$191,810,161	$191,752,289	($57,872)
UCHC	$73,756,716	$72,867,818	$73,859,946	$992,128
CTC	$121,085,905	$120,945,329	$122,261,393	$1,316,064
CSU	$135,672,971	$132,765,534	$134,844,141	$2,078,607
Total	$520,488,571	$518,388,842	$522,717,769	$4,328,927

Total savings in the four higher ed units from ERIP was $46.1 million; the units kept $23.1 million and $23 million was reduced from block grant accounts per law. Units will still receive fringe benefits based on the $23 million retained. The units had a total of 675 retirements.

After the ERIP reduction, Governor Rowland is recommending some slight increases to three public units in recognition of some inequities and errors when the original block grants were set for FY 2004-05 during the 2003 session. For Connecticut State University, $2 million is added; $1 million is added for the Regional Community-Technical Colleges; and $1 million is added for the University of Connecticut Health Center.

After the ERIP reduction, the four units received block grant funding this fiscal year of $520.5 million. In FY 2004-05, the four units were scheduled to receive $518.4 million after the ERIP adjustments. The new recommended level is $522.7 million, or $4.3 million more than the original FY 2004-05 budget and $2.2 million more than estimated in the current fiscal year after ERIP savings.

While funding growth for the public higher education units has slowed during the recent recession, it is important to remember that, since 1995, Governor Rowland has increased General Fund and Bond funding for the constituent units of higher education by over $400 million, or almost 72 percent. In good times, as costs rose, so did state support.

GROWTH IN HIGHER EDUCATION GENERAL FUND RESOURCES 1995-2005			
CONSTITUENT UNIT	Expenditures SFY '95	Recommended SFY '05	% Change SFY '95 to '05
	In $ Millions		
The University of Connecticut			
General Fund	135	192	42%
Fringe Benefits	48	67	40%
Capital Authorization	40	110	175%
Total	223	369	66%
UCONN Health Center			
General Fund	39	74	90%
Fringe Benefits	14	26	85%
Capital Authorization	15		-100%
Total	68	100	47%
Community-Technical Colleges			
General Fund	82	122	49%
Fringe Benefits	29	43	47%
Capital Authorization	7	70	900%
Total	118	235	99%
Connecticut State University			
General Fund	98	135	38%
Fringe Benefits	35	46	31%
Capital Authorization	20	80	300%
Total	153	261	71%
Grand Total	562	965	72%

The University of Connecticut saw a 66 percent increase, while the CSU system saw a 71 percent increase and the community colleges almost saw their funding double. The health center saw an almost 50 percent increase, not counting $20 million in one-time transition aid it received several years ago. When looking at just general funding, both CSU and UCONN have enjoyed about a 40 percent increase in their general fund support under Governor Rowland's tenure. None of these figures include fringe benefits, which have increased far more dramatically.

Higher ed spending reform needed

Since Governor Rowland took office in 1995, the growth, on a per student basis, in higher education costs has been dramatic. Per student costs have risen from 37 percent (at UCONN) to about 50 percent (both CSU and the CTCs).

In 1995, UCONN's per student cost was $17,468, CSU's per student cost was $10,544, and the CTC's per student cost was $7,788. By 2003, these costs had risen to $23,220 for UCONN, $14,653 for CSU and $11,721 for the CTC.

Enrollment alone could not explain the cost growth in the 1990s. It appears that other factors, such as the expansion of administrative staffing, could have increased costs. From 1989 to 2003, non-faculty staffing grew by a whopping 36 percent. Faculty growth appears to have mirrored enrollment growth while administrative, non-faculty positions grew steadily with no apparent connection to enrollment changes. The growth of non-faculty administrative positions created cost pressures on the institutions.

Another factor driving up institutional costs could be compensation. While some of the bargaining units in higher education agreed to one year wage freezes, faculty wage levels continue to be among the most generous in the country. For instance, the University of Connecticut's average faculty salary is $82,386, almost $10,000 higher than the peer average salary of $72,609. Cost-of-living pressures exist here but there are similar pressures in other parts of the nation that are not reflected in high salaries.

Growth in the Cost Per Student in Higher Education Units SFY '95 to '03

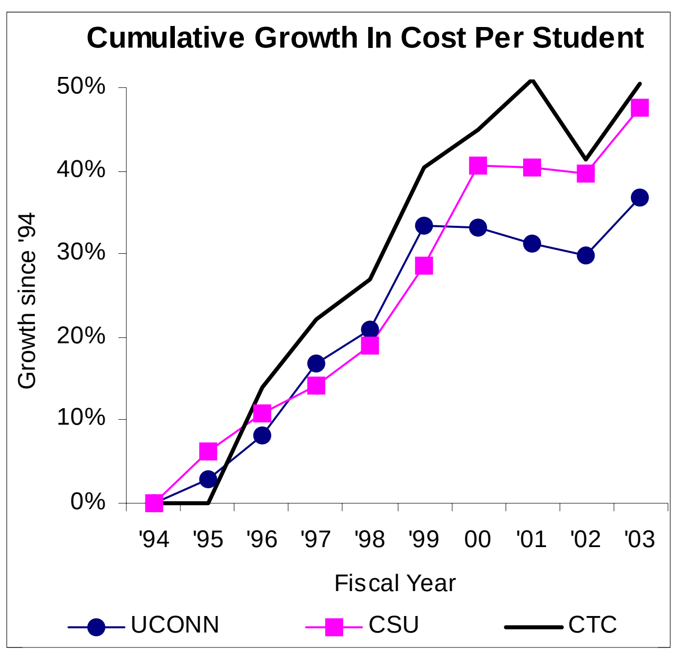
Cost per Student	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
UConn	$ 16,978	$ 17,468	$ 18,383	$ 19,843	$ 20,544	$ 22,633	$ 22,625	$ 22,288	$ 22,031	$ 23,220
CSU	$ 9,933	$ 10,544	$ 11,001	$ 11,333	$ 11,828	$ 12,785	$ 13,966	$ 13,954	$ 13,880	$ 14,653
CTC	$ 7,792	$ 7,788	$ 8,867	$ 9,514	$ 9,886	$ 10,931	$ 11,297	$ 11,758	$ 11,001	$ 11,721

Cumulative Growth in Cost per Student

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
UConn	0	2.89%	8.27%	16.87%	21.00%	33.30%	33.26%	31.27%	29.76%	36.76%
CSU	0	6.16%	10.76%	14.10%	19.08%	28.71%	40.60%	40.49%	39.74%	47.52%
CTC	0	-0.06%	13.86%	22.17%	26.94%	40.37%	45.07%	50.98%	41.26%	50.51%

Be wary of statistics

As lawmakers debate funding levels for the block grant units, they should be cautious about reading too much into the numbers. For the most part, the state has tried to be fair in its funding of each of the three major higher ed units, both in terms of operating support and capital funding. All three units are important components of our quality of life and our economic competitiveness in the future.



Some units complain that the amount of general fund support for their entire system is less on a percentage basis than other units. For example, the CTCs receive about two-thirds of their entire budget from the general fund, while UCONN is receiving about 60 percent and CSU about 53 percent. In time, perhaps the funding percentages need to be looked at. We need to do a better job of considering costs and funding for part-time students and examining both tuition and fees when considering state support for all of the units.

But at the same time, we would note other statistics that lead one to opposite conclusions or at least show the state is compensating for any alleged inequities. For example, while per student aid has dropped somewhat over the past several years because of our fiscal difficulties, from FY 1994-95 to FY 2003-04 per-student block grant subsidy from the general fund has actually gone up by 19 percent at CSU compared with just 10 percent for UCONN.

UCONN	**SFY '95 Fall 1994**	**SFY '04 Fall 2003**	**% CHANGE FY 95-FY 04**
FTE Students	17,251	21,984	27%
General Fund	$135,323,947	189,965,107	40%
GF/Students	$7,844.41	8,641	10%
CSU	**SFY '95 Fall 1994**	**SFY '04 Fall 2003**	**% CHANGE FY 95-FY 04**
FTE Students	22,424	25,948	16%
General Fund	$98,166,490	135,672,971	38%
GF/Students	$4,377.74	5,229	19%

Generally, CSU's costs per student rose faster than UCONN's. Even though the general fund support per student rose at a faster rate at CSU than at UCONN, those increased costs per student cancelled the per-student subsidy gain and in part explain why the general fund support percentage is the lowest of the three units. The cost differential certainly cannot be tied in any great measure to enrollment increases because UCONN's enrollment has grown faster than CSU's.

Higher education endowment matches

The public higher education endowment match proposal has been incredibly successful, but the state's fiscal crisis has been so severe that the state has been unable to fund the public match of the private fund-raising. Because the state has yet to identify appropriate funding for part of the 2000 calendar year and all of 2001, 2002, and 2003, the adjusted budget freezes the program for calendar years 2004 and 2005. The state hopes to be in a financial condition soon to be able to honor the 2000 through 2003 commitments.

The General Assembly did authorize $10.5 million in bond funds to pay for the state's obligations for the 2000 and 2001 calendar years. But the administration does not favor borrowing over a 20-year period for the purpose of growing an endowment. The use of twenty-year bonds for a state matching grant program is not a wise or appropriate use of bond funds. Moreover, although the matching grant program is important, it is not on par with priority human services needs, like those being funded in the Department of Children and Families.

Consortium funding

Funding is provided from carryforward funds to ensure the state remains a member in good standing in the New England Board of Higher Education. The state made a payment of $250,000 for FY 2002-03, but no funding was provided for the current fiscal year. The $300,000 carryforward would cover the $175,000 dues owed for the current fiscal year and fund the $125,000 ongoing dues for FY 2004-05.

Tuition aid

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

- Connecticut Aid for Public College Students (CAPCS) has increased from $5.6 million to $16 million, an increase of about 186 percent.
- Capitol Scholarship Program (CSP) (not strictly limited to public college or in-state students) has increased from $2.2 million to $5.1 million, a 132 percent increase.

Connecticut Independent College Student Grant (CICSG)			
Fiscal Year	Funding	Recipients	Avg. Award
2003	$15,888,864	4,400	$3,600
2004	$15,067,492	4,400	$3,425
2005 Rec.	$15,067,492	4,400	$3,425

Connecticut Aid for Public College Students			
Fiscal Year	Funding	Recipients	Avg. Award
2003	$17,539,728	11,900	$1,475
2004	$16,039,728	11,900	$1,350
2005 Rec.	$16,039,728	11,900	$1,350

- Connecticut Independent College Student Grant (CICSG) has increased from $12.1 million to $15.1 million, an increase of 25 percent.

This is profound growth over that period of time. The adopted budget continued funding for these programs at the current fiscal year level and Governor Rowland is proposing no reductions.

For the Capitol Scholarship Program, about 3,500 students will be served. For CAPCS, about 11,900 students will be served. For, CICSG, about 4,400 students will be served.

In addition, $150,000 is being placed in the budget for UCONN and CSU students to spend semesters in Washington, D.C.

The Washington Center is an independent, nonprofit, educational organization that utilizes the resources of the nation's capital to provide participatory learning experiences in order to enhance students' academic, civic and professional development. Its mission is to develop leadership in youth in the public, private and nonprofit sectors.

The Governor has proposed to provide the $150,000 for a collaborative agreement whereby Connecticut students attending public universities will receive scholarship assistance through a grant from the Office of Policy and Management to participate in an academic internship program through the Washington Center. The Washington Center leverages this support with financial assistance raised through Connecticut's corporate and foundation donors making the Connecticut State Initiative a public-private partnership. Students get a full semester's credit for interning at various public, private and governmental organizations. They also attend educational seminars for their coursework.

Higher ed capital funding

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

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

Fiscal Year	UConn 2000	UConn 21st	UConn GO	Totals
96	$ 112.5		$18.0	$ 130.5
97	112.0		9.4	121.4
98	93.1		0.0	93.1
99	64.3		0.0	64.3
00	130.0		2.0	132.0
01	100.0		20.0	120.0
02	100.0		0.0	100.0
03	100.0		0.0	100.0
04	100.0		0.0	100.0
05	50.0	$ 50.0	10.0	110.0
06		79.0	0.0	79.0
07		89.0	0.0	89.0
08		120.0	0.0	120.0
09		155.0	0.0	155.0
10		160.5	0.0	160.5
11		161.5	0.0	161.5
12		138.1	0.0	138.1
13		129.5	0.0	129.5
14		126.5	0.0	126.5
15		90.9	0.0	90.9
Grand Total	**$962.0**	**$1,300.0**	**$59.4**	**$2,321.4**

search institutions in the nation.

The job, however, is not done. During the 2002 session, the Governor proposed and the legislature adopted the 21st Century UCONN Program, which commits the state to funding an additional $1.3 billion 11-year program which goes through FY 2014-15. These capital improvements will occur at the Storrs, regional and health center campuses.

Governor Rowland is proposing no changes to the new program or to his commitments to the other higher ed units. It is his belief that these investments must move forward and that the debt issued here will reap huge rewards down the road.

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

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

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

Governor Rowland's CTC and CSU Capital Investment Plan

(In Millions)

Fiscal Year	**Authorizations* CTC**	**Authorizations* CSU**
96	$18.2	$47.4
97	14.8	56.1
98	19.5	34.1
99	69.7	30.5
00	77.2	80.6
01	74.9	88.4
02	69.1	88.6
03	25.7	64.6
04	70.4	39.8
Total	$439.4	$530.1
	Recommended	**Recommended**
04-Est	$69.8	$86.7
05-Est	70.4	80.3
06-Est	67.0	76.0
07-Est	67.7	76.1
Total	$274.9	$319.1
Grand Total	**$714.3**	**$849.2**

***Does not reflect subsequent legislative cancellations**

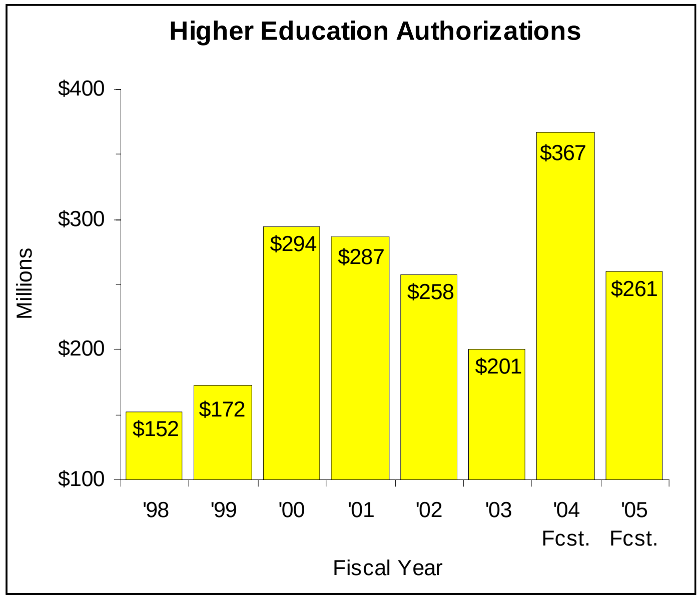
All told, over the 20-year period, a total of more than $2.3 billion will have been invested in the UCONN system.

Governor Rowland continues his commitment to the other higher ed units as well. Because no bond package was passed for FY 2003-04, Governor Rowland is proposing a mini-bond package to be passed in February. The bulk of that package is promised funding for the CSU and CTC systems.

Both systems had some FY 2003-04 funding already authorized due to the advanced funding during the 2002 session to ensure the state stayed below the 90 percent bond cap. CSU had about $40 million authorized and the CTC system about $70 million.

But additional funding was needed for the current fiscal year to keep critical projects on schedule. For FY 2003-04, Governor Rowland is proposing about $70 million more. In the case of CSU, almost $87 million more is being recommended. For FY 2004-05, the Governor's bond package includes about $80 million for CSU and about $70 million for the CTCs.

In addition, the Governor is further refining some aspects of the outyear commitments for both CSU and the CTCs through FY 2006-07, the end of the second 5-year program for these two institutions. In the biennial budget submission last session, Governor Rowland had committed to a total 5-year package for CSU of about $417 million and for the CTCs of about $365 million. He is increasing those dollars to $425 million for CSU and $371 million for the CTCs. The annual authorizations are noted in the accompanying chart.



Total capital funding now available to CSU since the Governor came to office and through FY 2006-07 is $849 million; for the CTCs it is $714 million.

Among the capital commitments and authorizations are important consolidation projects for the CTCs:

- The Three Rivers Community College in Norwich is now expected to be consolidated at the current Three Rivers site. The project consists of renovations to 183,000 sq. ft. of existing space (Thames Campus Building and the adjacent Norwich V-T School) and new construction of 128,000 sq. ft. in accordance with the master plan. The total project cost is $75.3 million. The current vocational-technical school will move to the current Mohegan community college site. That site will be renovated to the tune of $45 million for the high school's use. Design on the CTC project is expected to begin shortly and construction should be completed by late 2008.

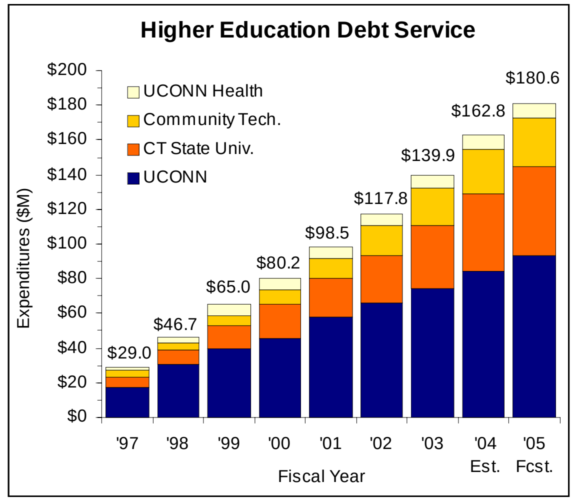
- Plans to expand the Housatonic Community College in Bridgeport are funded in the capital requests. This project consists of development of 188,000 sq. ft. of additional space (renovation of the existing former Sears building and new construction of approximately 39,000 sq. ft.) in accordance with the master plan. Total project cost is $51 million and planning monies are in the bond package. The estimated project completion date is sometime in 2007.

Higher Education Allocations
(In Millions)

Calendar Year	UConn 2000	UConn G.O.	UCHC	CSU	CTC	Total
90	$	$ 24.6	$ 32.9	$ 34.9	$ 22.1	$ 114.5
91		33.7	5.3	25.2	2.1	66.3
92		27.1	8.5	31.8	7.4	74.8
93		56.9	6.4	34.3	9.4	107.0
94		54.7	14.4	33.9	28.0	131.0
95	112.5	32.9	4.4	17.3	10.0	177.1
96	112.0	11.9	0.0	45.1	9.5	178.5
97	93.1	25.1	41.8	17.3	6.4	183.7
98	64.3	5.8	8.0	79.5	41.0	198.6
99	130.0	2.0	0.2	45.1	16.0	193.3
00	100.0	20.0	3.1	102.6	94.7	320.4
01	100.0	0.0	10.8	99.9	59.7	270.4
02	100.0	0.0	5.6	76.5	18.5	200.6
03	100.0	0.0	3.2	18.4	9.3	130.9
04-Est	100.0	0.0	4.4	80.0	80.0	264.4
05-Est	100.0	10.0	0.0	80.0	80.0	270.0

- Because of the huge success of the move of Capitol Community College to the old G. Fox Building in downtown Hartford, Governor Rowland is proposing the purchase of an additional 33,000 sq. ft. of the private portion of the building for the college's expansion. Based on enrollment data, the college expects to be over capacity in the next few years. About $6 million is included in the bond package for the purchase and renovation of the adjacent space.

- $61.9 million is already authorized for Gateway CTC's consolidation in New Haven. Governor Rowland has a strong desire to consolidate the college in downtown New Haven. The state is still considering the cost of this consolidation and its impact on other higher education bonding within the CTC system and elsewhere. This project is slated to go to construction sometime in calendar year 2007.



Total capital commitments for higher education

Since he came to office, Governor Rowland has ensured that almost $3.3 billion in higher education capital authorizations have been passed through the 2003 session. Total capital dollar commitments for higher education signed into law under his tenure will be almost $3.9 billion.

Higher education authorizations will total $366.7 million for FY 2003-04 and $260.7 million when Governor Rowland's proposals are adopted.

Higher ed allocations have also been at record levels under Governor Rowland as each of the constituent units aggressively renovates campuses or relocates them. Since Governor Rowland came to office and through the end of calendar 2003, total allocations for higher education have totaled $1.85 billion.

This commitment has translated into a high level of debt service paid by the State Treasurer on behalf of the higher ed units. Annual debt service on higher education capital projects is estimated to be $163 million in the current fiscal year. That will rise to $180.6 million in FY 2004-05.

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

Governor Rowland's Education Commitments

	FY-04	FY-05
Department of Education		
School Construction	$ 485.0	$ 623.0
ASD	5.0	1.9
CT Education Network	-	5.0
Wiring	5.0	(3.0)
Sub-Total	**$ 495.0**	**$ 626.9**
Connecticut State University	$ 126.5	$ 80.3
Community Technical Colleges	140.2	70.4
University of Connecticut-21St	100.0	100.0
University of Connecticut-GO	-	10.0
UCHC	-	*
CATCHF-Arts	-	1.0
Sub-Total	**$ 366.7**	**$ 261.7**
Grand Total	**$ 861.7**	**$ 888.6**

* UCHC included under UCONN 21st Century financing plan

Total education commitments

In FY 2003-04, $862 million in total higher and lower education bond authorizations are recommended or already passed. That number increases to $889 million in FY 2004-05.

Working Toward Real Choice for Long-Term Care

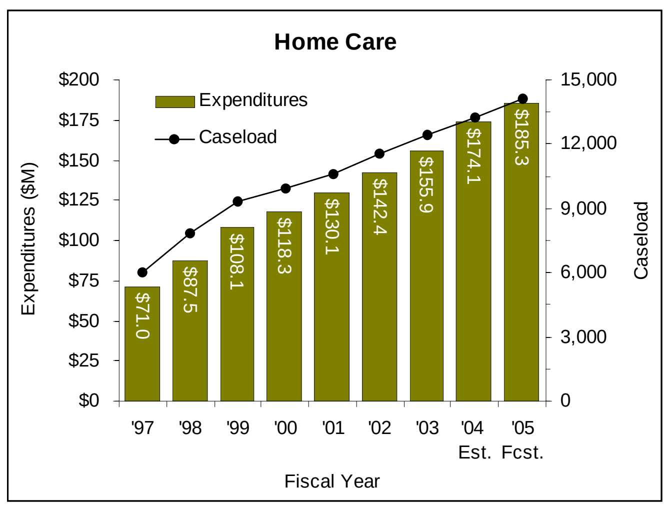
Through Governor Rowland's commitment and leadership over the last nine years, Connecticut has dramatically changed its long-term care system. In the past, oftentimes an individual's only option to receive long-term care support through the state was to enter an expensive nursing home. Governor Rowland has developed and expanded various home and community-based long-term care options, allowing individuals and families the ability to stay at home or in the community for as long as possible.

Governor Rowland has championed the enhancement of long-term care alternatives in the community with the goal of providing individuals and their families with real choices for their long-term care needs. In partnership with the General Assembly, the Governor has implemented numerous initiatives to expand the community options available to our elderly residents and citizens with disabilities. The Governor's mid-term budget both maintains his commitment to this vital issue and proposes some modest expansions.

In January of 1997, Governor Rowland instituted a no waiting list policy on both the state-funded and federal Medicaid waiver home care programs. This commitment to home care options, and the development of assisted living initiatives outlined below, has resulted in a tremendous increase in the number of individuals receiving home care and assisted living from both the state and Medicaid portions of the Connecticut Home Care Program for Elders. Due to Governor Rowland's strong support for home care options, enrollment in both portions of the program has more than doubled, increasing from 6,024 in December 1994 to 13,580 as of November 2003. Expenditures for the home care programs are estimated to be approximately $185 million in FY 2004-05.

Expanding home care eligibility

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



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

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

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

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

Expanding assisted living options

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

In congregate housing

Beginning in 2001, the Department of Economic and Community Development (DECD) and DSS introduced assisted living services within state-funded congregate housing facilities. Sixteen of the 24 congregate facilities are participating in this service expansion. The Governor's budget includes $725,542 in FY 2004-05 to continue implementation of this initiative. As of November 30, 2003, 145 congregate residents were actively enrolled in the assisted living program. Since the program was implemented in May 2001, a total of 310 residents have received assisted living services through the program.

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

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

In an effort to continue to expand home and community-based options, the Governor is proposing the development of an additional State-funded congregate facility that would house 50 individuals. $2.5 million in bond funds is proposed for the development of this new facility. As the Waterbury area has no state congregate housing project and its citizens have no access to affordable assisted living services, Waterbury has been chosen as the location for the new congregate setting.

In HUD complexes

Another of Governor Rowland's long-term care initiatives was to forge a partnership with the federal government by providing assisted living services within federally financed HUD complexes. Three HUD facilities are currently participating in the pilot. Funding of $588,903 is included for FY 2004-05 to continue this pilot. Included in this funding, the Governor is proposing $50,000 in additional funds to allow for the continued enrollment expansions in the HUD facilities, most notably at the successful Tower One/Tower East facility in New Haven.

As of November 30, 2003, 104 residents in three HUD facilities (in Hartford, New Haven and Storrs) were actively receiving services through the pilot. Since the program was implemented in May 2001, a total of 177 residents have received assisted living services through the program.

Average Monthly Costs Based on Type of Care
(without applied income)

$5,016	Medicaid Nursing Facility Rate (includes room and board)
$885	Assisted Living (excludes room and board)
$994	Home Care (combines Waiver and State-funded)

The current authorizing statute for the HUD pilots allows for up to 4 projects. Due to the success achieved in the first three HUD pilots, the Governor is proposing the development of a fourth HUD assisted living pilot. Only CHC program clients will be eligible for assisted living services under this new HUD pilot.

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

Cost-savings and dignity

For those residents who need even higher levels of care, the program certainly is delaying or eliminating the need for nursing home care. Of the 487 residents who have received services under the program, a conservative estimate is that approximately half of them would have entered a nursing home in a short period of time had it not been for the program. With an average cost under the assisted living programs of approximately $900 per month for DSS clients and $500 a month for DECD clients, the state is realizing considerable savings when these costs are compared to the average monthly Medicaid nursing home cost of over $5,000. While some of these residents eventually needed to enter a nursing home due to health reasons, the assisted living program was instrumental in maintaining them in their residence for as long as possible, not only saving funds but providing these seniors with real choices as to where they would receive their care and the dignity of living in their own residence.

Private pay assisted living pilots

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

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

Medicaid-funded pilot

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

State-funded pilot

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

Both pilots began implementation in January 2003. As of December 31, 2003, the State-funded pilot had 25 individuals actively enrolled and, therefore, had reached its maximum. The Medicaid-funded pilot had 10 individuals enrolled.

Much of the reason for a higher enrollment in the State-funded pilot is due to the federal government's lack of approval for Connecticut's proposal to expand the income eligibility criteria under the Medicaid waiver portion of the CHC. The more stringent income requirements for the Medicaid pilot have resulted in fewer individuals being able to qualify than originally estimated.

Since these enrollment patterns will likely continue until the federal government approves Connecticut's income expansion for the Medicaid waiver, Governor Rowland is proposing to set an overall maximum of 75 individuals for both pilots combined. This will allow continued enrollment in the State-funded pilot.

The Governor's budget assumes an annualized savings of $2.6 million for FY 2004-05 for this initiative since it is assumed that in the absence of the pilots these individuals would have entered a nursing home as Medicaid clients.

In free-standing units

Over the past several years, DECD, DSS and the Connecticut Housing Finance Authority (CHFA) have been developing the Assisted Living Demonstration Project, which is authorized to develop up to 300 subsidized assisted living units in both urban and rural settings. Currently 219 assisted living units have been approved for development under the Demonstration Project.

This unique project combines the development financing through CHFA, the necessary housing component through rental subsidies from DECD, and services through DSS' CHC program. Four projects have been approved in the cities of Glastonbury, Hartford, Middletown, and Seymour. Construction has already begun on the Hartford and Glastonbury projects, with the first units becoming available in the Summer of 2004.

The Governor's budget includes approximately $3.0 million for rental subsidies and services in FY 2004-05.

Assisted Living Across the State

HUDs, Congregates and Private Pay Pilots – Town and Number of Individuals Currently Being Served

Avon	2	*Niantic*	1
Bethel	3	*Norwalk*	25
Bristol	8	*Norwich*	16
Danbury	1	*Orange*	9
East Haven	1	*Pomfret*	1
Glastonbury	15	*Ridgefield*	10
Groton	23	*Rocky Hill*	2
Hamden	9	*Shelton*	1
Hartford	19	*Simsbury*	11
Litchfield	3	*South Windsor*	3
Middletown	8	*Storrs*	4
Meriden	3	*Vernon*	15
Mystic	1	*Waterbury*	3
New Haven	94	*Waterford*	1
Newington	3	*Woodbridge*	2

Assisted Living Demonstration & New Congregates Under Development – Town and Proposed Number of Individuals To Be Served

Bridgeport	35	*Middletown*	43
Danbury	35	*New Haven*	25
Glastonbury	25	*Seymour*	56
Hartford	95		

As illustrated, these assisted living initiatives have been, and will be, providing services to numerous cities and towns across Connecticut

Winning accolades for innovation

Connecticut's efforts to provide nursing home alternatives have not gone unnoticed. In October 2003, Connecticut's initiative was one of only eight projects, out of several hundred applicants, to receive an Innovations Award from the Council of State Governments (CSG). CSG's Innovations Awards Program was established to bring greater visibility to exemplary state programs and policies and to facilitate the transfer of those successful experiences to other states. It is the only comprehensive, national awards program that focuses exclusively on state programs and policies and selects winners based on evaluations by state government leaders.

Nursing facility transitions

In September 2001, DSS received a three-year $800,000 grant from the U.S. Department of Health and Human Services (HHS) to help transition individuals with disabilities out of nursing homes back to the community.

The Nursing Facilities Transition Grant has proven that individuals with disabilities can successfully transition back to their communities and remain in the community. Over 40 individuals have made the successful transition, allowing them the opportunity to experience independent living in the community. Not only is it less expensive to provide these individuals with supports and services in the community, these successful transitions are providing real choices for individuals with disabilities as to where they will receive their services and support.

The federal funding for the Nursing Facilities Transition Grant will expire in September 2004. To help continue the important work started under the Grant, Governor Rowland is proposing funding the project for an additional three-year period utilizing state funds at a cost of $800,000. The FY 2004-05 budget includes $267,000 for this initiative.

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

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

Also on October 1, 2003, Connecticut received its third Systems Change Grant when HHS awarded DSS a three-year, $585,000, Community-Integrated Personal Assistance Services and Supports (C-PASS) Grant. The grant will address the development of a personal assistance workforce by building an infrastructure that will allow for the effective recruitment and retention of direct support personnel. As with the Real Choice Grant, DSS has contracted with the University of Connecticut's Center for Disabilities to implement this initiative. The grant has three main objectives: (1) develop a single statewide tool to recruit personal assistants for permanent and backup employment; (2) create a strategic marketing plan to recruit personal assistants; and (3) provide training for employers of personal assistants.

All of these grants will significantly help Connecticut in its efforts to comply with the Olmstead Supreme Court decision dealing with the provision of supports in the least restrictive setting and provide community options for nursing home residents.

Personal care assistance (PCA) waiver

One of the main vehicles for providing services and supports for individuals transitioning from nursing homes, and those already living in the community, is the PCA waiver. This waiver, administered by DSS, provides funding for personal care assistance services for adults age 18-64, who have chronic, severe and permanent physical disabilities, who seek to remain in the community, and who otherwise would require nursing facility care and are capable of self-direction and able to hire, fire, manage, train and supervise their own personal care assistants.

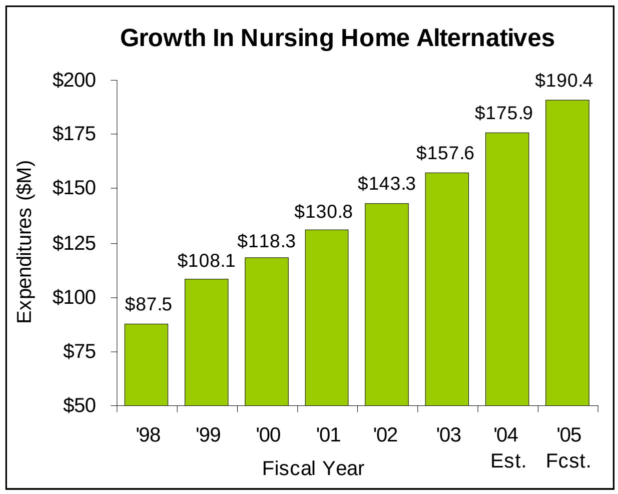
The PCA Waiver currently has enrolled 498 individuals on the program, the maximum allowed under the Waiver as approved by the federal government. Due to the importance of providing supports for individuals with disabilities to help prevent them from entering a nursing home and facilitate a successful transfer out of a nursing home, the Governor is proposing a significant expansion of the PCA Waiver in the FY 2004-05 budget. Under the Governor's proposal, effective July 1, 2004 (contingent upon federal approval), the PCA Waiver will

expand to allow up to 700 individuals to be served under the program. $2.2 million is included in FY 2004-05 to fund this expansion.
All told, the Governor's budget calls for spending approximately $190.4 million for alternatives to nursing homes in FY 2004-05.

Transfers of assets

In 2001, at the request of Governor Rowland, the General Assembly included a provision in Public Act 01-2 instructing the Department of Social Services (DSS) to apply for a waiver from the federal government to tighten the penalty period provisions for transfers of assets under the Medicaid program. The waiver proposal, which DSS has submitted to the federal government, will change the start of the transfer of asset penalty period to the date of Medicaid eligibility as opposed to the current practice of when the transfer was made.

The current transfer of asset penalty period provision creates opportunities for individuals to transfer significant resources for less than fair market value and not be deemed ineligible for Medicaid for even one day. The waiver proposal, if approved by the federal government, will help Connecticut target Medicaid services to those most in need and to those who legitimately utilized their resources to pay for their care. Approximately $7.5 million is assumed as savings in FY 2004-05 for this provision. When fully operational, it is anticipated that this proposal could result in annualized savings of $17.6 million.



Important to this initiative is the presence in Connecticut of the Partnership for Long-Term Care program, the first program of its kind to link private long-term care insurance and the Medicaid program. While not appropriate or available to all, the Partnership can provide an important long-term care-planning tool that allows policyholders to privately fund for the front end of their long-term care with the ability to protect some or all of their assets if they need Medicaid after their private insurance is exhausted. While the Partnership has experienced success to date, with over 32,000 Connecticut residents having purchased policies, the closing of a major loophole regarding transfers of assets will make private options, such as the Partnership and long-term care insurance in general, more attractive and important to Connecticut residents.

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

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

Developing the continuum: A timeline

Connecticut has made great strides in providing real choices for long-term care through the foresight and dedication of Governor Rowland and the hard work of numerous individuals throughout state government. The policy rationale for developing a full continuum is clear: it ensures that individuals with disabilities and elderly persons have the opportunity and choice to live in the community with their dignity intact and it is cost-effective when compared with nursing home institutionalization.

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

Governor Rowland's Continuum of Care

Jan. 1997	No Waiting List Policy Instituted for Home Care Program
Jan. 1998	Home Care Program Waiting List Eliminated
July 1998	St. Jude Congregate Assisted Living Pilot Initiated
Oct. 2000	Home Care Program Eligibility Expanded
May 2001	Assisted Living in Congregates and HUDs Initiated
Jan. 2003	Private Pay Assisted Living Pilots Implemented
July 2004	First of 219 Assisted Living Demonstration Units Come Online
Dec. 2004	Over 500 Individuals Covered Under Medicaid and State-Funded Assisted Living Programs

Offering Human Services, But Controlling Costs

The major restructuring and reform of human services that Connecticut has passed over the past few sessions were both necessary to budgetary balance in the short term, and a necessity if we are to pay for our safety net over the long term.

The changes made were certainly not easy for anyone. But the demographic trends in the state made it clear that taxpayers could not afford such a rich and expensive system over time. Indeed, even today with some of the reforms in place, huge health care inflation and increasing caseloads make it difficult for the state to make ends meet.

Now is not the time to unravel the changes we have made. The state must continue to move down the road of implementing these reforms, recognizing that the state still offers some of the best services and programs to people in need.

The task of implementing what we have enacted in law is a long one and requires negotiations with the federal government through state plan amendments and waivers. It is on this basis that the adjusted budget recommends only minor additional reforms as we seek to implement the other changes in a cautious and fair way.

In some areas, especially in childcare and Department of Mental Retardation (DMR) waiting list services, Governor Rowland is making additional investments based on proven need.

Health care costs still skyrocketing

With 40 to 50 percent of the state budget now devoted to health care costs, spiraling inflation in the health care arena is contracting the amount of money available for all services.

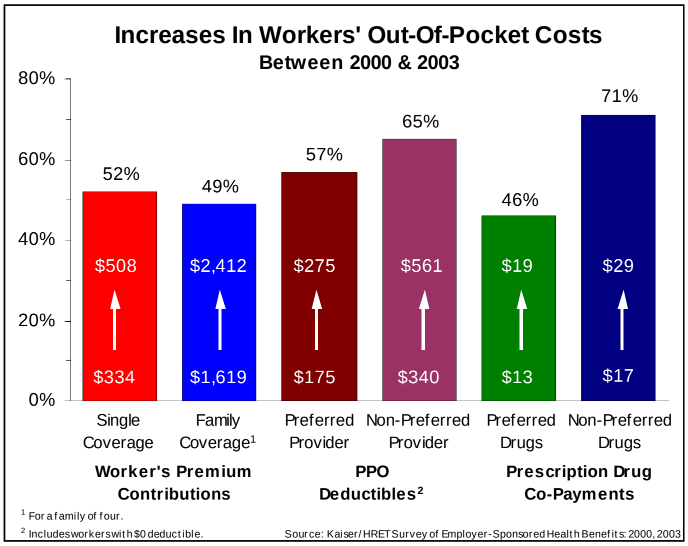
According to an annual survey conducted by the Kaiser Family Foundation and the Health Research and Educational Trust, private health insurance premiums increased 13.9 percent in 2003, the largest increase since 1990. It reported that typical family premiums have increased almost 50 percent over the past three years. In the private sector, employers pay on average 75 percent of the almost $10,000 annual cost for such coverage.

As has often been stated here, the burden on a government offering health coverage to public recipients is even more onerous. For the most part, government covers almost the entire cost of the health care. In most cases, it has little ability to pass on inflationary costs to the insured. In essence, it shoulders 100 percent of the double-digit growth each year.

The Kaiser study noted that firms that were attempting to avoid reducing eligibility or dropping coverage altogether employed various strategies to absorb cost hikes and continue providing employer-based benefits. Employers are hiking workers' premium contributions and are offering policies with higher deductibles and co-pays.

As is shown in the graphic, workers' premium contributions increased by about 50 percent for both single and family coverage from 2000 to 2003. Deductibles for preferred provider organizations, which is the most offered worker health plan at 54 percent, increased 57 percent for preferred providers and 65 percent for non-preferred providers. In the area of drug co-payments, co-payments for preferred drugs increased by 46 percent and 71 percent for non-preferred drugs. Co-payments for office visits in the most affordable type of health plan, HMO coverage (which covers about 24 percent of workers), are going up as well. The survey also found that 86 percent of workers are now in tiered prescription drug plans, and the popularity of three-tiered plans is increasing year by year.

While those in need of public health benefits are of extremely modest means, given the annual cost increases it does not seem unreasonable to employ similar strategies to those used in the private sector. As with the private experience, the state has elected several strategies over the past several years. It has begun mandating that Medicaid recipients pay nominal co-pays on drug and other services. A new state law will allow the charging of premiums for some covered Medicaid groups. Finally, as is the case in the private sector, the state is beginning to reduce the depth and breadth of the Medicaid benefit. In fact, it is trying to migrate the benefit level more toward the private sector plans.



While the benefit package will never be as trim as most private plans and co-pays and premiums will never be as aggressive, these strategies are important to pursue even in state government given the demographic trends in the state and nation. With the aging boom hitting us by the day, the sheer magnitude of the costs would cripple the state budget and taxpayers if we don't share the burden of the cost of health care. More to the point, the state has had to eliminate some eligibility groups recently. The charging of nominal co-pays and premiums and the trimming of benefits will mean we have more dollars in the future to cover existing and new clients.

In the end, adopting these strategies means covering more people with quality health care. Abandoning it means covering fewer and fewer people with an extremely generous benefit and denying altogether health care to others that need it. The equities of the strategy adopted are clear.

Human services updates to the adopted budget

Based on a reestimate of current services and before factoring in any new initiatives, the Governor's proposed budget reduces the Department of Social Services' FY 2004-05 appropriation by $3.2 million. While in the aggregate this change is minimal, there are significant shortfalls in several accounts that are being offset by downward technical revisions in other accounts.

There are additional requirements beyond the levels appropriated in the following areas:

- ConnPACE -- An additional requirement of $11.4 million is anticipated primarily due to higher costs per claim than were originally budgeted.
- Temporary Family Assistance – An additional requirement of $11.3 million is anticipated due to caseload trends. It had originally been anticipated that caseloads would have declined at a more rapid pace in FY 2003-04 and FY 2004-05. Yet, apparently as a result of the recent economic downturn, individuals stayed on assistance for a longer period of time.
- State Administered General Assistance – An additional requirement of $9.0 million is anticipated due to higher than budgeted costs for pharmacy services. The anticipated implementation of the federal supply schedule under the 340b discount drug program through federally qualified health centers will

Caseload as of December 2003
(or as noted)

Managed Care	
HUSKY A	297,192
HUSKY B - *(bands 1 & 2 only)*	13,906
Medicaid Fee-For-Service - *as of November*	102,940
Nursing Homes	
Licensed Beds (all payors)	31,083
Medicaid payments	20,315
Aid to the Aged, Blind and Disabled	
Aged	5,446
Blind	107
Disabled	12,598
TFA (Paid Cases)	24,692
ConnPACE	52,086
Home Care	
Waiver - *as of November 30*	9,514
State Funded - *as of November 30*	4,066
SAGA	
SAGA - Medical	26,655
SAGA - Cash	4,028

not net the state the additional savings as originally included in the budget. It would appear that the state's implementation of a maximum allowable cost reimbursement system for generic drugs has already saved a significant portion of the savings that were anticipated from the federal discount program.

- Medicaid – An additional requirement of $4.2 million is anticipated due to higher costs in hospital and pharmacy services as a result of higher utilization, as well as higher nursing home costs due to homes in receivership status. These increased costs are partially offset by significant savings resulting from lower utilization in the home health area. Additional dollars were also put in the adopted Medicaid budget because of slowness in adopting some of the very complex reforms adopted in earlier sessions.
- CT Home Care Program – An additional requirement of $2.1 million is anticipated due to a higher number of individuals entering the program. Caseload is projected to grow approximately 8 percent over FY 2003-04 levels.

These shortfalls will be partially offset by lapses in the following accounts:

- Aid to the Aged, Blind and Disabled – A lapse of $11.1 million is projected due to the continued decline in eligible cases. The majority of this decline is within the Aid to the Disabled, Other Living Arrangement category.
- Child Care Services - TANF/CCDBG - A technical revision downward of $30.1 million in the adopted budget line item was made due to two circumstances. First, there is a lessened need for childcare services on the part of current or former TANF recipient parents who either have not been able to enter the work force or have lost their employment. Part of this is due to rigorous rules that are being proposed for reform. (This is outlined later in this section.) Second, intake to the "Care 4 Kids" non-public assistance portion of the program has been frozen for some time, which has meant that expenditures did not grow and in fact have declined dramatically. Needs in this part of the program have also been reduced because of the loss of jobs in the state. A proposal to reopen this part of the program is outlined later in this section.

SAGA restructuring update

Because of the continued growth in State Administered General Assistance (SAGA) expenditures and the failure of past efforts to scale back the program, SAGA was significantly restructured this past year. Cash assistance benefits for recipients determined to be unemployable and for recipients deemed to be transitional with no rent costs were significantly reduced. The Governor is proposing no changes to the cash benefit portion of the SAGA program in his adjusted budget.

State Administered General Assistance
(in millions)

	FY 05
Cash Assistance	$10.5
Hospital Services	47.0
Pharmacy Services	37.0
Primary Care	18.0
Ancillary Services	10.0
Total	$122.5

In addition, under the restructuring law, medical assistance payments are now capped and recipients must obtain services from hospitals, federally qualified health centers (FQHCs), or other providers designated by the DSS commissioner. In order to live within these dollars, medical providers will need to operate as efficiently as possible to ensure the necessary services continue to be provided to SAGA recipients.

The hospital portion of the medical side was implemented January 1, 2004. Due to start up delays and the greater level of coordination required, the non-hospital restructuring is expected to be implemented no later than July 1, 2004. The accompanying table reflects the allocation of dollars under the Governor's revised budget for SAGA for FY 2004-05. The Ancillary Services line item includes such services as emergency transportation, lab and x-ray, and durable medical equipment, as well as any administrative costs that may occur as part of the restructuring of the non-hospital piece. The Primary Care line item includes primary care services provided by hospitals, FQHCs, and physicians. The Hospital line item is for hospital inpatient and outpatient services. The pharmacy benefit will be administered by an MCO hired on an Administrative

Services Organization contract and it is anticipated that the MCO's formulary will be used.

$8.5 million was added to the SAGA account in the adjusted budget principally because of inadequate resources for the pharmacy program. A major reduction was taken for the pharmacy program in anticipation of deep discounts through the 340b federal discount program to which the FQHCs have access. The fact is that the major reform already implemented regarding payments for generic drugs has decreased the potential for significant 340b savings. The department will continue to work with the FQHCs to maximize any remaining 340b savings.

Update on Medicaid restructuring

The Department of Social Services is continuing efforts to redesign the Medicaid program for individuals who receive benefits through both fee-for-service and managed care to more closely resemble commercial insurance plans. As was noted last year, the Governor has urged the federal Department of Health and Human Services to modernize the nearly 40-year-old Medicaid program by allowing states greater flexibility in administering the program. Governor Rowland continues to believe substantial restructuring is necessary in the Medicaid program and has directed DSS to prioritize their efforts and have in place by January 1, 2005, a restructured benefits program under Medicaid.

Total Medicaid Expenditures
Current Services

FY 98	$2,040,051,995
FY 99	1,997,914,881
FY 00	2,216,850,194
FY 01	2,372,948,235
FY 02 *	2,553,039,884
FY 03	2,703,244,570
FY 04 Est.	2,803,200,000
FY 05 Fcst.	2,888,700,000

* Beginning in FY 02, Medicare Buy-in, Reinsurance and School Based Child Health were removed from the appropriation as these dollars were net funded in accordance with budgetary authority. In FY 05, these areas are expected to total $98.5 million.

One proposal under consideration involves approval by the federal Centers for Medicare and Medicaid Services to implement a HIFA waiver. Under this format, Connecticut would implement a range of plans tailored to the needs of various populations. The broadest coverage would be the existing Medicaid benefit package and would be maintained for long-term care residents and special needs populations, but would be linked to managed care for those dually eligible for Medicare and Medicaid and may include an expansion of home care alternatives.

The next band of coverage would be essentially the same benefit package provided to children under HUSKY A and would include Early and Periodic Screening, Diagnostic and Treatment (EPSDT) services. The state would explore with the federal government whether any type of cost-sharing would be appropriate.

Department of Social Services -- Existing Budgeted Initiatives

Initiative	FY 04	FY 05
Eliminate HUSKY Coverage for Certain Adults	(8,853,120)	(35,412,000)
Restructure SAGA	(15,965,270)	(22,954,949)
Restructure Home Health Reimbursement	(15,900,000)	(15,900,000)
Phase-In Preferred Drug List	(1,250,000)	(12,500,000)
Implement Co-Pays under Medicaid	(9,900,000)	(11,250,000)
Implement Decision Support System	0	(8,300,000)
Implement Transfer of Assets Changes	0	(7,500,000)
Eliminate Continuous and Guaranteed Eligibility	(7,000,000)	(7,000,000)
Restructure HUSKY A Benefits	0	(5,600,000)
Restructure DME Purchasing	(420,000)	(3,220,000)
Implement Disease Management	0	(1,700,000)
Eliminate Presumptive Eligibility	(2,800,000)	(3,000,000)
Reduce Dispensing Fee to $3.30	(2,175,000)	(2,900,000)
Revise FQHC Payment System		(2,600,000)
Restructure HUSKY B	(1,200,000)	(2,400,000)
Implement Dose Optimization	0	(1,000,000)
Institute ConnPACE Asset Test	(109,800)	(960,600)
Nursing Home Receivership	16,800,000	16,800,000

A more commercial band of coverage would be provided for all of the non-disabled, optional coverage groups in Medicaid (adults and children) and all children enrolled in Title XXI. Coverage would adhere to a commercial benefit package or choice of packages, with commensurate cost-sharing and benefit maximums, and could be provided through a variety of mechanisms including: direct enrollment and premium collection by DSS; subsidies to target eligibles for employer-based coverage; and perhaps even state or federal tax credits. Successful implementation could result in the creation of a public-private purchasing collaborative for the state.

The final band would be non-entitlement based coverage for single adults and would be analogous to the current SAGA program.

As part of the HIFA waiver and restructuring concept, Governor Rowland has directed both DSS and the Office of Health Care Access (OHCA) to start the process of establishing a small employer health insurance subsidy program as a way to improve access to health care while focusing on the need to reduce cost. Connecticut, utilizing the HIFA model, would establish a capped non-entitlement program for up to 6,000 enrollees. Federal reimbursement for such an initiative could be as high as 65 percent.

While the precise nature of this restructuring is subject to federal approval, the Governor nonetheless believes it is important to move ahead with the process of planning the restructuring with an effective date of January 1, 2005. This initiative is expected to result in savings of $5.6 million in FY 2004-05 and $15.0 million in FY 2005-06.

Restructure managed care pharmacy, dental and behavioral health benefits

The Medicaid managed care program has been extremely successful since its launch in the mid 1990s. For the vast majority of recipients, it has meant better outcomes and access to preventive services. But there are some deficiencies. States' nationwide struggle with ensuring access to dental services for children, whether provided through a traditional fee-for-service environment or through managed care. More importantly, some of the state's children with the most acute behavioral health conditions are in need of enhanced services. As committed as the managed care organizations are to the state's program, the system provides no incentives to offer the services these children really need.

HUSKY Caseload

	HUSKY A Children	HUSKY B Children
Jun-97	164,665	-
Jun-98	166,858	80
Jun-99	174,328	3,479
Jun-00	176,558	5,586
Jun-01	170,878	8,281
Jun-02	191,027	12,401
Jun-03	211,357	14,665
Jun-04 Est.	207,252	15,854
Jun-05 Fcst.	220,452	17,642

The Governor proposes restructuring the existing managed care system, leading to a better coordinated, more efficient managed health care system, and which should result in significant savings over time. This restructuring, which will coincide with the anticipated October 1, 2004 managed care contract renewal, will result in distinct pharmacy, dental, and behavioral health services for the approximately 300,000 individuals enrolled in managed care under the HUSKY program.

The goal of the dental restructuring is to create a system whereby a dental benefits manager will coordinate coverage among private dentists and community-based programs. This coordination will help increase access to dental services, enhance oral health education, and improve medical outcomes.

Behavioral health services will be handled through the Behavioral Health Partnership, an innovative collaboration of public agencies to reduce service system fragmentation and implement more community-based programs as outlined later in this document.

For pharmacy services, the Department of Social Services will consolidate management of benefits under a single entity such as an independent pharmacy benefit manager (PBM) or an existing MCO. It would feature one formulary for all recipients.

Managed care organization rate increases

Governor Rowland recognizes the importance of having a strong managed care system in order to serve over 300,000 of Connecticut's low-income Medicaid clients participating in the HUSKY A and HUSKY B programs. Over the past several years, the number of providers in the managed care program has decreased markedly from about a dozen to four at this point. Over the past year or two, several of the companies have expressed concerns about remaining in the program because of cost constraints. The state had to offer HMOs a 4 percent rate increase as of October 1, 2003 in order to preserve the program and ensure adequacy of the networks.

To assure viability of the health plans participating in managed care, the Governor proposes a 2 percent rate increase effective October 1, 2004, at a cost in FY 2004-05 that is projected at approximately $9.9 million. These dollars were added to the original adopted budget.

Total FY 2004-05 costs for HMO rates, including annualization of the current year rate increase and the new proposed increase for next fiscal year, will be $27.8 million.

Hospital inpatient rate increases

In October 2003, OHCA reported that the overall financial status of Connecticut's acute care hospitals weakened in FY 2001-02. The OHCA analysis noted that the percentage of hospitals with a negative operating margin increased to 39 percent from 35 percent in a single year.

Unfortunately, despite efforts to contain growth, medical costs continue to soar each year, with malpractice expenses alone increasing 55 percent. With the state facing financial crises over the last two years, hospital rates have remained constant and no new Medicaid rate increases were proposed.

FY 04 Distressed Hospital Rate Relief

Windham	Waterbury
New Britain	St. Mary's

In an effort to ensure that our state's general hospitals receive the resources they need to provide vital services, Governor Rowland is proposing to adjust reimbursement levels over a four-year period, beginning in the current fiscal year.

Three-Year Hospital Rate Increase Plan

<u>Hospitals Helped in FY 05</u>

Backus	Middlesex
Bridgeport	Midstate
Bristol	Milford
Danbury	Rockville
Day Kimball	Sharon
Hungerford	Stamford
Johnson Memorial	

<u>Hospitals Helped in FY 06</u>

FY 05 hospitals listed above plus:

Griffin	St. Raphael
Lawrence Memorial	St. Vincent's
St. Francis	Windham

<u>Hospitals Helped in FY 07</u>

FY 05 and FY 06 hospitals listed above plus:

Hartford	New Milford
New Britain	

Four hospitals with dire financial situations and in need of immediate relief (Windham, New Britain, Waterbury and St. Mary's) received rate adjustments this fiscal year. The Department of Social Services has reviewed these hospitals' financial records and, in accordance with DSS regulations, established an appropriate level of financial relief. Approximately $2.0 million in deficiency funding is earmarked in FY 2003-04 to assist these four hospitals.

The FY 2003-04 adjustment only stems some immediate problems. Recognizing that many of Connecticut's hospitals are in need of financial relief over the longer term, Governor Rowland is proposing additional adjustments to hospital inpatient rates over the next three years.

Beginning on October 1, 2004, general hospital inpatient Medicaid rates will be revised to create a floor, and hospitals with discharge rates below this level will receive rate increases. In FY 2004-05, the cost per discharge will increase to no less than $3,750 effective October 1, 2004, at a cost of $2.27 million. The second year, the cost per discharge will be increased to no less than $4,000 effective October 1, 2005, at a cumulative cost of $5.0 million. The third year, the cost per discharge will be increased to $4,250 effective October 1, 2006, at a cumulative cost of $8.0 million. Hospitals with rates that exceed the floor will continue to be reimbursed at the higher level. No hospital will see a reduction under this proposal. In total, through FY 2006-07, hospital rates will increase by $10 million statewide. By October 2006, 24 hospitals will have seen rate increases, 22 hospitals will be at the $4,250 floor, with 8 hospitals above it.

Why has the administration chosen this course to increased Medicaid hospital reimbursement? The financial position of the state would not allow broad-based rate increases for every hospital for the foreseeable future. Some hospitals receive much higher per discharge reimbursement solely because of the arcanities of the state's antiquated TEFRA rate methodology system. Given the financial difficulties of the state, it makes the most sense to target what limited resources the state will have to the most needy and most under-reimbursed hospitals. The three-year plan moving forward would also give the state time to contemplate alternatives to the existing rate system.

While no increases are in the budget for outpatient rates, our hospitals' financial status will be strengthened because of these inpatient rate realignments.

Total hospital rate increases, including annualization of the current fiscal year increase and the new rate add for FY 2004-05, will be $4.8 million.

The adjusted budget does not change the original adopted amounts for the regular uncompensated care program ($63.7 million) and urban hospital uncompensated care ($31.6 million).

Hospital equipment fund

Numerous hospitals are having difficulty gaining access to the credit markets to finance critically needed medical technology improvements. The inability to have state-of-the-art equipment endangers hospitals' fiscal health, but also impacts the quality of life and public health of the citizenry.

As such, the Governor is proposing legislation that would allow the Connecticut Health and Education Facilities Authority (CHEFA) to back up to $100 million in hospital purchases. The CHEFA bonds would be supported by a state Special Capital Reserve Fund (SCRF) mechanism to enhance the credit-worthiness of the bonds.

Chronic disease hospitals and ICF/MR rate increases

Due to the financial difficulties of some other Medicaid providers, Governor Rowland is proposing some additional targeted rate increases.

A 2.0 percent cost-of-living adjustment for Chronic Disease Hospitals (CDHs) effective July 1, 2004 has been included in the adjusted budget. This will have a new cost of about $1 million in FY 2004-05. Because of the financial distress of the state's largest CDH, Hospital for Special Care, rate relief of $2 million was given this fiscal year and $2 million in additional dollars for annualization of the FY 2003-04 rate adjustment was added in the FY 2004-05 adjusted budget as well. Thus, the total added in the adjusted budget is $3 million.

A 5.0 percent cost-of-living adjustment, effective October 1, 2004, is included in the adjusted budget for private Intermediate Care Facilities that serve the mentally retarded. In adding these dollars, Governor Rowland recognizes the difficulties faced by these providers in treating these vulnerable populations as the facilities struggle with rising costs, changing case mix, hard to serve clients and specialized health care staff. In FY 2004-05, this adjustment amounts to just over $2 million.

Private provider rate increases

The state's human service private provider sector, which accounts for about $1 billion in state expenditures in numerous state agencies, did not receive a COLA increase in the current fiscal year. The original adopted budget provided for $7.8 million in private provider COLA increases for FY 2005. The Governor's adjusted budget calls for retaining that amount of money, which will provide a 1 percent rate increase effective October 1, 2004.

Enhanced Provider Rates
(in millions)

	FY 04 Rate Change	New Cost	FY 05 Rate Change	Annualize FY 04 Incr.	New Cost	Total
Managed Care/ HMO's	4% eff. 10/1/03	$13.4	2% eff. 10/1/04	$17.9	$9.9	$27.8
Acute-Care Hospitals	[1]	2.0	[2]	2.6	2.2	4.8
Chronic Disease Hospitals	[3]	2.0	2% eff. 7/1/04	2.0	1.0	3.0
Nursing Homes	--	0	1% eff. 1/1/05	0	4.9	4.9
ICF/MR's	--	0	5% eff. 10/1/04	0	2.1	2.1
Home Health Agencies	[4]	3.8	--	3.8	0.0	3.8
Private Providers	--	0	1% eff. 10/1/04	0	7.8	7.8
Total		$21.2		$26.3	$27.8	$54.1

[1] Four hospitals (St. Mary's, Windham, New Britain and Waterbury) received rate adjustments in FY 04 due to dire financial circumstances.
[2] Proposed legislation will establish a minimum cost per discharge level of $3,750. Levels will increase over a three year period.
[3] Hospital for Special Care was granted a rate adjustment effective 7/1/03.
[4] Rates were readjusted upward as initial rate changes from last year's Deficit Mitigation Plan exceeded budgetary intent.

The dollars included in the budget could have also been used to provide a full year 0.75 percent increase. While the 1 percent would be effective October 1, it provides for a higher base of ongoing funding in the outyears and is the preferred option for allocating the funding.

Pharmacy changes

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

Medicaid Pharmacy Expenditures
Excl. Managed Care - Current Services

FY 98	$153,743,170
FY 99	176,954,607
FY 00	207,774,780
FY 01	237,908,812
FY 02	277,283,583
FY 03	316,649,157
FY 04 Est.	343,204,733
FY 05 Fcst.	375,796,386

Drugs are the fastest growing segment of the health-care market, but still only account for just over 10 percent of total health-care spending. According to Managed Health Care Executive, retail spending on drugs in 2001 was $155 billion, up from $79 billion in 1997. Year-over-year growth in that four-year period averaged 18.3 percent.

The Centers for Medicare and Medicaid Services reported recently that spending on prescription drugs rose 15.3 percent in 2002, down from 15.9 percent in 2001. Various studies predict that drug spending will have increased by about 15.5 percent in 2003, or 14 percent at the low end and 18 percent at the high end. From 2002 through 2012, drug spending is expected to increase by about 11 percent annually. While the growth rate is still vigorous, the long-term trend is projected to be down because of the introduction of tiered formularies, increased use of generics, and fewer new blockbuster drug introductions.

Estimated Pharmacy Costs
(in millions)

	Actual FY 02	Actual FY 03	Est. FY 04	Fcst. FY 05
Dept of Social Services	$396.6	$483.8	$523.0	$541.5
Dept of Mental Retardation	0.4	0.5	0.5	0.5
Dept of Mental Health and Addiction Services	7.0	7.6	7.3	8.0
Dept of Correction	12.9	14.3	14.6	14.7
Dept of Children and Families	0.6	0.7	0.8	1.0
Workers' Compensation	0.9	1.3	1.6	1.8
State Employees	91.0	92.8	110.6	133.4
Teachers' Retirement	10.7	11.5	13.7	16.4
Grand Total	**$520.1**	**$612.5**	**$672.3**	**$717.3**

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

Increased utilization and prescribing is strongly linked to the advent of direct-to-consumer advertising and requests for certain drugs by doctors. Indeed, a report from the National

Institute for Health Care Management found that nearly half of the $20.8 billion increase in drug spending in 2000 was tied to increased sales of heavily advertised drugs. Interestingly, the report found that the spending increase was more a result of increased prescriptions for the 50-most advertised drugs rather than from higher prices for those drugs. Not coincidentally, those drugs are among the top ones taken by Connecticut clients.

Estimated Pharmacy Savings (DSS)
(In Millions)

	FY 04	FY 05
Ongoing Initiatives:		
Maximum Allowable Cost	$9.8	$10.8
Prior Authorization / Generic Substitution	3.4	5.5
Phase-In Preferred Drug List	1.2	12.5
Nursing Home Drug Return	1.0	1.0
Maximize Dosage Efficiencies	-	1.0
Expedite Brand to Generics (Bush Administration)	-	0.6
New Initiatives:		
Reduce Average Wholesale Price by 2%	-	7.2
Reduce Dispensing Fee from $3.30 to $3.00	-	2.4
Restructure MCO Pharmacy Programs	-	2.3
Total Savings	**$15.4**	**$43.3**

The state budget saw drug costs increase between 10 and 20 percent annually for the past several years. In the current fiscal year, under the Medicaid program (fee-for-service and managed care), DSS will spend an estimated $413.2 million. That will increase to $451.8 million in FY 2004-05, an increase of over 9 percent before savings proposed by the Governor. Total statewide FY 2003-04 pharmacy spending is expected to be $672 million. In FY 2004-05, that is expected to increase to $717 million, or about 7 percent.

Connecticut has little control over the vast majority of its pharmacy costs because of federal rules governing cost. But the projected increase for next fiscal year is down because the state has implemented a number of cost-saving initiatives that are bearing fruit.

The Department of Social Services has implemented a generic substitution program as well as a prior authorization program run by an experienced Administrative Service Organization (ASO), and has implemented a nursing home drug return program and a maximum allowable cost schedule for generic drugs. The Bush Administration's plan to expedite the movement of drugs off patent will result in further savings.

With the generic substitution and prior authorization programs now on line, the administration is actively implementing the new preferred drug list legislation that was passed. A Medicaid Pharmaceutical and Therapeutics Committee has been set up. Per statute, the program will be phased in this fiscal year, with the implementation of this initiative targeting three classes of drugs by early FY 2004-05. The first of the drugs, proton pump inhibitors, will be on line during the last quarter of this fiscal year, with the two other drugs coming on line late this fiscal year and early next fiscal year. The implementation of the preferred drug list for the three classes of drugs will save the state $12.5 million in FY 2004-05. The savings are in part the result of the ability of states to demand supplemental rebates from drug makers. Federal courts have recently recognized the federal government's ability to allow states to demand rebates beyond the normal federal Medicaid rebates.

Preferred Drug List: Phased-In Implementation

	Effective
Proton Pump Inhibitors	4/1/04
Second Class of Drugs	7/1/04
Third Class of Drugs	On or before 9/1/04

Why the go-slow approach on implementation? First, there was an outcry among lawmakers and advocates when the administration attempted to push forward on generic substitution resulting in substantial delays in implementing the program. Preferred Drug Lists (PDLs) go far beyond generic substitution and there is not a full awareness of PDLs by lawmakers and advocates. While generic substitution is the substitution of a cheaper exact chemical generic drug for a brand name drug, the use of a preferred drug list is general therapeutic substitution, whereby one drug in the same therapeutic class that does not have the same chemical make-up as another drug is substituted for that drug. Second, there clearly can be health effects of implementing PDLs because the substituted drug is not the same chemically as the prescribed one. The three-drug pilot will help determine the impacts.

DSS will also continue its efforts to implement dosage maximization efficiencies by promoting appropriate dosing as approved by the federal Food and Drug Administration.

The implementation of the cost-saving initiatives noted above and a few others mentioned in an accompanying chart will save the state over $30 million in expenditures in FY 2004-05.

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

- Reduce the dispensing fee for chain, independent and long term care pharmacy providers to $3.00, from the current $3.30. Even with this reduction, Connecticut's pharmacies will still be relatively well compensated. Dispensing fees paid by commercial health insurers are often well below $3.00, with "highly competitive" fees ranging from $1.25 to $1.95, "competitive fees" in the $1.80 to $2.00 range, and fees from $2.20 to $2.75 considered "below competitive."

- Reduce the average wholesale price reimbursement paid to pharmacy providers to minus 14 percent. The current reimbursement rate is minus 12 percent. Based on historical data, pharmacies will continue to make a profit on sales to public assistance recipients. Recent reports from the Office of Inspector General for the federal Department of Health and Human Services have found that pharmacies tend to purchase their brand name drugs for 22 percent below the average wholesale price, with generics purchased at 66 percent below AWP. This is based on surveys in a number of states. In Connecticut, generic drugs are already governed by a maximum allowable cost reimbursement schedule.

Reducing the dispensing fee and average wholesale price reimbursement will save $9.6 million in FY 2004-05.

Eliminating non-critical adult dental services

Medical costs continue to soar, and with Medicaid program expenditures increasing by over 10 percent in the last two years — more than four times the national inflation rate — the Governor believes it is necessary to curtail this growth where possible. Some further modifications to benefits are needed. The adjusted budget is proposing to scale back adult dental services that are optional under federal Medicaid rules. Services that will no longer be covered include basic dental coverage such as routine checkups, evaluations, cleanings, fillings, crowns, root canals and prophylaxis. DSS will, however, continue to provide emergency dental services including dentures, x-ray, limited oral evaluation, emergency treatment of dental pain, and extractions. Under this proposal, DSS will amend its Medicaid state plan to restrict dental coverage for adults age 21 and over.

Eliminating Non-Critical Dental Services for Adults

Services no longer covered	Critical services still covered
Routine checkups	Extractions
Routine x-rays	Emergency treatment of pain
Evaluations	Limited oral evaluation
Cleanings, fluoride treatments	Dentures
Fillings and crowns	X-rays
Root canals	
FY 05 savings: $4.7 million	**FY 05 remaining funding: $7.1 million**

Recognizing that individuals served by the Department of Mental Retardation might be adversely impacted by this proposed change, Governor Rowland has directed DMR to amend the Home and Community Based Services waiver in order to allow the department to fully meet the dental needs of this vulnerable population while ensuring federal financial participation continues. An additional $1.0 million has been provided to DMR to fund dental coverage for their clients. Eliminating optional Medicaid services for non-critical dental services in the Department of Social Services is expected to save $4.7 million in FY 2004-05.

Implement a co-pay for non-emergency medical transportation

While the vast majority of current Medicaid spending is subject to multiple federal mandates, federal law does permit nominal co-pays to be assessed to Medicaid recipients. Under federal rules, Medicaid co-pays cannot exceed 5 percent of the service fee.

Consistent with the imposition of nominal co-payments on drugs and other medical services, the Governor proposes to implement a mandatory $2.00 co-payment for non-emergency medical transportation services. This proposal is similar to a change implemented by Delaware, whereby providers are allowed to charge co-payments as a condition for providing transportation. Delaware's plan was approved by the Centers for Medicare and Medicaid Services last year, and it is anticipated that Connecticut's proposal would also be approved. The FY 2004-05 budget assumes savings of $1.23 million as a result of this initiative.

Bidding nursing home care

Given the high number of bankruptcies and other financial issues adversely affecting the nursing home industry, the Governor is proposing that the Department of Social Services competitively bid long-term nursing home care in the Medicaid program.

Many nursing homes have requested hardship rate adjustments due to low census and financial factors. If all of these adjustments were to be granted, they would destabilize the entire nursing home system as poor-performing homes drain precious resources away from stable ones, reducing the amount of dollars available for rate increases for stable providers. In the past, millions of dollars that otherwise could have meant higher general rate increases have gone into hardship rates. Indeed, the hardship rates now pending would cost the state hundreds of millions of dollars.

A competitive bid would determine which nursing homes are best able to provide cost effective care over the long run. During any bid process, care will be taken to ensure that there are sufficient beds available in each region of the state so as not to inconvenience spouses, family members and loved ones from visiting nursing home residents.

The state does recognize that some homes that are important to the network of nursing home care do need some rate relief. The Governor is sponsoring legislation to lift the absolute moratorium on interim rates passed during the 2003 session.

The original 1 percent rate hike included in the adjusted budget for January 1, 2005 remains funded at a cost of almost $5 million.

Unlike many providers, home care agencies received a rate hike in July of 2003 and are not budgeted for a further increase in FY 2004-05.

Installation of fire sprinkler systems in nursing facilities

In reaction to the February 26, 2003 fire at the Greenwood Health Center in Hartford that resulted in the deaths of sixteen residents, the General Assembly established sprinkler system installation requirements.

Section 92 of Public Act 03-3, June Special Session, specifies that all nursing facilities have approved automated fire-extinguishing systems installed by July 1, 2005. The law requires facilities without automatic fire-extinguishing systems to submit plans to local or state fire marshals and to apply for a building permit for the installation of such systems by July 1, 2004.

There are 251 licensed nursing facilities in Connecticut with 30,551 beds. Thirty-seven facilities, or approximately 15 percent of all homes, have partial sprinkler coverage and thirteen facilities or 5 percent have no sprinkler systems.

Under the Connecticut Medicaid program, payment rates for nursing facilities are set on a cost-based, prospective basis in accordance with Section 17b-340 of the Connecticut General Statutes. The amount of Medicaid reimbursement a facility receives for a fixed asset project is a function of the project cost, the depreciation period, and rate of return applicable in the year the project is completed. The estimated useful life of a sprinkler system, according to industry guidelines, is 25 years. The Department of Social Services has included an adjustment to nursing home rates to amortize the installation cost over this time period.

Under the most favorable conditions, the estimated cost for installing a full fire extinguishing system in 17 facilities is approximately $3.4 million, with another $3.9 million estimated for the expansion of existing systems in 33 facilities. The total cost for the 50 facilities in need of expanding or installing a complete fire extinguishing system is estimated at $7.3 million. Because the installation costs are amortized over a 25-year period, the FY 2004-05 budget includes $260,000 for rate adjustments for nursing home sprinkler systems.

Implement a managed care pilot program for clients eligible for both Medicaid and Medicare

The Governor proposes to restructure the unmanaged portion of the Medicaid program by implementing a pilot program for clients eligible for both Medicaid and Medicare (dual eligibles). Generally, under the Medicaid program, the dually eligible individuals constitute less than 20 percent of the total Medicaid eligible population while accounting for 40 percent of total program costs. This disparity will increase over time as new drugs and new technologies are brought to the market to treat an aging population.

The Governor's proposal will encourage the enrollment of dual eligible clients in a managed, capitated system for the acute care portion of their benefit, with a single entity managing that care regardless of whether it is paid by Medicaid or Medicare. Nursing home care would be excluded from the pilot program.

The budget assumes FY 2004-05 savings of $100,000, partially offset by administrative costs of $50,000.

Restructure transitional Medicaid from 24 months to 12 months for HUSKY clients

Under federal law, states must provide transitional medical coverage for up to twelve months for anyone transitioning off state cash assistance when increased earnings make the client ineligible for that cash assistance. As part of Connecticut's original welfare reform program, and at the state's option, families that become income ineligible due to increased earnings have been automatically provided with an extension of HUSKY A coverage for up to twenty-four months.

Unfortunately, as medical costs continue to soar and with Medicaid program expenditures increasing by over 10 percent in the last two years, Connecticut can no longer afford the additional 12 months of optional coverage, and the budget reflects transitional coverage being maintained as required under federal rules. Recipients may still be eligible for Medicaid because of other reasons.

Because this option does not affect client eligibility for the first year, no savings are reflected in FY 2004-05. Savings of $15.9 million are projected in FY 2005-06 due to this change.

The budget continues to assume that the U.S. Court of Appeals in New York will uphold a Connecticut federal district court ruling that allowed the discontinuation of adult HUSKY coverage for those between 100 and 150 percent of poverty. The appellate court issued a temporary injunction barring the recipients' removal from the Medicaid rolls as the court reviews the decision. It is assumed that the review will be done and the decision upheld shortly.

Expand identification of available health insurance to improve third party liability collections

Both state and federal law require that custodial parents receiving Medicaid for their children assign their rights to the state to pursue medical support. Also, under federal law, non-custodial parents are required to obtain health insurance for their children when it is available from their employers at a reasonable cost .

While federal law mandates that a national medical support notice should be served when a new employer is located and financial support is due, there is currently no mechanism in place to find situations in which: (1) the obligor already has, or obtains, insurance through an existing employer, or (2) the obligor is only under an order to provide medical, but not financial, support.

Under the Governor's proposed budget, the identification of cases with insurance would be increased through a regular match of selected cases within the child support automated system. Through a match with a private health insurance vendor, DSS will identify those instances in which an obligor already has health insurance for his child and DSS has not been informed, or has insurance for himself but has not covered his child as required by court order. This information will then be forwarded to the Judicial Department's Support Enforcement Services, which will send the necessary documentation to the employer requesting that the child be covered, as appropriate, based upon the court order. This will allow the state to identify almost 2,000 cases annually in which obligors have health insurance that could be made available to their children who are currently covered under HUSKY A. This initiative is expected to result in net savings of $1,886,500 in FY 2004-05.

Expand probate recoveries

The adjusted budget would adopt a recommendation by the Auditors of Public Accounts to require that certain probate documents be submitted to the Department of Administrative Services regardless of whether there is any indication that the decedent has received state aid.

State law currently requires the probate court to send a copy of the documents to the Department of Administrative Services whenever they indicate that the decedent or the child of a decedent "received aid or care from the state". DAS has the authority to recover the value of the assistance received from the decedent's estate.

In July 2000, the Probate Court Administrator issued a directive requesting that probate courts send all such applications to DAS regardless of whether they indicated that the decedent has received state aid. However, a recent report by the Auditors of Public Accounts found that compliance with this voluntary program varied widely among probate courts. Overall 68.3 percent of the 11,180 applications filed were forwarded to DAS. Only 37 of the 133 probate courts submitted all applications received to DAS.

Even with this limited participation, the voluntary program has resulted in a significant increase in recoveries by the state. The auditors wrote that "The first year of probate recoveries resulting from this cooperative effort (April 2001 through March 2002) showed a dramatic 93.7 percent increase over collections for the preceding 12-month period. Recoveries totaled $11,226,687 for the 12-month period from April 1, 2001 through March 31, 2002; annualized, the projected total for April 2002 to March 2003 is $14,146,898. This would be a 38.3 percent increase over collections for the prior year."

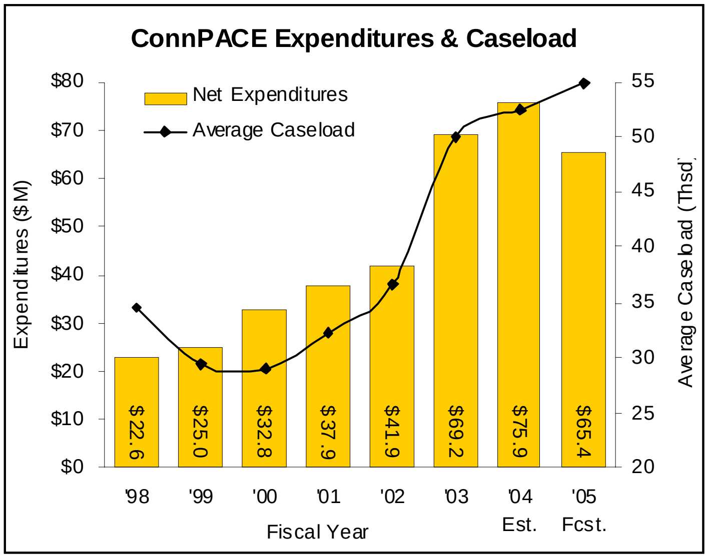
The Auditors' 2002 Report to the General Assembly recommended the passage of legislation to require the probate courts to submit all such documents to the Department of Administrative Services for research and appropriate action. The Auditors estimate that passage of this legislation would increase state recoveries by as much as $3.1 million per year.

Governor Rowland is submitting the legislation as part of his budget proposal. Because of the state's limited experience with the voluntary submission program, no additional revenues as a result of the change have been budgeted in FY 2004-05. However, increased recoveries, similar to those identified by the Auditors of Public Accounts, are expected to result in FY 05 and future fiscal years.

ConnPACE as a wrap around benefit to the Medicare prescription drug program

In December 2003, President Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Public Law 108-173), providing for the first time a prescription drug benefit to all seniors and individuals with disabilities receiving benefits under the Medicare program.

For Connecticut, this new Medicare prescription drug program presents a unique opportunity to coordinate benefits with the state ConnPACE program while leveraging new federal dollars. The opportunity to make use of federal dollars for ConnPACE participants will result in no additional cost and no loss of benefits to eligible ConnPACE participants, but will result in savings to the state.



Governor Rowland proposes that Connecticut move forward to modify the ConnPACE program in FY 2004-05 by making it a wrap-around benefit coinciding with the first phase of the new Medicare program – the Medicare drug discount card. By creating a wrap-around drug benefit under ConnPACE, Connecticut can assure that ConnPACE, with its generous state-funded benefits, is taking advantage of federal funding available through the new Medicare prescription drug program and not footing the bill alone. Also, as a wrap around, the process will be seamless to the client.

As of December 2003, ConnPACE provided prescription drug assistance to over 52,000 elderly and disabled individuals with incomes below approximately 226 percent of the federal poverty level (FPL), almost all of whom are eligible for Medicare. Under the current program, ConnPACE participants pay an annual enrollment fee of $30 and a co-payment for each prescription of $16.25.

As a result of Public Law 108-173, a Medicare drug discount card is expected to be available by June 2004 as an interim benefit until the new federal prescription drug program (Medicare Part D) begins, anticipated in January 2006. The discount card will be available on a voluntary basis to all Medicare beneficiaries, except for those on Medicaid. Those who want to obtain a drug discount card are required to pay a $30 annual enrollment fee. The card is anticipated to offer discounts of up to 10 percent to 25 percent on each prescription, although the base against which this percentage will be applied has not yet been clarified.

Additional benefits are available for those with incomes at or below 135 percent of the Federal Poverty Level (FPL). Medicare will cover the cost of the $30 annual enrollment fee. In addition, Medicare will subsidize the first $600 per calendar year in drug costs. Individuals must pay coinsurance of 5 percent on the first $600 per calendar year if their incomes are at or below 100 percent of the FPL, or 10 percent if their incomes are 100 percent through 135 percent of the FPL. Any balance remaining from the $600 subsidy in calendar year 2004 carries forward to calendar year 2005.

Wrapping ConnPACE Around the Medicare Drug Discount Card
FY 05 Savings Assumptions

Estimated number of ConnPACE enrollees at or under 135% FPL	26,500	
Calendar year 2004 subsidy*	$600	
Estimated value of 2004 subsidy due to cost/rebate differentials from ConnPACE	$400	
Projected value of calendar year 2004 subsidy		$10,600,000
Calendar year 2005 subsidy	$600	
Estimated value of 2005 subsidy due to cost/rebate differentials from ConnPACE	$400	
Adjustment to factor in clients who will not use the full subsidy available as well as those instances where the state will pay a portion of the coinsurance, etc.	70%	
Projected value of calendar year 2005 subsidy		$7,400,000
Gross State Savings		**$18,000,000**
Administrative Costs		**$500,000**
Net State Savings		**$17,500,000**

** Assumes that discount card program is not operational until late June, 2004.*

In order to assure that Connecticut takes full advantage of the federal benefits and funding available through the Medicare program, Governor Rowland proposes that all Medicare eligible ConnPACE participants with incomes at or below 135 percent of the FPL be required to obtain a Medicare drug discount card. This would affect approximately 48 percent of current ConnPACE participants. For ConnPACE participants with incomes above 135 percent of the FPL, the current ConnPACE program would be retained.

Under the Governor's proposal, ConnPACE participants at or below 135 percent of the FPL would be required to spend their $600 per calendar year Medicare subsidy before ConnPACE would assist with the purchase of prescriptions. To ensure that ConnPACE participants pay no additional costs, specific protections will be put in place. If an individual's coinsurance requirement of 5 percent or 10 percent exceeds the $16.25 ConnPACE co-pay, then ConnPACE will pick up the difference. In addition, if an individual has only a minimal balance remaining of the $600 subsidy, then the ConnPACE program will pick up the difference for that prescription, again ensuring that the person will not pay more than the $16.25 co-pay.

In calendar years 2004 and 2005, all Medicare beneficiaries not on Medicaid will have access to the federally sponsored drug discount card. By requiring all eligible ConnPACE participants with incomes at or below 135 percent of the FPL to obtain a Medicare drug discount card, the state will realize a savings in FY 2004-05 from the $600 per calendar year Medicare subsidy of approximately $18 million in prescription drug costs that would otherwise be financed by ConnPACE. This reflects the fact that two calendar years' worth of subsidies ($1,200 per person) are available in FY 2004-05. These savings would be partially offset by administrative costs associated with coordination of benefits with drug card sponsors, system programming charges, mailings, etc. Administrative costs are estimated at $500,000. Thus, the state would realize an estimated savings of $17.5 million in FY 2004-05. The assumptions used to arrive at these figures are detailed in the accompanying chart.

At this time, ConnPACE participants with income over 135 percent of the FPL are not expected to be required to obtain the drug discount card. The Centers for Medicare and Medicaid Services (CMS) has not provided enough information about the level of drug discounts to allow a complete analysis of the potential impact of the drug discount card on ConnPACE for those with incomes in excess of 135 percent of the FPL. Due to the level of manufacturer rebates currently obtained for ConnPACE, it is unclear whether the Medicare discount will provide an advantage for either ConnPACE participants or the state. Should the level of discount prove to be greater than that obtained through the current ConnPACE program, the Governor has proposed requiring those with income above 135 percent of the FPL to participate in the drug discount card program and allowing the Commissioner of DSS to pay the $30 annual enrollment fee.

Making ConnPACE a wrap around program to Medicare now is a crucial step as the federal government moves to implement a more comprehensive drug benefit for seniors. In January 2006, a new Medicare prescription drug program (Part D) is slated to begin providing benefits. Those benefits will be available through prescription drug plans or through integrated health plans that provide prescription drug coverage in addition to other Medicare covered services. By wrapping ConnPACE around Medicare now, eligible individuals can be assured access to the most comprehensive benefit available, while Connecticut can ensure that the federal government does not shift its responsibility to cover drug costs to the state.

In addition, as previously announced, Governor Rowland has decided not to pursue implementation of the ConnPACE estate recovery provisions that were passed last session. Legislation to repeal this provision is included as part of the budget submission.

SAGA transfer of assets lookback

To be eligible for medical assistance under the State Administered General Assistance (SAGA) program, assets cannot exceed $1,000. There is no penalty imposed on individuals who transfer assets in order to qualify for such assistance. Since many of DSS' assistance programs already have some type of transfer of assets policy, the Governor proposes to institute such a policy under SAGA. The penalty period would be calculated similar to the methodology used under the State Supplement program.

The lookback period would be shortened to three months prior to the month of application, to coincide with the maximum retroactive SAGA medical benefit. To determine the length of the penalty period, the amount of the assets transferred would be divided by $500 per month. It is expected that this policy change will, at any given time, impact 8 clients and will result in savings of $19,000.

Federal revenue maximization

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

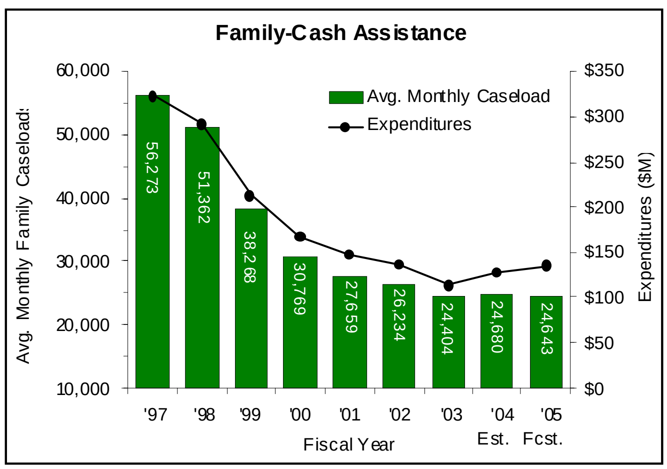
- Pursuing reimbursement for general hospital outpatient services under the Disproportionate Share (DSH) program -- $12 million.
- Pursuing general hospital inpatient and outpatient DSH reimbursement for the DMHAS General Assistance Behavioral Health Program -- $9 million.
- Maximizing claimable expenditures under TANF through child care and education initiatives -- $20 million.
- Enhancing DMR's Home and Community Based Services (HCBS) waiver claim -- $11.5 million.

Federal Revenue Maximization Efforts
(In Millions)

MEDICAID	**FY 03**	**FY 04**	**FY 05**
- Pursue DSH for Connecticut Children's Medical Center	$ 5.1	$ 3.5	$ 3.5
- Incorporate the cost of Social Workers in DSS' standard Random Moment Sampling for Cost Allocation purposes	2.0	2.0	2.0
- Pursue DSH for qualifying public hospitals serving low-income individuals			1.2
- Pursue DSH for qualifying individuals, in a penal institution, who use the services of an acute care inpatient hospital	Full impact not yet final		
- Implement the rehabilitation initiative for Private Non-Medical Institutions (PNMI) beginning July 1, 2002	8.2	8.3	8.3
- Medicare denials related to Home Health services	33.0	15.9	15.9
- Pursue DSH for general hospital outpatient services			12.0
- Pursue DSH for DMHAS GABHP inpatient and outpatient services			9.0
- Maximize DMR HCBS claim			11.5
- Implement a state-of-the-art fraud detection system at DSS			8.0
- Pursue Medicaid reimbursement on education costs at UConn Health Center/John Dempsey Hospital	Full impact not yet final		
TOTAL MEDICAID	**$ 48.3**	**$29.7**	**$ 71.4**
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)			
- DCF Investigations	12.6	12.8	12.8
- DSS Violence Reduction	0.5	0.5	0.5
- DSS Rental Assistance	3.6	3.5	3.5
- DOC Education and Training	4.0	4.0	4.0
- DOC Addiction Services for Non-Custodial Parents	6.0	6.0	6.0
- DSS Child Care			6.0
- SDE Expanded Preschool Slots			14.0
TOTAL TANF	**$ 26.7**	**$26.8**	**$ 46.8**
GRAND TOTAL	**$ 75.0**	**$56.5**	**$ 118.2**

Require employability plan as a condition of granting TFA application

The adjusted budget is proposing to withhold granting Temporary Family Assistance (TFA) applications until the applicant has completed an employability plan at the CT Works One-Stop Center or case management location. All "time-limited" and mandatory employment services families would be required to attend their Jobs First Employment Services (JFES) assessment interview and complete an employment plan at the CT Works One-Stop Center or case management location before TFA cash assistance is granted. This would eliminate delays in client participation in JFES that frequently occur because of a high no-show rate for these assessment interviews.



While savings of $1.1 million in DSS would be achieved by denying applications where no employability plan has been completed, the Governor proposes instead that the $1.1 million be reallocated to the Labor Department's Jobs First Employment Services account so that additional employment services may be provided to TFA clients.

It should be noted that Congressional bills or proposals for TANF reauthorization have a universal engagement requirement and would require recipients of TFA to have a family self-sufficiency plan within 60 days of being awarded assistance. The Governor's proposal will ensure that, should such a requirement become federal law, DSS and DOL will be better able to comply.

TANF high performance bonus

On September 23, 2003, the U.S. Department of Health and Human Services announced that Connecticut was the beneficiary of an $11,745,032 TANF High Performance Bonus. The bonus funds were awarded to Connecticut for its success in employment and other program achievements during FY 2000-01. The state may use these funds for purposes that meet the basic goals of the original federal welfare reform legislation passed in 1996.

TANF High Performance Bonus Funds

	FY 03 Expenditures	FY 03 Carryforward to FY 04 *	New Initiatives FY 05	New Initiatives FY 06	New Initiatives Total
Charter Oak: Women in Transition	$0	$0	$250,000	$250,000	$500,000
DCF: Family Supportive Housing	0	0	720,000	720,000	1,440,000
DOL: Child Care Apprenticeship Program	0	0	200,372	200,372	400,744
DOL: Compliance Intervention Program	315,000	1,485,000	0	0	0
DOL: Enhanced Job Entry Initiatives	0	0	600,000	600,000	1,200,000
DSS: Child Care Certificate Program	1,928,054	2,071,946	4,000,000	0	4,000,000
DSS: Connecticut Charts a Course	539,405	0	0	0	0
DSS: Emergency Shelter Services	0	0	200,000	200,000	400,000
DSS: Employment Success Program	166,430	1,733,570	725,000	0	725,000
DSS: Faith-Based Funding	0	0	100,000	0	100,000
DSS: Fatherhood Initiative	617,785	582,215	200,000	200,000	400,000
DSS: Good News Garage	514,288	300,000	300,000	300,000	600,000
DSS: Transitionary Rental Assistance	46,914	1,953,086	800,000	800,000	1,600,000
DSS: Welfare to Work Transportation	294,752	1,505,248	700,000	0	700,000
Balance to be Carried Forward into FY 05	0	320,712	0	0	0
	$4,422,628	$9,951,777	$8,795,372	$3,270,372	$12,065,744

* $179,288 of the $500,000 originally targeted for OWC's Jobs Funnel will be reallocated to the Good News Garage in FY 04, with the balance to be carried forward into FY 05.

$11,745,032	Latest Award
320,712	FY 04 Carryforward into FY 05
$12,065,744	Total Available for New Initiatives

Toward that end, the Governor seeks, as mandated by federal rules, to appropriate these available funds for use in FY 2004-05 and FY 2005-06. The Governor proposes to use these funds for the initiatives identified in the accompanying chart.

The Governor is seeking new funding for the “Women in Transition” program, an initiative at Charter Oak State College. This innovative program is a distance-learning and technology initiative that assists single mothers in lower-paying jobs in completing their college degrees. Through this program, individuals who are close to realizing a college degree will be afforded the opportunity to do so in the most efficient manner possible. By attaining their degrees, these individuals are much more likely to enhance the economic and social lives of their children.

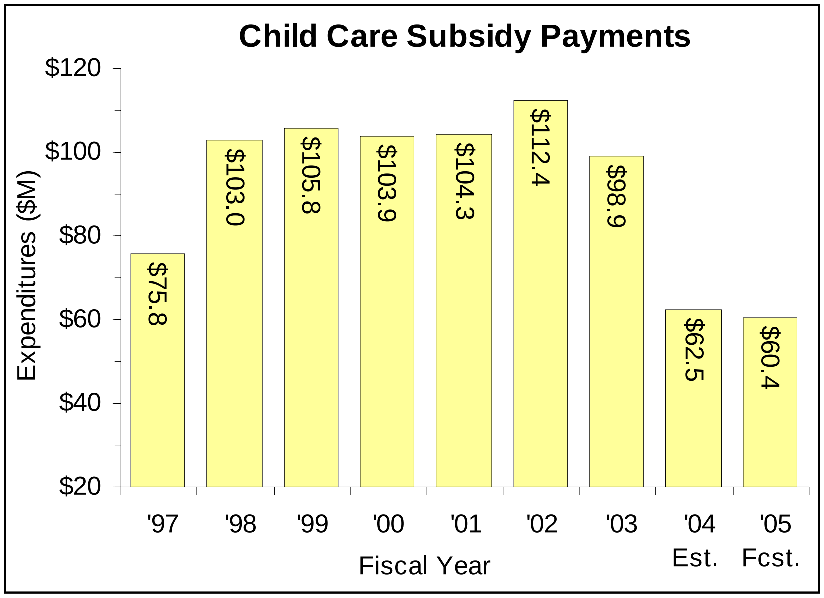
The Governor is also seeking new funding for two initiatives within the Department of Labor, which, as a partner with DSS in the provision of employment services, has contributed to the state’s ability to obtain these federal funds. The new DOL initiatives are to enhance Job Entry and to implement a Child Care Apprenticeship program. The Enhanced DOL Direct Employment Services initiative will augment the existing job placement and retention efforts of the Department of Labor employment services staff by providing additional support services to newly employed participants and participants who are experiencing barriers to retaining employment. The Child Care Apprenticeship initiative will be implemented to serve the needs of the Temporary Family Assistance population.

Expenditures for childcare are noted below. Expenditures for supportive housing vouchers are noted in the DCF section of this document.

The Governor is also proposing to continue expending funds for transitionary rental assistance certificates to the tune of $800,000 for both FY 2004-05 and FY 2005-06, and for welfare to work programs in FY 2004-05 for $700,000.

Reopening childcare assistance program

“Care 4 Kids”, the childcare assistance program administered by the Department of Social Services, provides childcare assistance payments to various categories of families. Families are categorized into priority groups. One of these priority groups, Priority Group 4, includes families who are employed and who do not receive cash assistance through Temporary Family Assistance (TFA). These non-TFA working families must, at the time of application for childcare assistance, have incomes less than 50 percent of the state median income.



Intake for Priority Group 4, formerly known as the Child Care Certificate program, has been closed for some time; however, DSS maintains a waiting list of families who have sought assistance. If the program were to remain closed, current attrition rates would further decrease program participation. In FY 2002-03, the attrition rate for Priority Group 4 families averaged approximately 300 cases per month, and from June 2003 to December 2003, the attrition rate was approximately 250 cases per month.

The Governor has directed the Department of Social Services to reopen the Priority Group 4 portion of the "Care 4 Kids" program effective April 1, 2004. By reopening the program now, an estimated 1,800 working families now on the waiting list will have access to help in paying for child care by the end of FY 2004-05. By reopening intake, the Governor is also rectifying a problem inadvertently created in regulation. Currently, families who successfully transition off of TFA are eligible for continued childcare assistance until their income exceeds 75 percent of the state median income level for that family. If these families lose their employment, and gain new employment and need childcare once again more than six months after transitioning off of TFA, they would be forced to apply for childcare under the now-closed program. The correction sought by the Governor would provide a five-year window in which families successfully transitioning off of TFA could reapply for transitional childcare benefits.

Another category of families adversely impacted by the closure of intake are families who provide foster care and or adoption services for DCF children. As part of the initiative to reopen intake to child care, the Governor is proposing that the DSS Commissioner set aside a certain number of slots solely for foster care and adoptive parents so that they are better able to receive services and maintain employment.

Reopening Child Care Intake

	FY 04	FY 05
Priority Group 2 - Transitional		
Number of Cases Added from Wait List	150	450
Priority Group 4 - Non TFA Working Families		
Number of Cases Added from Wait List - *Includes DCF Foster Care & Adoption set-aside*	600	1,350
Total added by end of FY	**750**	**1,800**

In order to fund the reopening of program intake in April 2004, approximately $2 million in TANF High Performance Bonus funds received in FY 2001-02 will be used. In FY 2004-05, the Governor is also recommending an additional $6 million in general fund appropriations to continue funding for cases entering the program in FY 2003-04 and allowing additional enrollment during FY 2004-05. Further, the Governor is recommending that $4 million of High Performance

Bonus funds, awarded in September 2003, be used to fund the additional cases from the waiting list.

Total funding for this initiative is $12 million through FY 2004-05 from all sources.

Rate and COLA freeze in the aged, blind and disabled program

The rates paid by DSS to residential care homes and other boarding home facilities for services provided under the Aid to the Aged, Blind and Disabled (AABD) program are generally based on a reasonable payment for necessary services. While providing important services, the AABD program has in past years received rate increases when other providers such as hospitals and nursing homes have not. In fact, while rates were frozen for most other providers this fiscal year, the residential care homes received a rate increase of 3.0 percent. Unfortunately, difficult choices must be made with respect to available funding for rate increases. The Governor, therefore, reluctantly proposes freezing rates to these providers, and removing $2.2 million in the adjusted FY 2004-05 budget. No impact is anticipated on federal revenues as the AABD program is not eligible for federal financial participation.

The federal government, effective January 1 of each year, provides recipients of Social Security and Supplemental Security Income with a cost of living adjustment (COLA), based on the percentage increase in the CPI-U. Currently, whenever a recipient of the state-funded AABD program receives an increased federal benefit, that increase is considered to be applied income for the purposes of eligibility in the state AABD program. This applied income reduces state costs. The federal government has announced a federal cost of living increase of 2.1 percent on SSA and SSI benefits. No state-funded COLA is included in the FY 2004-05 budget and state supplement payments will be offset by the increase in the federal benefit. No dollars were included in the original budget for these purposes.

Emergency shelter funding

In recognition of the continued demand for shelter services and the financial difficulties facing many of the state's shelters, the Governor's budget continues the $550,000 added for these services during the last legislative session. In addition, the Governor's budget includes an additional $200,000 in FY 2004-05 and $200,000 in FY 2005-06 for emergency shelters. These funds are being added as part of the Governor's proposed expenditures from the new TANF High Performance Bonus dollars.

Upgrading 211 Infoline's infrastructure

The 211 Infoline program provides an integrated system of help via telephone -- a single source for information about community services, referrals to human services, and crisis intervention. Recognizing the importance of this resource, the Governor has set aside $800,000 to provide necessary system upgrades. About $300,000 of this funding will be carried forward from DSS' FY 2003-04 appropriation. The remaining $500,000 will be funded from DSS' Capital Equipment Purchase Fund (CEPF) allocation.

Reopening DSS office

Due to the travel difficulties many encountered by the closure of the Willimantic office, as well as the special needs of that city, the Department of Social Services will be reopening the Willimantic office in order to ensure that services are accessible to those in northeastern Connecticut. DSS received approval to re-hire a limited number of regional staff within their existing personnel funds. The office will be open to the public three days a week.

Providing support services to veterans

In his adjusted budget submission, the Governor proposes to improve support services to veterans through a reallocation of savings. As a result of better coordination with the federal Department of Veterans' Affairs and better utilizing federal VA health care services, the state Department of Veterans' Affairs will save approximately $200,000 in FY 2004-05 in its operating account. This savings will not impact the availability or the quality of services provided to our veterans.

In order to make the anticipated savings available for the continued benefit of the states' veterans, the Governor is proposing that these savings be utilized to enhance support services. The additional dollars will be used to ensure that adequate transportation exists for accessing VA medical care. These funds will also be used for community improvements, recreational activities and personal growth programming for the residents, such as smoking cessation, physical education classes, library services, and occupational therapy services to help our veterans to recover their full mobility.

Faith-based initiatives

On October 24, 2003, Governor Rowland signed Executive Order 31, which established the first-ever faith-based initiative in Connecticut. Recognizing the rich diversity of faith-based organizations and their historic role in rendering effective service to people in need, Governor Rowland's action charged a FaithWorks Council, comprised of several of his Commissioners and representatives of the faith community, to lead and shape this initiative.

Governor Rowland's vision is that faith and spiritual support in the delivery of social services will be more broadly respected, that the energy and creativity of the faith community will be tapped in new and expanded ways through collaborations with government, and that greater choice will be provided to those who are relying on services — choice of providers and choice of approaches.

The responsibilities of the Council include identifying opportunities for the collaborative involvement of government and the faith community, providing necessary training and technical assistance to faith-based organizations, and developing an annual plan of action.

In meeting these responsibilities, the Governor is calling for a small, but critical, commitment of $750,000 utilizing a number of funding sources, with $290,000 coming from the General Fund and $100,000 proposed to come from the TANF High Performance Bonus. The remaining dollars are from various other federal funding sources.

Funds will be used to sustain a FaithWorks office within OPM, establish regional intermediaries to assure uniform and consistent communication and facilitation, and to create FaithWorks grants to fund faith activities in the areas of prisoner re-entry into the community, employment services, substance abuse reduction, health and aging, and early childhood development.

BESB employment opportunities

Immediately following the closure of the BESB industries program, nearly all workers affected were given work assessments. Many were provided with direct referrals, placement activities, or vocational rehabilitation services. While there were some initial successes, particularly for those who were referred to the Department of Mental Retardation for direct service, it became apparent that a more complex approach was needed to assure that every reasonable opportunity for reemployment was provided to all workers.

A work group consisting of representatives from BESB, DSS, DOL, DMR and OPM reviewed all options available, and consensus was built around an employment model using private contracts with public supports. The aim of the contracts would be to achieve competitive employment among the clients when possible, and supported or sheltered employment when necessary and as selected by the individual.

Following a formal request for proposals, four contracts were entered into in late summer and approximately 60 percent of the former Industries clients are being served under these contracts. The remainder of clients are either being served by DMR, through traditional BESB vocational rehabilitation services, or have chosen to no longer participate.

With initial signs of success and strong interest in program stability as expressed by those being served, Governor Rowland is calling for full funding for contract continuation in FY 2004-05. A total of $800,000 is required and the Governor's recommendation calls for two-thirds of the cost being supported by the General Fund and the remainder supported by BESB's Business Enterprise Fund. The move frees up over $500,000 in the enterprise fund for other services for children and adults with visual impairments.

In addition to contract continuation, the Governor is also recommending the state provide full or supplemental health benefits for Industries clients whose benefits were directly impacted by the closure of the program in December 2003. The mid-term budget adjustments accommodate the cost of this added benefit. Most clients are Medicare eligible. Some are Medicaid eligible as well. Former clients would be eligible for primary insurance if they are not Medicare eligible and would be eligible for the supplemental policy if they are not eligible for Medicaid. Those that are eligible for Medicaid would not have access to the supplemental policy because they could enroll in the Medicaid program.

Rescuing CRIS radio

The Connecticut Radio Information System (CRIS), Inc. is a private, non-profit organization that broadcasts, via FM radio sideband, cable television, and telephone, extensive readings from newspapers and current magazines for people who, because of visual, physical impairment, are unable to use the printed page for information and enjoyment.

Recognizing the organization's important services to the visually handicapped community, Governor Rowland has continually shown support to CRIS radio. The state financed renovations to CRIS radio's facility and has paid its rent for the past five years. This year, when the organization was experiencing some financial difficulties, Governor Rowland gave $50,000, in addition to the $42,253 already budgeted, to CRIS radio and pledged to continue this level of funding in the future.

Continuing the Easy Breathing program

The Easy Breathing program is a professional education program that trains pediatric providers to determine whether a child has asthma, conduct an assessment to determine asthma severity, utilize treatment protocol guidelines for determining proper therapy, and develop individual treatment plans. A data management system has been developed to collect data from the five participating sites and to track program progress.

As of September 30, 2003, 7,039 children have participated in the program at 47 clinics, practices, and school-based health centers and a total of 131 physicians and 36 mid-level practitioners have been trained in the Easy Breathing Program.

The adjusted budget proposes continuing this program at $500,000 through funds remaining in the Tobacco and Health Trust Fund. Funding supports a contract with Connecticut Children's Medical Center to conduct clinical management programs in New Britain, East Hartford/Manchester, Waterbury, New Haven and Bridgeport.

Health district funding reduced

A $1 million reduction is being recommended to the Local and District Departments of Health grant, resulting in a reduction in state support to local and district part-time and full-time Departments of Health. The reduction is distributed to each town on a per capita basis as outlined in statute. Almost $3 million in subsidy funding will remain in the FY 2004-05 adjusted budget.

Health and welfare fees for vaccinations

In 2003, the legislature enacted a health and welfare fee to be assessed against domestic life and health insurers and HMOs. The fee will be used to purchase, store and distribute vaccines for routine immunizations, vaccines to prevent hepatitis, and antibiotics for tuberculosis and communicable diseases. In addition, the fee may be used to provide services needed to collect up-to-date information on childhood immunizations for children enrolled in Medicaid.

The legislation establishing this fee requires the Commissioner of Insurance to use a pre-existing formula, based on covered lives, to determine the fee to be assessed against each company. It was not clear at the time that the law was passed that the formula called for a cap on the amount that any one company would be assessed, with the excess amount being charged to all other companies. To enhance the equity of the health and welfare fee, the Governor is proposing a statutory change effective for FY 2004-05 assessments that would continue to cap the amount assessed against any particular company at 25 percent, but ensure that the excess amount would be paid by the state, rather than charged against other companies.

About $1 million in available general fund revenue would cover the state portion of the $7.1 million appropriation to the Department of Public Health for these activities in FY 2004-05. The aggregate assessments on the companies would drop to $6.1 million. Unfortunately, at this point, there is not sufficient revenue in the current fiscal year to reduce assessments. The assessments already made stand and must be paid by fiscal year’s end. If the revenue situation improves over the next several months, the Governor will consider setting aside some revenue this fiscal year to reduce assessments.

Provide funding for additional medical examiner position

The adjusted budget proposes funding an additional medical examiner position at the Office of the Chief Medical Examiner (OCME). OCME is charged with the investigation of undocumented, suspicious and sudden or violent deaths, which must be completed accurately and in a timely manner. OCME investigates over 16,000 cases annually (over one-half of all Connecticut deaths), and now investigates deaths due to bio-terrorism and plays a critical role in both fatal and non-fatal child abuse cases.

The National Association of Medical Examiners (NAME) recommends a ratio of one full-time medical examiner for every 400,000 persons. Connecticut has operated on a ratio of approximately 1:560,000 since 1990. The City of New York's ratio is 1:250,300 and the State of Rhode Island’s ratio is 1:250,000. Connecticut's ratio is now 1:769,000. Connecticut medical examiners now cover three times the population of our counterparts in adjacent states. NAME also recommends that a full time medical examiner carry a caseload of 200 autopsies annually. Both New York City and Rhode Island meet this standard. Connecticut's ratio is currently 1:359.

In addition to performing postmortem exams, OCME completes follow-up testing, reports and all medicolegal paperwork associated with completion of each individual case. OCME is also responsible for giving depositions and testimony in proceedings all over the state, which impact the judicial system.

The Governor believes that the addition of this physician position will provide OCME with the ability to complete autopsies and case reports more quickly and release remains more rapidly, which is extremely important to the bereaved.

Meeting the Needs of DMR Clients

Despite the financial crisis the state finds itself in, the adjusted budget recommends finally beginning the process of meeting the needs of hundreds of clients waiting for services from the Department of Mental Retardation.

The growing waiting list has been a crying problem for years. The state has begun down the course of providing funding for placements, only to abandon its plans because of spending cap and revenue concerns. When services were added, the state found itself in the position of still seeing the waiting list grow because of growing needs.

In this budget document, Governor Rowland commits the state, through creative use of federal waivers and funds, to a multi-year plan to meet the needs of families and clients, understanding that many of our seniors – in their 60s, 70s and 80s – find themselves struggling to care for sons and daughters in need of services from the state.

Conquering the DMR waiting list

The waiting list represents the single most important issue facing the Department of Mental Retardation and the consumers and families served by the agency. The issue has been raised for several years, with increased attention since the Waiting List Focus Team Report was published in 2000. That report recommended a comprehensive solution. Severe budgetary constraints as a result of the state's fiscal situation over the past few years limited the state's ability to allocate new resources to address this issue. Instead, individuals with an urgent need for residential support could be helped only on a limited basis as vacancies in existing residential settings occurred.

DMR WAITING LIST EXPANSION INITIATIVE
(in Millions)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Expenditures	$4.4	$13.3	$21.0	$29.2	$37.5	$41.3
Revenue	9.5	15.8	20.0	23.8	27.8	29.8
Net Savings/(Costs)	$5.1	$2.5	($1.0)	($5.4)	($9.6)	($11.4)
Number of people receiving new residential supports	150	150	150	150	150	Total = 750
Number of new people receiving enhanced family support	100	100	100	100	100	Total = 500
High School Grads Day Services	175 *					
Ageouts - Residential	34					
Ageouts - Day	52					
DCF/DMR MOA Ageouts	18					
Total Served by end of FY09						**1,529**

* eff. 9/1/04

Following the recommendations of the Waiting List Focus Team and the Council on Mental Retardation, the department has conducted extensive review, analysis and modification of its waiting list prioritization system. The waiting list now includes those individuals in urgent need of residential supports, or enhanced residential supports. These people meet the department's criteria for Emergency or Priority 1 status. Individuals who are in the Priority 2 or 3 categories are in need of residential supports within two to five years. Since their need is not as urgent, they comprise the planning list.

The department reports the following numbers of people on the waiting and planning lists as of September 2003:

	Waiting List			Planning List		
	Emergency	Priority 1	Total	Priority 2	Priority 3	Total
From:						
Home and Independent Living	35	558	593	545	642	1,187
Existing Residential Services*	29	464	493	119	162	281
TOTAL			1,086			1,468

**Over the next several months, the regions will review the urgency and level of need for people in existing services. Numbers may shift between priorities as a result.*

The Governor has tried to meet some of the needs of those waiting for services when possible. In his biennial budget submission last session, the Governor did request $5 million in the current fiscal year and $7 million for waiting list issues. Unfortunately, that was cut to $4 million in year one and $6 million in year two. Further, there were no resources included to serve high school graduates and those leaving DCF services. That waiting list money of $4 million had to be used for these groups and little progress was made on serving those on the waiting list. The $6 million is just sufficient to continue serving the graduates and former DCF clients served this fiscal year.

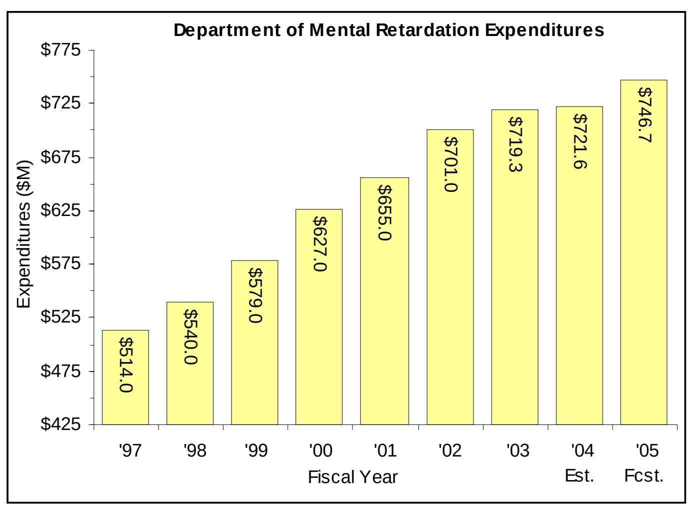
To provide some more relief to the waiting list this fiscal year, the Office of Policy and Management allowed the agency to retain $2 million that would otherwise have been swept from the agency's Personal Services account. Further, $1.1 million in ERIP savings was released to the agency to ensure client safety and continuity of care.

Governor Rowland is now proposing the initiation of a five-year plan to address the needs of a significant number of the individuals on the waiting list. The primary goal of the five-year strategy is to serve more people currently un-served at home, and provide needed supplemental supports to people under-served in their current residential settings. The latter group is receiving services through the Home and Community Based Services (HCBS) waiver but, because of aging or changing needs, the staffing level or the home environment may no longer be appropriate. For the state to assure continued compliance with waiver requirements and qualify for federal reimbursement, supports for these individuals will be enhanced. Most of these individuals are served by private providers. This proposal and the five-year plan will allow the state to make permanent adjustments in resource allocation so that each individual's assessed need for support is met.

The Governor's proposal adds $4.6 million in new funding for residential services in FY 2004-05 to address the waiting list. This funding will be utilized to serve 150 people from the waiting list at an average cost of approximately $50,000 per year. This number includes 120 individuals currently at home, and 30 individuals under-served in existing residential settings.

This is the first phase of a five-year plan to serve 750 people who are on the waiting list with the full range of residential supports they need. This will be accomplished by the end of FY 2008-09 with a comparatively small net cost to the state due to federal financial participation. The plan includes two other essential components:

- Developing a second HCBS Waiver targeted to support individuals who reside with their families or in their own homes. This enhances the capacity of the service system to provide cost-effective, person-centered supports that keep families together.
- Increasing the enrollment of eligible individuals in the existing and newly proposed waiver to further enhance federal revenue for people currently receiving services that are solely state funded. These individuals can enroll in the waiver because the resources to meet their residential needs will be available.



By the end of FY 2004-05, the Department of Mental Retardation plans to have 1,038 people, now in day services, enrolled in a HCBS waiver. Of the 1,038 people to be enrolled, 100 of them are currently on the residential planning list. The department will be able to fund respite and some level of family support for the families of these people as part of this initiative. Almost half of this enrollment will be completed by June 30, 2004, generating additional federal revenue.

Providing resources for high school graduates and ageouts

Persons with mental retardation living at home are eligible to participate in their local public school program until they graduate or turn age 21. Their participation in these day activities not only contributes to their educational experience but also allows their parent or caregiver to maintain employment in order to support the family. Funding for children with mental retardation who require special day and/or residential programs is provided by the local education agency (LEA) and the Department of Children and Families (DCF).

When these clients reach a certain age, usually 21, and "age out" of those particular systems, funding must be provided to DMR to continue day and/or residential programming. In the past, DMR has received an adjustment to its appropriations for these important services to high school graduates and those aging out of the care of LEAs and DCF.

No funding was provided in the biennial budget either for high school graduates or those currently being provided services by DCF. A limited pool of waiting list money was provided in the FY 2003-04 budget, but those dollars had to be diverted just to take care of the needs of the DCF ageouts and high school graduates this fiscal year. Sufficient monies are in the FY 2004-05 budget to continue the services for those served this fiscal year, but no dollars are in the budget for new high school graduates or those leaving DCF services in the coming fiscal year. For the clients supported by these programs, the continuation of funding represents the most appropriate course of action.

So as not to add these populations to the waiting list and potentially disrupt the funding of the new waiting list initiative, Governor Rowland proposes funding for new high school graduates needing services in FY 2004-05 and for those aging into DMR's care during FY 2004-05. These dollars were not previously in the adopted budget. A total of $5.4 million is being added for these two purposes.

This initiative will support 175 new high school graduates beginning on September 1, 2004 at a proposed moderate placement cost of $19,000 per year per individual. This will also support about 86 individuals aging into DMR's care — about 34 individuals requiring residential care at an average annual cost of $66,600, and 52 individuals requiring day services at an average annual cost of $24,000. Because many of these individuals will qualify for waiver services, federal reimbursement will help make this initiative affordable.

Finally, the Governor proposes reallocating $2.1 million from DCF to DMR to support services to eighteen youths who are aging out of DCF's care and for whom DMR is currently providing care under a Memorandum of Agreement between the two agencies. Under this MOA, funding is transferred from DCF to DMR for payment to the service providers who care for these youth. Given that these youths are currently served within DMR's system of care and will continue to be served through DMR as they become adults, this budget reallocates the funds directly to DMR.

Not including the reallocation from DCF, between the waiting list initiative and providing funding for high school graduates and those leaving DCF services, a total of $10 million in new monies is provided for new clients.

DMR conversion plan

During FY 2003-04, the Department of Mental Retardation began implementing its plan to convert 30 publicly operated Community Living Arrangements (CLAs), also known as group homes, to private operation to reduce costs. This major conversion was made possible because of the Early Retirement Incentive Program that was held through June of 2003.

Private entities currently operate over 80 percent of the current CLAs. The trend toward non-public operation of CLAs has been occurring in Connecticut over many years and mirrors national trends. Nationally, most state mental retardation agencies have no publicly operated group homes. Conversion of more-expensive public programs to private ones is an important element of meeting the needs of all clients and those in need of services over the long term. Through conversion, costs can be reduced and be reinvested to meet the demands of those on the waiting list and for better compensation of private providers.

The Governor is proposing to continue the conversion of publicly operated homes to private operation in FY 2004-05. This proposal will affect about 88 staff serving 55 individuals. While the FY 2004-05 proposal is smaller in scale than the FY 2003-04 initiative, it is a realistic effort to redirect resources to privately operated homes as attrition by state staff occurs.

This conversion will continue to provide the following benefits:

- DMR will continue to operate the remaining public CLAs with no reduction in services to the residents.
- All permanent employees in the publicly operated homes to be converted will retain their jobs. In fact this plan will allow the agency to fill existing service vacancies through the transfer of staff to other critical areas.
- Savings resulting from this conversion plan are based on the fact that private entities operate homes less expensively than the state – *with no difference in the level or quality of care*.
- Group home residents will *not* need to be relocated.

While DMR's budget will increase slightly in order to implement this initiative, overall savings accrue to the state when reduced state employee fringe benefit costs paid by the State Comptroller are included. Those savings in the fringe benefit accounts have been reduced from the adopted budget. After slight increases in the DMR and DSS budgets and reductions in the fringe accounts, the net savings to the state will be about $450,000.

Revamp Birth to Three private insurance billing

The Governor is proposing no changes to the Birth to Three entitlement in terms of eligibility or services. The reforms made during the last session are adequate and will help reduce the state's costs over time by $2 million annually. The adjusted budget does, however, propose one provider reimbursement reform.

There are currently 39 Birth to Three service providers. These providers, some of whom operate in more than one region of the state, deliver assessments and ongoing Birth to Three services to eligible children. As a part of their contract obligations, these providers must complete necessary insurance forms so that insurers can be billed for the costs of the delivered service.

Because billing the insurer is voluntary, the provider must obtain the permission of the parent. If parents consent to insurance billing, the service provider is responsible for preparing and submitting the proper forms to the insurer to obtain reimbursement. All third party reimbursements from private insurers are paid to the contracted Birth to Three service providers. Under DMR's current arrangement, the providers keep 100 percent of private insurance reimbursements, but are allowed to bill DMR for an additional 10 percent of the original amount because it assumes providers have administrative costs to bill insurers. It is hard to imagine that administrative costs are 10 percent of each bill, however.

In FY 2004-05, it is estimated that approximately $5.5 million in private insurance reimbursement will be realized in the Birth to Three program. Providers will receive about $5.5 million and be able to bill DMR for about an additional $550,000. In the adjusted budget proposal, it is proposed that providers keep 100 percent of insurance billings but not bill DMR for 10 percent of each claim in addition. Instead, DMR will enter into agreements with providers to give them fixed monies to cover administrative costs of billing. About $250,000 is provided in the budget to rework the incentive payment process so that Birth to Three providers maintain the anticipated level of private insurance billings. This will result in overall savings of about $300,000 in the Birth to Three program.

Fund costs in DMR related to leap year

When the FY 2003-04 budget passed, so-called “leap-year costs” — an extra day of reimbursement every fourth year for providers — were included in all agencies but DMR. To remedy this inequity and to aid private providers, the adjusted budget calls for making available up to $500,000 this fiscal year for leap-year costs.

Investing in Behavioral Health and Alternatives to Incarceration

In this adjusted budget submission, Governor Rowland confirms his and the state's commitment to solving the very real behavioral health crisis in our state and nation.

Around the nation, public behavioral health systems are in crisis. The lack of preventive services – sometimes services altogether – is denying those with mental illness and substance abuse disorders the chance to lead full and productive lives. For too many years, the state's mental health and substance abuse systems have been geared almost exclusively to acute care services. People in need of services oftentimes must become desperately ill before they can find services. At the same time, we know that community-based services would provide important intervention before illnesses become acute. Such services are far less costly and offer the best chance for people suffering from such illnesses to move toward recovery.

The adjusted budget seeks to put us well down the road to introducing quality community-based services that offer the greatest promise to individuals in need of quality behavioral health services.

Implementing the behavioral health partnership

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

The primary goal of the partnership is to improve access, quality, and individual outcomes through a more complete, coordinated and effective system of community-based behavioral health services and supports.

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

The agencies have agreed to coordinate the clinical management and administration of behavioral health services covered under Medicaid fee-for-service, the HUSKY A and HUSKY B programs, the DCF Voluntary Services Program, and the DMHAS General Assistance Behavioral Health Program (GABHP). The integration of behavioral health services covered under the HUSKY program will require that these services be carved out of the existing HUSKY managed care arrangements.

The partnership will contract with an Administrative Service Organization (ASO) to manage certain administrative functions. These services will include eligibility verification, utilization management, intensive care management, quality management, coordination of medical and behavioral health services, network management, recipient and provider services, and reporting. The ASO will operate under a single contract with all three Departments, and is expected to be fully operational by October 1, 2004. Administrative costs associated with the ASO will be covered by existing administrative resources (such as HUSKY capitation payments and GABHP administrative costs), and would be subject to negotiations once an ASO contractor is selected.

Children with serious and complex disorders need access to a range of services and supports in order to live in the community rather than in institutional settings. Effective October 1, 2004, DCF will pilot new services necessary to support children with serious disorders, particularly those children discharged from residential and hospital settings. These new services include comprehensive global assessments, behavior management services, and behavioral health consultation. The partnership's Child Implementation Team will evaluate the effectiveness of the pilot services and will determine the viability of expanding these services in the future.

DMHAS currently funds residential rehabilitation services in mental health group home and substance abuse residential settings. These services assist individuals with serious and persistent mental illnesses in achieving their highest degree of independent functioning and recovery. DMHAS will convert expenditures on adult-grant funded residential rehabilitation programs for Medicaid-eligible clients to fee-for-service. The partnership's Adult Implementation Team will prepare a plan for the conversion of grant funded group home rehabilitation programs to fee-for-service on July 1, 2004, and grant funded substance abuse residential rehabilitation programs to fee-for-service on January 1, 2005. The plan will address provider readiness, service definitions, and certification requirements.

DCF will convert a portion of its grant-funded home-based and extended day treatment services to fee-for-service on or after January 1, 2005. Child guidance clinics, mobile crisis services and care coordination will continue to be grant-funded. The partnership's Child Implementation Team will prepare a conversion plan that addresses service unit codes and definitions, provider readiness, certification requirements, and documentation requirements. The ASO will begin to manage and expand these services to support children diverted from or returning from residential treatment. Conversion to fee-for-service will allow these services to be expanded gradually, as they are needed to support redirection from higher levels of care.

DCF Voluntary Services recipients who are in residential placement are also HUSKY A recipients. Their residential stays will be managed by the ASO effective January 1, 2005. DCF Voluntary Services recipients who are living in the community are not HUSKY A eligible. The ASO will also begin to manage services provided to community-based Voluntary Services recipients effective January 1, 2005.

A minor reallocation of DSS SAGA and DMHAS GABHP program expenditures is proposed in order to align coverage for nineteen behavioral health diagnoses currently the responsibility of DSS to the DMHAS GABHP effective October 1, 2004. The resulting range of diagnosis codes covered by the GABHP will be consistent with most commercial and managed care behavioral health plans.

A new account will be established within each agency to fund services that are intended to be under the partnership. Having a single, flexible account will allow the agencies to shift expenditures between grant and fee-for-service components.

The chart shows that $248 million will be realigned from the Medicaid, HUSKY, SAGA and various DCF and DMHAS accounts to new Behavioral Health Partnership accounts in DSS, DCF, and DMHAS. DMHAS grant realignments will help support adult rehabilitation option services. In FY 2004-05, about $11.8 million will still be in DCF's KidCare account, with about $1.5 million going

Behavioral Health Partnership
Sources of Funding FY 2005

	FY 05
Department of Social Services	
Medicaid	
Inpatient	$17,740,000
Outpatient	4,040,000
Physician	630,000
Clinics	7,500,000
Home Health	49,000,000
Managed Care	29,500,000
FQHC Passthrough	1,300,000
Reinsurance	8,100,000
Other Practitioners and Misc. Services	1,900,000
Total Medicaid Carveout	$119,710,000
HUSKY B Carveout	$1,150,000
SAGA diagnosis codes realigned to DMHAS	$500,000
DSS Total	**$121,360,000**
Department of Children and Families	
Short Term Residential Treatment	$230,000
Day Treatment Centers for Children	1,860,000
Family Preservation Services	88,000
Substance Abuse Treatment	1,083,000
Child Welfare Support Services	34,000
Board and Care for Children - Residential	78,644,000
Individualized Family Supports	177,000
Community KidCare	1,540,000
DCF Total	**$83,656,000**
Department of Mental Health and Addiction Services	
Managed Service System - rehab option	$495,000
General Assistance Managed Care	40,050,000
Grants for Substance Abuse Services - rehab option	305,000
Grants for Mental Health Services - rehab option	2,250,000
DMHAS Total	**$43,100,000**
⇩	
Behavioral Health Partnership	
DSS BHP Account	**$120,860,000**
DCF BHP Account	**83,656,000**
DMHAS BHP Account	**43,600,000**
Total BHP	**$248,116,000**

to the BHP account.

No specific rate changes are proposed in the budget - no resources are added nor savings assumed through the implementation of the partnership. It is anticipated that any resources saved through redirection to less-intensive, community based levels of care will be available to support the enhancement of rates and/or to purchase additional community services. Through the partnership, the behavioral health care system will transition from the multiple payers and rates currently in place (through fee-for-service, managed care capitation, and grants) to a system with a single payer and more consistent rate structure across providers, services, and populations. Ultimately, the structure should recognize and incentivize appropriate care. The partnership budget allows for a rate structure that supports inpatient services in general and psychiatric hospitals; partial hospitalization, intensive outpatient and outpatient services in general and psychiatric hospitals and in clinics; and outpatient services provided by independent practitioners, and a variety of other residential and community-based services. The partnership's recommended level of funding may also allow for enhanced rates for clinics meeting high quality standards and with certain credentials.

Why the BHP is important

The administration is currently working with legislative leaders to pass legislation and agree on the framework and rollout of the BHP. The administration clearly prefers to have an integrated team approach recognized in statute and is hoping to convince the legislature that this fully integrated model makes the most sense. The administration plans on working closely with the legislature throughout the month of February to enact legislation endorsing this model.

While the BHP programs could commence as separate programs in all three agencies, the statutory partnership would provide the best opportunities for cost efficiencies and integration of adult and children's behavioral health services. It would especially aid in crafting services for adolescents and young adults with behavioral health disorders who often fall through the cracks and are in desperate need of services to help them transition from the children's system to adult system. The right kind of services for these clients could save them from decades of acute behavioral health issues moving forward.

For the doubters out there, community-based services for both children and adults work. Right now, we have a model adult system for those enrolled in the GA behavioral health program. Yet, many more adults languish in the Medicaid fee-for-service (FFS) system because there is little or no case management and access to preventive, community-based services.

Data from the GA adult behavioral health program and the adult Medicaid fee-for-service program tell the story. Through management, the DMHAS General Assistance BHP was able to reduce by 62 percent the number of high utilizers of behavioral health services. It has registered an 8 percent decrease in the inpatient readmission rate. There has been a 48 percent decrease in emergency department visits. There has been a 44 percent decrease in inpatient days and a 46 percent decrease in inpatient admissions.

As for the Medicaid FFS system, there were more than 600 high utilizers of inpatient services in FY 2001-02. More than 60 percent of substance abuse clients and more than 40 percent of mental health clients failed to connect to follow-up care within 30 days after an inpatient stay. In addition, the Medicaid FFS system has a high rate of inpatient readmissions within 30 days – more than 20 percent. Emergency department (ED) usage actually rose 27 percent each year from FY 1999-00 to FY 2001-02.

The most telling statistic: the rate of ED visits in FY 2002-03 was more than 80 percent higher for the Medicaid FFS system than in the DMHAS GA behavioral health program.

In short, we have a dual system in Connecticut. While the Medicaid clients are categorically eligible under federal law for care, they are receiving deficient care because they have little or no access to community-based programs and case management. They will continue to be robbed of the chance for stability, success and dignity if the BHP program cannot be launched in the most cost-effective and efficient manner possible.

As for children, the ongoing KidCare program and its integration into the BHP program would finally give children the services they so desperately need. KidCare is based on the cornerstone ideals of providing non-risk services to children in their community whenever possible, that are individually appropriate, that involve the family and are culturally competent.

Currently, these children are served in several different managed care risk programs that are not serving them well. It's clear that the sooner a child is treated for his or her underlying behavioral health problems, the more likely that child will avoid the trauma of severe behavioral health problems in adulthood. The more these children are treated in their communities, the better off they are over the long run. The most severely ill children in the managed care system today are not receiving the behavioral health services they deserve.

The initial roll out of KidCare has been a success. Critical services such as emergency mobile psychiatric services, care coordinators, in-home services, extended day treatment and other wrap-around services are being provided on a pilot basis. More and more children are getting the benefit of community-based services. But we need to take the next step with the Behavioral Health Partnership. As the system matures and with the help of information and utilization management services from the proposed ASO, it is anticipated that the use of expensive residential services will be constricted and the savings from fewer placements and shorter stays in residential programs will fund additional expansions in community services.

Adult Medicaid rehabilitation option

The budget assumes $2.4 million in additional revenue due to implementation of Medicaid coverage of mental health group homes and substance abuse residential services under the adult rehabilitation option. Per statute, up to $3 million of revenue from the rehab option is dedicated to continuing services created by the Community Mental Health Strategy Board described below. The administration also intends to seek statutory language regarding DMHAS certification of providers, for which we believe we have a legislative commitment.

Once the Medicaid state plan amendment, submitted in January 2004, is approved, the administration is committed to moving ahead with mental health group homes and substance abuse residential services under the adult rehabilitation option.

Community mental health strategy board initiatives

Nearly $5 million in Community Mental Health Strategy Board initiatives have been picked up in the General Fund in the past two years. These initiatives are:

Adult Initiatives	
Supportive Housing Pilots	$798,560
Discharge Fund	$496,448
Acute Care Contracting	$200,000
Increased Residential Capacity	$1,108,892
Enhanced Outpatient Services	$735,157
Expanded ACT Teams	$542,486
FY 2002-03 General Fund Pick-up	**$3,881,543**
Children's Initiatives	
Juvenile Justice Intermediate Evaluation Program	$964,800
FY 2003-04 General Fund Pick-up	
Total General Fund Pick-ups for Mental Health Strategy Board Initiatives	**$4,846,343**

A number of Strategy Board initiatives are funded from remaining Strategy Board monies through FY 2003-04. These initiatives are:

Children's Initiatives	
Creation of Statewide System of Intensive In-Home Services	$1,355,510
Flexible Funding for Non-DCF Children Requiring BH Supports	$1,070,000
Early Childhood Behavioral Health Services	$1,320,000
K through 12 Mental Health Support for Education	$1,060,928
Adult Initiatives	
Enhanced Assertive Community Treatment Teams	$670,740
Mobile Crisis and Community Based Respite	$1,211,711
Intensive Supportive Community Services with Housing Options	$3,452,418
Recovery Initiative	$400,000
Total Children and Adult Initiatives	**$10,541,307**

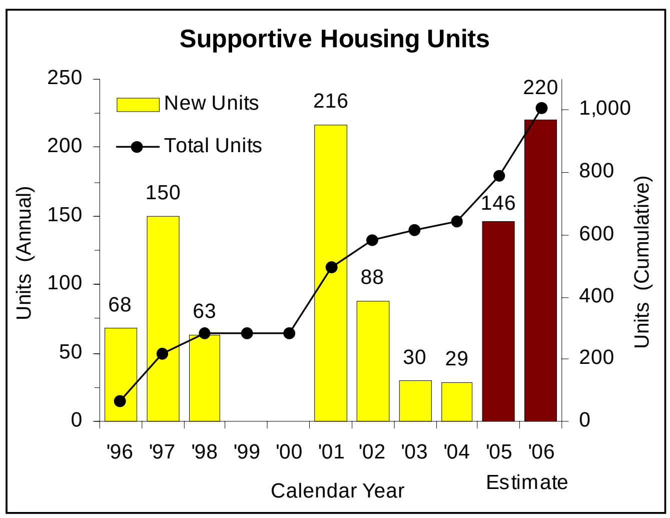
It is anticipated that approximately $2.4 million in revenue from implementation of mental health group homes and substance abuse residential services under the adult rehabilitation option will accrue to the Community Mental Health Strategic Investment Fund. This revenue will help to partially support initiatives funded through the Community Mental Health Strategy Board, which are scheduled to expire at the end of FY 2003-04.

At this point, the adjusted budget could not identify funding to continue some of the more important services funded from the original strategy board monies. While the rehab option money will fund some of the critical components, more services deserve ongoing funding.

The administration will work closely with the legislature to identify funding for these services. One idea: with approved Behavioral Health Partnership and certification language, a management and administrative structure would be in place to potentially expand the rehabilitation option to other services. The administration would be committed to dedicating all of this money to increasing adult mental health services, with the lion's share going to support other critical strategy board services.

Supportive housing initiative

In 1992, the State of Connecticut initiated the Supportive Housing Demonstration Program to provide affordable, service-enriched rental housing for homeless and at-risk populations coping with mental illness, substance addiction, or HIV/AIDS. The Demonstration Program, a joint partnership of various state and quasi-public agencies, began with the development of 281 units of supportive housing in nine communities across the state, opening between 1996 and 1998. In 2002, an evaluation of the program found that supportive housing created positive outcomes for tenants while decreasing their use of acute and expensive health services. In addition, property values in the neighborhoods surrounding the supportive housing increased or remained steady.



The state is presently implementing the second generation of supportive housing and, since 2002, an additional 300 units have been developed for both individuals and families through the Supportive Housing Pilots Initiative, with almost 400 more expected to open over the next three years.

Connecticut remains the first and only state with a comprehensive initiative of this kind, which has won accolades throughout the country as a successful approach to addressing homelessness and expanding community-based options for people with behavioral health disorders. The development of these units offers the best hope of setting many individuals and families on the road to a productive life by sparing them from the treadmill of multiple and debilitating acute care treatments.

To continue the development of supportive housing in Connecticut beyond the next few years, Governor Rowland is proposing to double the number of supportive housing units in Connecticut over the next several years, expand the existing Family Supportive Housing program in DCF by adding funding for 180 additional families, and pilot an innovate supportive housing program for medically fragile children and their families by providing $3 million in capital funding. (These last two initiatives are detailed in the DCF section of this document.)

To begin efforts to double supportive housing in the state, Governor Rowland is establishing an Interagency Council on Supportive Housing and Homelessness charged with developing a plan by September 1, 2004 for the development of an additional 900 to 1,000 units of permanent, supportive housing. The Council will consist of the Commissioners, or their designees, of the Departments of Social Services, Economic and Community Development, Mental Health and Addiction Services, Correction, Children and Families, as well as representatives of the Governor's Office, the Office of Policy and Management, the Office of Workforce Competitiveness, the Corporation for Supportive Housing, and the Connecticut Housing Finance Authority.

The new supportive housing effort will be designed to enable residents to obtain and keep permanent housing, increase their job skills and income, and achieve family stability. Once planning is completed, the Governor is committed to providing the necessary capital and ongoing operating and service funding in his proposed FY 2005-07 biennial budget.

The council will also identify other policy reforms and programs and expansions to lessen homelessness in the state.

DMHAS ERIP reinvestment

In an effort to begin the process of expanding innovative, community-based services in the state and alleviate some of the gridlock in the mental health system, $3 million dollars of DMHAS early retirement funding was released to allow DMHAS to develop and augment programs.

DMHAS
Reinvestment of ERIP Savings

Transitional living program, New Britain	$1,200,000
Flexible discharge funds to support community services	1,000,000
Acute care beds, Charlotte-Hungerford and Stamford hospitals	600,000
Inpatient staffing, Greater Bridgeport Community Mental Health Center	200,000
Total Reinvestment	$3,000,000

Of that amount, $600,000 went toward contracting for acute care beds at Charlotte-Hungerford and Stamford hospitals. This brings to seven the number of hospitals that have acute care contracts in place: Hartford, Middlesex, Waterbury, Backus, and Lawrence and Memorial hospitals. Another $200,000 supplemented inpatient staffing at the Greater Bridgeport Community Mental Health Center, and $1 million was used to create an additional, flexible pool of funds to support community services for persons ready to be discharged from inpatient care, and allowing dollars to be tied to patients.

The final $1.2 million created another transitional living program in New Britain, adding to similar programs already developed in Hartford and New Haven.

Reductions in DMHAS

The adjusted budget is proposing to save $4.2 million through the annualization of several service system restructuring initiatives begun in FY 2003-04 at the time of statewide rescissions. Approximately $1 million is anticipated to be saved through analysis of program performance and outcome measures of all contracted mental health and substance abuse programs funded by DMHAS. Savings will result from the process of rebidding services provided by lower performing programs.

In addition, a savings of approximately $500,000 is anticipated by reducing the length of stay and reoccurrence of inpatient admissions through the assignment of case managers to additional GA clients. These recovery managers will provide peer support, discharge planning and entitlement assistance and will connect clients to appropriate care levels, thereby reducing inpatient costs to the General Assistance Behavioral Health Program.

A net savings of $525,000 is expected by changing authorization practices for residential detoxification for all DMHAS funded clients and emphasizing ambulatory, rather than residential, detoxification, where appropriate. Reductions in residential detoxification expenditures will allow DMHAS to reallocate funding to develop an additional 20-bed recovery house designed to create stable housing needed to link individuals with follow up care and increase ambulatory detoxification slots by 10,000 visits per year.

Another $1 million is anticipated to be saved through the use of intensive outpatient programs instead of partial hospital programs where clinically appropriate. An additional $900,000 will be saved through a review of both privately and state-operated case management programs and development of a more effective and efficient case management system.

Finally, approximately $300,000 will be saved through the adjustment of General Assistance rates for methadone maintenance to no more than the Medicaid rate.

DMHAS management streamlining

In keeping with the Governor's efforts over the past eight years to eliminate unnecessary positions, a reduction is recommended to the DMHAS management structure. The DMHAS managerial work force will be reduced by nine positions through reorganization and attrition. No layoffs are anticipated.

Combining two mental health accounts

Two accounts serving adolescents and young adults transitioning from the DCF system to the DMHAS system are being combined into one account. The Transitional Youth funding is being moved to the Special Populations account. There is no change in funding levels but the one account will provide more flexibility in serving these clients, as well as reorganizing so that there is no distinction between the services and populations funded from these resources.

Regional action councils

The adjusted budget is proposing to save $275,498 in general fund appropriations by eliminating state support to Regional Action Councils (RACs). Sufficient federal funding through the Substance Abuse Prevention and Treatment Block Grant is available to sustain needed activities by the RACs.

Alternatives to incarceration

Section 158 of Public Act 03-06 of the June 30th Special Session established the Alternatives to Incarceration Advisory Committee (AIAC), to specifically address the use and effectiveness of alternatives to incarceration and to present their findings to the Governor, Legislature and the Prison and Jail Overcrowding Commission (PJOC) by February 1, 2004 and again in February 2005. Such recommendations are to be considered by the PJOC for inclusion in their report. The AIAC has discussed some of the following initiatives, and the DOC and the Governor are recommending their implementation using the dollars set aside for these initiatives in FY 2003-04 ($1.95 million) and FY 2004-05 ($3.9 million). Not only are these dollars protected in the adjusted budget, but Governor Rowland has identified additional dollars to augment the activities of the task force.

Alternatives to Incarceration

VOI/TIS Federal Funds Programs:	**Est. FY 04**	**Proposed FY 05**
Women's Community Justice Center	$1,400,323	$2,086,948
Transitional Supervision Beds (3/1/04 Start)	175,500	526,500
Department of Correction Funded Programs:		
Transitional Supervision Beds (State Match)	19,500	58,500
Expand Jail Re-Interview		236,520
Improve Access to General Assistance Upon Release		131,400
Community Support Services Evaluation and Measures		75,000
Mental Health Residential Beds		700,000
Domestic Violence Treatment Slots		105,000
Total Funding	**$1,595,323**	**$3,919,868**

Transitional Housing -- Many offenders who would otherwise qualify for a discretionary release program such as Transitional Supervision or Parole are hindered by a lack of a place to live. These offenders, who do not require the level of services provided by traditional halfway house placement, simply need an appropriate place to reside while securing employment and the means to establish their own residence. Making such transitional housing available to inmates, supports public safety by promoting the successful reintegration of offenders who would otherwise leave prison at the end of sentence without benefit of supervision or residence. It is also more cost-effective than maintaining low level offenders in more expensive prison or halfway house beds.

In response to this need, the Governor will look to utilize approximately $1.2 million in Violent Offender Incarceration/Truth in Sentencing (VOI/TIS) federal dollars to allow the Department of Correction to contract for up to 45 of these short-term transitional beds in several urban areas through June 30, 2006.

Contract for Jail Re-Interview Positions within the Court Support Services Division (CSSD) -- The Jail Re-interview program, operated and staffed by the Judicial Department's CSSD, has had a significant impact on the accused population of the Department of Correction. However, the program was eliminated due to a lack of resources within the Judicial Department. The program has recently been re-established, and the Department of Correction is in the process of executing a Memorandum of Understanding with CSSD in order to fund three additional positions to supplement jail re-interview staff. These positions will serve as a supplement to the Prison and Jail Overcrowding Commission's recommendation that the Jail Re-Interview Program be expanded from five Intake Assessment Referral (IAR) Specialists to 10 IAR Specialists.

When this program operated at all five of the DOC's pre-trial facilities, the results were significant. From January of 2000 through December of 2002, 7,263 defendants were screened with 4,961 or 68 percent, released to a program of supervision in the community. Statistics have shown that defendants who are diverted from confinement to alternative programs at the pre-trial level are less likely to be given a sentence of incarceration at disposition, as opposed to those who remain incarcerated during their pre-trial time. Carefully selected offenders on accused status can be safely and intensively supervised in the community on a pre-trial basis.

These positions would be funded from the general fund money and cost about $236,500, with fringe benefits.

Improved Access to General Assistance – To help address recidivism, the Department of Correction will look to fund two positions in the Department of Social Services to expedite applications for eligibility to State Administered General Assistance for incarcerated individuals being released from prisons and jails. Such an initiative will help to assure that those in need of physical or behavioral health services are able to access them from the time they are released, which in turn could prevent these individuals from returning to the prison system. These positions and fringes will be paid from the general fund money and cost about $131,400.

Mental Health Residential Beds -- The Department of Correction will look to establish community based residential beds for offenders who have mental health treatment needs. These beds would be dedicated to those offenders with significant mental health needs who leave the correctional facilities on Transitional Supervision, Probation, or Parole.

Community placement of such offenders is sometimes difficult. These beds would help to place those offenders with more pronounced mental health needs. This initiative also coincides with the PJOC's recommendation, in their January 15, 2004 report, that specialized systems and resources for offenders with significant mental health issues be enhanced.

These beds will be funded from the general fund money and cost approximately $700,000.

Domestic Violence Treatment Slots -- To further promote public safety and alternatives to incarceration, the Department will look to increase the number of community based domestic violence programs by up to 30 additional slots. Such programming has shown through research to be effective in reducing the probability of re-offending. This program expansion will be funded from the general fund money and cost approximately $105,000.

Community Support Services Evaluation and Performance Measures -- The Department of Correction will conduct a review of their Community Support Services and establish performance measures. Such an initiative would present the opportunity to streamline the process of supervision within the Department. The development of performance measures will also help to evaluate the feasibility and effectiveness of the Department's Community Support Services.

Women's Community Justice Center -- Increasing prison populations and high rates of recidivism have combined to create record crowding conditions within Connecticut's correctional facilities, especially at the single correctional facility for female inmates -- York Correctional Institution.

The Connecticut Department of Correction is seeking to ease this crowding through the operation of a Community Justice Center (CJC). Securing relief from current crowded conditions is an important driving force behind this initiative, but it is not the only one. The State of Connecticut understands the importance of both pre-release and post-release inmate support in the successful re-integration into their community. It is also clear that re-incarceration, for minor, technical violations, is of little use in promoting long-term reductions in recidivism. The anticipated Community Justice Center will also provide the mechanism to break the Release-Relapse-Return cycle so common today.

The Governor has targeted federal funding, through the VOI/TIS program, of more than $1.4 million for start-up costs and operating expenses for the Community Justice Center in FY 2003-04, and over $2 million for operating costs in FY 2004-05. The Community Justice Center will be for female offenders and will be located in East Lyme, Connecticut, in a fully renovated building on the grounds of the former Niantic Women's Correction Institution. It will provide important mental health and substance abuse programs. It is anticipated that this program will provide services to approximately 110 female offenders.

Community Justice Centers -- In order to expand the menu of alternatives to secure incarceration for appropriate offenders, the Department of Correction in early 2004 plans to solicit proposals from non-profit agencies for the operation of a Community Justice Center for the male population. The facility will be located in an urban area as the majority of offenders reside in the state's largest cities before and after incarceration.

The Community Justice Center model supports intermediate sanctions for offenders that may be most effectively managed in a short-term residential facility. Specifically, the Community Justice Centers are intended to:

- Provide short-term housing and treatment for offenders in danger of violating the terms of community-based supervision programs in lieu of extended re-incarceration.
- Provide release planning and other treatment services for offenders ending a period of incarceration.
- Serve as an additional pre-trial alternative to incarceration for low risk and/or drug dependant offenders.

Considering the time it will take to review the proposals and construct a male facility, operations will likely not begin until the FY 2005-07 biennial budget. Therefore, a savings of $2 million is possible by repealing Section 54 of PA 03-01 of the June 30 Special Session, which dedicated Personal Services dollars for a male Community Justice Center project.

But the administration is committed to putting out the RFP and making an award sometime this spring. Construction time will be 18 to 24 months. Bond dollars are already in the DOC bond authorization.

In total, the adjusted budget suggests the allocation of $19,500 of the FY 2003-04 general fund dollars, and $880,000 in FY 2004-05. About $1.9 million and $3 million remain to be allocated by the task force in FY 2003-04 and FY 2004-05, respectively.

DOC medical and mental health consolidation

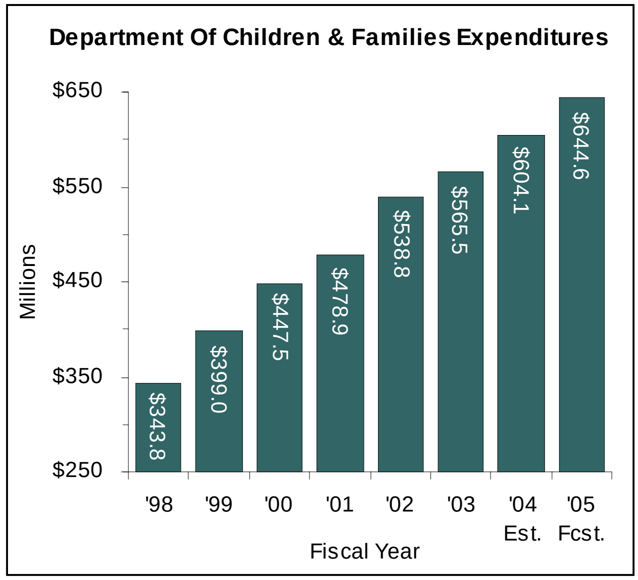
About $3 million has been added in the adjusted budget in the Department of Correction's FY 2004-05 to roll out the FY 2003-04 deficiency in the Inmate Medical Services account. These additional funds will allow UCONN Health Center's Correctional Managed Health Care to continue to provide an acceptable level of medical and mental health services to the state's prison population.

In addition, $1.4 million has been added in the adjusted budget to the account in FY 2004-05 to allow the Department of Correction to consolidate resources in order to improve mental health services and be more cost effective over time in the provision of health services. By concentrating inmates requiring special care, the department will be able to more effectively allocate staff to provide improved programs and services. The consolidation will consist of the following:

- One male facility will house offenders of all security levels who are acutely or chronically mentally ill. The York CI will continue to treat all female offenders. Twenty-two custody positions will be required for the male facility to meet its new mission, as well as a similar number of mental health professionals.
- Inmates who require medical or less intensive mental health treatment will be concentrated in one facility per security level, rather than the Department maintaining full mental health coverage at each facility.
- Medical services will continue to be available to inmates at all locations.

Investing in Child Protection and Welfare

Since 1991, the state Department of Children and Families has been operating under the provisions of a federal court-ordered consent decree in the *Juan F.* case. Since that time, the department has made significant improvements in its foster care system. Connecticut now ranks roughly in the middle of all states in its achievement of national standards.



To achieve these improvements, the state has committed significant resources: the department's budget has more than doubled over the past ten years from $256 million in FY 1994-95 to an estimated $604 million this fiscal year. Further underlining the state's commitment: the DCF budget has quadrupled since the consent decree. Despite the vastly increased funding and considerable improvements in service delivery, the department has not been able to meet the significant demands of the federal court order along the way.

The Transition Task Force

In October 2003, the state entered into an agreement with the federal court and lawyers representing children in the child welfare system to further improve services for children and families and end the judicial oversight of the agency by November 2006. The agreement included the establishment of a Transition Task Force comprising of the DCF Commissioner, the Secretary of the Office of Policy and Management, and the court monitor, who would jointly assume all decision-making authority related to the Juan F. class and oversee the implementation of a three-year plan to end federal court oversight of the agency. Under the agreement, the court monitor was given full authority to develop the Exit Plan.

The Transition Task Force began meeting in October 2003 and immediately initiated changes designed to further improve child protective services. Even before the October order was signed, the administration had begun hiring almost 200 new caseworkers to lower caseloads and provide more individualized attention to each abuse and neglect case. Since the task force began its work, 100 new vehicles were acquired to allow caseworkers more time in the field to work directly with children and families.

In addition to lowering caseloads and increasing assigned field days for caseworkers, the task force established a $1 million pool of flexible funding to enable the department to meet individualized and emergency needs of children and families in a timely manner. A new organizational structure that eliminates a layer of administration and places more personnel and resources in the local offices was developed to decentralize decision-making and allow the agency to become a more responsive, neighborhood-based service provider.

The Exit Plan

Unfortunately, the Exit Plan developed by the federal court monitor and adopted by the court in December 2003 is, at best, questionably attainable, and, at worst, unrealistic -- particularly in its expectations about speeding adoptions and reducing the number of children in residential treatment. At least one other measure is unrealistic and several more are extremely difficult to attain.

In addition, the Exit Plan ordered by the court also requires the state to provide carte blanche funding to implement it: a provision that gives the court monitor judge powers reserved to the legislature under the State Constitution, and which could violate the state's constitutional cap on spending. The far-reaching financial provision, which shows wholesale disregard for the budgetary process and threatens to siphon funding from other agencies and important needs, was never included in draft plans as required by the October order before the Exit Plan was handed down. The state has objected to this open-ended provision in court and has appealed to the court to reconsider its order on this basis.

DCF expansions in adjusted budget

Despite concerns about the viability of the Exit Plan, the Governor's adjusted budget demonstrates the administration's commitment to this endeavor. In an attempt to meet the challenging timetables and requirements of the court-ordered Exit Plan, substantial action and significant resources are required. To this end, the adjusted budget recommends an approximate $60 million increase from the amount originally budgeted and available for the current fiscal year, and about $40 million more than estimated expenditures this fiscal year and what was originally adopted for FY 2004-05.

DCF Budget Growth

FY 2003 Actual Expenditures	FY 2004 Appropriation (Adjusted ERIP and Holdbacks)	FY 2004 Estimated Expenditures	Original FY 2005 Appropriation (Before ERIP and Holdbacks)	FY 2005 Recommended Revised Appropriation
$565,490,910	$580,837,007	$604,101,994	$604,411,590	$644,588,065

After some reallocations of funding to other agencies, there is actually a net of $51 million in additional funding added to the original FY 2004-05 budget. The number is a net number as it is reduced for internal reallocations of monies from lower priority programs to new ones designed to meet the Exit Plan measures.

DCF Budget Growth FY '04 to FY '05
($ in millions)

FY '04 Gross Appropriation	591
Holdbacks	
ERIP	-7
General Holdbacks	-3
Net Available FY' 04	581
Original Budget Growth FY '04 to FY '05	13
Baseline Available for FY '05	594
Changes to FY '05 Recommended	
Transfers Out	
DMR	-2
DOIT	-2
Fleet Savings	-0.5
BOSS Savings	-0.5
Additional Funding (See other chart)	52
Net FY '05 Available	641
Reinstate General Holdbacks	3
Recommended FY '05 Appropriation - Gross	644

The $51 million increase to the original FY 2004-05 adopted budget is for the following:

- To meet the caseload measure of the Exit Plan, 145 new social work-series positions and associated costs are being funded in FY 2004-05. Those positions were added in the current fiscal year. In addition, the service requirements in the Exit Plan require a reduction in the level of vacancies experienced in DCF. Approximately $11 million is added to FY 2004-05 budget for personnel.

- Additional funding is provided to reflect operating costs associated with these personnel increases and other costs. Operating funds are also increased to cover costs for the fuel cell at the Connecticut Juvenile Training School. Much of this increase is attributable to the rise in costs for natural gas, which is used as a fuel source for the fuel cell. About $2.0 million is added for these purposes.

- Almost $16 million is added for residential placement needs over those originally budgeted in the biennium. While the percentage of DCF clients requiring residential placements has remained fairly constant, the recent growth in the department's caseload has resulted in an increased number of children requiring intensive residential services. In addition, the department is seeing an increase in costs for its more intensive clients, including those with complex medical needs, those with mental retardation and those with complex behavioral health service needs. The lack of specialty services in Connecticut, unfortunately, has meant that many of these children need to go out of state to receive appropriate programming.

- About $37 million is included to pay for Single Cost Accounting System rate increases for residential providers required by the legislature but not funded in the FY 2003-04 budget.
- About $5.9 million is added to fund anticipated growth in foster and adoptive care. The adjusted budget assumes 150 additional foster care beds and an increase of 520 adoption and subsidized guardianship stipends over the anticipated FY 2003-04 service levels.
- About $3.4 million is added for workers' compensation over-runs.
- $1 million is added to continue providing dollars for flexible funds for family emergency needs.
- $8.5 million is recommended for new or expanded initiatives to allow the state to meet the outcome measures contained in the Exit Plan beyond the caseload mandate.

New initiatives funded for FY 2004-05 will make significant strides in meeting requirements of the *Juan F.* consent decree Exit Plan as ordered by the court. These initiatives are described below.

Reducing residential caseloads through community investments

To meet the outcome measure mandating a reduction in residential caseload, the adjusted budget recommends the establishment of seven family support services teams in the community, with four units in each team. The units will include both clinical and para-professional staff and will provide care coordination, support, and clinical services to approximately 224 children and their families annually.

The goal of this new service is to reduce the number of children in DCF who receive residential treatment services. It is anticipated that these services will mean 198 fewer children will require residential services by June 2006.

In addition to the development of these teams, success of the option relies on the development of two new group homes to serve children with complex needs, as well as the development of new foster homes -- especially new therapeutic foster homes. Additional new community "wrap" services are also being funded. These new services include comprehensive global assessment, behavioral management services and behavioral health consultations.

The funding of new community and intensive services requires the department to take a hard look at the efficacy and quality of current programs. As part of the option, $3.2 million of current grant funds are being reallocated to offset some of the costs of the new family support services program. This reallocation will require the department to reassess its program priorities and develop a new emphasis on services needed to meet the needs of their clients. Possible programs that could be cutback because of the need to move money to the new initiative include reductions to the Intensive Family Preservation and Parent Aide programs.

The reduction of the number of children anticipated to be in residential treatment programs as a result of family support services, corresponds to a reduction in the Board and Care account for residential services.

The net add for this new initiative is $4.9 million. The gross costs of the initiative, before reallocations and savings in the residential account, is $10.5 million.

Increasing adoptions and reducing delays

The Exit Plan requires the department to make Herculean improvements in both the timeliness and number of adoptions. A barrier to timely adoptions as articulated by the department and the court monitor concerns delays experienced in the legal system to terminate parental rights and to approve permanency plans. To ameliorate these concerns, the adjusted budget recommends the funding of 13 positions.

The department will hire three additional attorneys and five paralegal staff and the Attorney General will be authorized to hire five additional attorneys.

The initiative costs about $975,000 in the DCF budget, with additional costs budgeted in the fringe benefit accounts.

DCF Increases in FY 2005 Budget

	FY '05 Costs
ANNUALIZATION OF FY 2004 SERVICES	
Fund 145 new Social Work Series Positions to Meet Exit Plan Requirements	7,600,000
Fund Operating Expenses for New Positions to Meet Exit Plan Requirements	1,062,086
Personal Services - Fill vacant positions	3,430,677
Fund Operating Expenses at Anticipated Current Service Level	930,000
Fund Anticipated Expenditures for Workers Compensation	3,369,026
Continue Funding for Emergency Needs as Requested by the Court Monitor	1,000,000
Fund Board and Care Adoption and Foster Care at Anticipated Current Service Level	2,103,672
Fund Board and Care Residential Programs at Anticipated Current Service Level	
Encompasses Increased Number of Clients and Greater Complexity of Needs	15,974,387
Annualize Unbudgeted Board and Care Rate Increases	3,677,761
FY 2005 INITIATIVES	
Fund Anticipated Growth in Foster and Adoptive Care for FY '05	3,825,968
Establish Family Support Services	
Establish Seven Community Family Support Teams	6,858,000
Fund Community "Wrap" Services	2,020,571
Fund Community Residential Services	1,413,647
Reallocate Current Program Dollars for New Services	(3,272,313)
Anticipated Savings Due to Reduction in Board and Care Residential Placements	(2,293,417)
Fund Administrative Supports	200,554
	4,927,042
Streamline Legal Barriers to Finalization of Adoptions	974,730
Additional Support Services for Enhance Supportive Housing Capacity	2,116,049
Increase Efforts for Recruitment and Retention of Foster and Adoptive Parents	500,000
TOTAL INCREASES GENERAL FUND	**51,491,398**

Family supportive housing expansion

Governor Rowland is proposing the expansion of the supportive housing for the recovering families program in DCF. The goal of the program is to keep troubled, DCF-involved families intact. This program is an important resource for at-risk families as it provides stable and secure housing through Section 8 or other housing vouchers in conjunction with case management, support and substance abuse treatment services.

To build on the success of this program, the Governor's adjusted budget adds $2.1 million dollars for DCF to fund services, including substance abuse treatment services, for an additional 180 families. The current budget supports about 160 service slots.

To expand the housing vouchers available for the program, $720,000 is earmarked in FY 2004-05 and again in FY 2005-06 from TANF High Performance Bonus monies for rental subsidies to about 100 clients. In addition, DSS will make available an additional 200 Section 8 housing vouchers for these families over the next 18 months. The extra housing vouchers are an essential component of this program, since families do not relinquish their vouchers once they stop receiving services, as long as they remain income-eligible.

The program is one of the shining successes for DCF and deserves expansion. About two-thirds of the families end involvement with child protective services following participation in the program.

Increasing foster and adoption recruitment

The Exit Plan also requires an increase in foster and adoptive services. To bolster efforts to recruit and retain foster and adoptive parents, $500,000 is added to DCF's budget.

Behavioral health partnership

As noted in the behavioral health section, DCF is dedicated to the roll out of the KidCare through the Behavioral Health Partnership (BHP) program. It is expected that the partnership can begin to operate by October 1, 2004. This budget reallocates service dollars attributed to behavioral health activities from categorical grants and residential board and care into an omnibus Behavioral Health Partnership account. Through the utilization management services performed by the ASO and an emphasis on community services, a shifting of clients from residential placements to community services is anticipated. The Partnership account will allow the dollars to follow clients into community services. In addition, expanded community services funded in the Family Support Services option are complimentary to the Partnership initiative.

Finally, the utilization and quality management services to be provided by the BHP's ASO will minimize the need for additional service coordination as requested in an expansion proposal that was not funded.

Dental carveout

Access to medical and dental care for abused and neglected children is also among the Exit Plan outcome measures. A request to include dollars for dental care outside of the Medicaid system was not approved as the state is embarking on a dental carveout as of October 1, 2004. It is hoped that this carveout will significantly increase dental access, treatment, and outcomes.

Supportive housing for families of children with medically complex conditions

The number of children entering DCF's voluntary services program is increasing greatly, in large measure because families with medically complex children have no other place to turn. In some cases, those children have to leave their homes and enter residential settings. Also, a shortage of home nursing care and accessible, affordable housing has forced children with complex medical conditions to remain in hospitals or DCF custody long after they could otherwise go home.

The Governor's adjusted budget includes capital funding to pilot eight to ten units of supportive housing for children with complex medical conditions and their families, including on-site nursing care. Capital costs of $3 million are included to begin development of a facility to serve at least eight families with a full-time care manager and an associated medical center. Operating dollars would be provided in the FY 2005-07 biennial budget.

Statutory changes sought

In addition to increased budgetary resources, the Department will be submitting legislative proposals needed to meet the measures in the Exit Plan. Specifically, the legislative proposals will facilitate moving children into permanent homes by addressing delays in the current administrative and court processes, allow parents adopting a child out of the foster care system in Connecticut to purchase health insurance from the state plans, and expedite the process of placing older children in appropriate foster homes.

Juvenile Justice initiatives

Without the availability of federal funds, the deficiency in the board and care account for residential services this fiscal year would have sidelined the opening of new residential, therapeutic services for girls involved in the juvenile justice system.

Governor Rowland has freed up federal monies to begin funding a number of important juvenile justice initiatives. These include 16 new beds in a site-secure facility at the Natchaug Hospital in eastern Connecticut with therapeutic services for court-involved girls with severe behavioral health issues. Federal funds to the tune of $2.5 million are being provided from June 1, 2004 through December 31, 2005. The state-required match of about $300,000 is included in DCF's budget.

Twenty additional beds are being built for staff-secure therapeutic programming for court-involved girls at Stepping Stone in Waterbury (14 beds) and at Touchstone in Litchfield (6 beds). Federal funds dedicated for these two programs from April 1, 2004 to June 30, 2005 amount to $2.2 million. The state-required match of about $250,000 is included in DCF's budget.

Annualized Funding for New Programs for Children Involved in the Juvenile Justice System

	FY 05	
	State Funds	Federal Funds
Juvenile Justice Girls Programs		
New 16 bed facility secure behavioral health program	178,252	1,604,271
Expand two programs for 20 staff secure treatment program beds	195,500	1,759,500
New Secure Facility for Girls	150,000	1,350,000
New 17 bed facility for assessment and stabilization of JJ girls out of detention	1,601,827	
New 16 beds for adolescent substance abusers and dually diagnosed girls	1,422,469	
SUBTOTAL	3,548,048	4,713,771
Other Juvenile Justice Programs with Judicial Department		
Two new 12 bed programs for short term crisis stabilization, assessment and transition services	185,000	1,665,000
Total new programs	**3,733,048**	**6,378,771**

Half year funding of $1.35 million for a new secure facility for this population is being earmarked from federal funds. The funding would be utilized from January 1, 2005 to June 30, 2005. A state match of $150,000 is included in the DCF budget.

Lastly, the Judicial Department's Court Support Services Division (CSSD), with support from DCF, is developing two new programs for stabilization and assessment services for children coming out of detention. About $1.7 million in federal dollars are earmarked next fiscal year for sites in New Haven and Waterbury. A state match of $185,000 is included in OPM's budget.

Other programming for the juvenile justice girls population includes 16 new beds for substance abuse and dually diagnosed care as well as a new 17-bed facility that is being developed for assessment and stabilization of court-involved girls. These are both funded in the FY 2004-05 adjusted budget totalling $3 million.

Childcare for foster and adoptive parents

Initiatives in other state agencies will also help DCF meet the requirements of the Exit Plan.

As part of the initiative to reopen intake to the Care 4 Kids childcare assistance program, the Governor is proposing that DSS set aside a certain number of slots solely for foster care and adoptive parents so that they are better able to receive services and maintain employment.

Capital commitments

Additional capital funds are also being recommended for the Department of Children and Families. For capital renovations and improvements to mental health clinics, $500,000 is being recommended and $1 million is being recommended for improvements to private non-profit residential facilities and group homes. Additionally, $2 million is being recommended for additional improvements and renovations to DCF's state-run facilities.

Children's Trust Fund changes

During FY 2003-04, the Council to Administer the Children's Trust Fund began to hire staff to perform the work of the council instead of relying on the use of contracted staff. This budget reallocates funds to salary and operating accounts to accurately reflect the efforts of the Council.

Economic and Workforce Development

Economic development and job creation during tough fiscal times is a challenge for any state and Connecticut is no exception. But the job has been made easier by the positive changes in the state's economy over the last decade. In large measure, they are the result of the pro-business, pro-growth agenda advocated by Governor Rowland.

As Connecticut emerges from the difficult fiscal challenges of the past several years and looks to the future, it has to begin building coherent and forward-looking strategies aimed at maintaining and enhancing its economic well-being and its strategic position.

To ensure a high quality of life for its citizens and opportunities in the future, the state must address a number of challenges, including continuing to rebuild its cities, adapting to an emerging global marketplace, and preparing its workers and students for the jobs of the future.

Next generation manufacturing

Manufacturing remains a key economic driver in Connecticut. In particular, the state remains a leader in such established fields as aerospace, power and propulsion, instruments, and sensors and controls, and is very well positioned to compete globally in the emerging fields of photonics and fuel cells.

As a consequence, Connecticut finds itself at the forefront of the global transformation in manufacturing. It is a transformation of rising productivity driven by technology advances and innovative new products. The paradox of manufacturing is that it is employing fewer workers to generate higher output. For those remaining manufacturing jobs – which are forecasted to be in the tens of thousands in Connecticut – the result is higher and higher levels of skill requirements.

For Connecticut, this shortage of skilled manufacturing workers is significant. The Connecticut Department of Labor reports that projected annual openings for 2000 to 2010 will outpace the current level of new graduates for electrical, mechanical, industrial and civil engineers and technicians by 287 jobs annually and for skilled machine tool occupations by 717 jobs annually. Identifying and training those skilled workers is one of the major challenges confronting Connecticut's education and workforce development systems.

A critical component to any strategy seeking to strengthen and maintain the competitive position of manufacturing in Connecticut must emphasize the education and training of existing manufacturing workers.

Connecticut needs a program to help manufacturers and their workers and potential workers meet the needs of the future. This effort, under the auspices of the Department of Economic and Community Development (DECD), will include programs to enhance the competitiveness of Connecticut's manufacturers and to prepare their workers for the challenges of the future. Such a program would enable Connecticut manufacturers to apply the emerging and enabling technologies needed for advancing new products and increasing productivity. An important part of this program will be a pilot effort to examine the parameters of a manufacturing-focused, skills training program collaboratively with manufacturers and labor unions.

As part of this program, the state will undertake a 5-year Next Generation Manufacturing Competitiveness Program to sharply improve the ability of Connecticut's small and medium sized manufacturers to create a sustainable operating business model to compete in the world economy. This will include: continuing to expand the use of progressive manufacturing techniques and advanced technology; identifying new markets and opportunities both in the United States and abroad; gaining market intelligence and developing joint international business development programs; increasing the skills of their workforce; and creating a virtual center to assist clusters in their product design and development efforts.

Governor Rowland is proposing to modify the Manufacturing Assistance Act (MAA) to allow the Next Generation Manufacturing Competitveness Program to be eligible for funding under its umbrella. Annual funding is may be up to $5 million.

Seeding new capital funds

Governor Rowland is also proposing that the DECD, OPM, the Governor's Council on Economic Competitiveness and Technology, and the State Treasurer's Office develop two new private professionally managed capital funds: (1) a $100 million seed capital fund for early stage companies in bioscience and technology; and (2) a $25 million inner city equity investment. The private sector would be the principal investors in these funds, although public funds could be deposited in the funds.

The purpose of the seed capital fund would be to increase the pace and growth of high potential start-up companies; fill the gap that exists in the state for early stage funding for younger technology firms; and encourage and allow financial institutions, corporations and foundations to further invest in Connecticut by providing the opportunity for risk adjusted market rate returns.

The purpose of the inner city investment fund would be to: expand inner city business development and entrepreneurship; increase the availability of seed and early stage capital for companies, commercial and mixed used real estate projects, and Brownfields revitalization; create an investment opportunity that will provide acceptable risk adjusted rates of return; capitalize on the federal New Market Tax Credits being allocated to Connecticut; and join the growing number of national leaders using market-based solutions to generate opportunities and wealth in major distressed cities.

$200,000 in General Fund monies will be carried forward this fiscal year for DECD to hire a consultant to assess the viability of establishing these funds and pursue investors.

Inner city training

The Governor's recommended adjustments include $200,000 in carryforward funding for DECD to build upon the successful National Foundation for Teaching Entrepreneurship's (NFTE) entrepreneurial training initiative in Connecticut.

To date, this program has trained 2,800 inner city students and provided world class consulting support for the 30+ winners of the *Inc. Magazine* "*Inner City 100*", a national competition that recognizes the fastest growing inner city companies in America. The purposes of the additional funding would be to increase the entrepreneurial potential residing in the inner cities and provide successful role models that will further motivate students and residents on the value of market-based strategies to increase wealth and income.

Establish a lead state agency to coordinate and advance Connecticut's position in the knowledge economy.

The Governor is proposing to designate the Office of Workforce Competitiveness as the agency with the responsibility for the employment and training initiatives required to support Connecticut's position in the knowledge economy.

A Council of Advisors on Strategies for the Knowledge Economy will be established. The Council will be chaired by the Director of OWC, with participation from the Secretary of OPM, the commissioners of DECD, DOL, DHE and SDE, and private industry. The council will advise on the development and implementation of knowledge economy strategies in the state.

Institute an "innovation challenge grant" program to encourage greater collaboration of higher education and vocational technical schools with business and industry

Technology is advancing rapidly and with it are new demands placed on higher education and vocational technical schools to keep up with new skill requirements. Today we are facing the rise of new skills in such emerging areas as computer security, proteomics, systems biology, nanotechnology, photonics and renewable energy. Often these skills involve a more multi-disciplinary approach that requires educational institutions to break down traditional academic boundaries.

New program development for higher education and vocational technical schools must compete with the pressure of maintaining existing programs, and so frequently does not get the priority it deserves. Currently, there is no source of funding for Connecticut higher educational institutions and vocational technical schools to undertake the costly process of designing, developing and delivering new programs in emerging and multi-disciplinary fields.

The Governor is proposing to create an "Innovations Competitiveness Grants Program." Higher education institutions and vocational technical schools can compete for new program development funding, with preference given to new programs involving a consortium of higher education institutions and employers working together in partnership. Availability of industry matching funds, commitments to pay tuition of students or to hire students as interns and full-time workers upon graduation should be among the key criteria in selecting applicants.

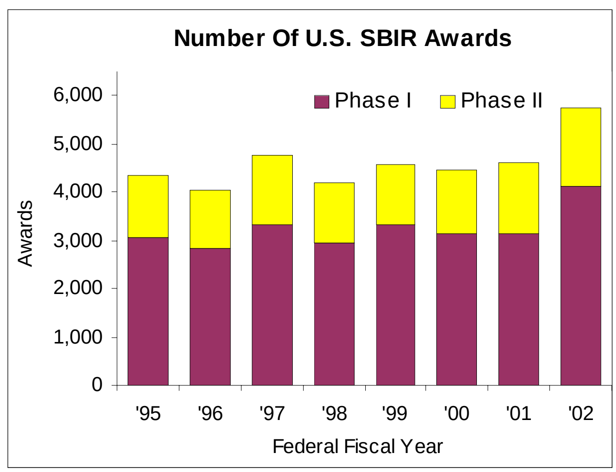
This program is seen as a critical new mechanism for promoting a more responsive higher education system that will meet the demands for rising skill needs in the state and increasing the competitiveness of Connecticut business and industry.

Grants would be awarded by the new council outlined above. Grants would consist of both capital and operating dollars. Funding is anticipated to be made available in the FY 2005-07 biennium and it is anticipated that the council will set up criteria and develop the program in the coming fiscal year.

Establish a centralized clearinghouse and technical assistance function at the state level to assist Connecticut businesses in developing SBIR proposals.

The Governor's proposed budget includes start-up funding for an initiative to dramatically increase Connecticut's share of funding under the federal Small Business Innovation Research (SBIR) program.

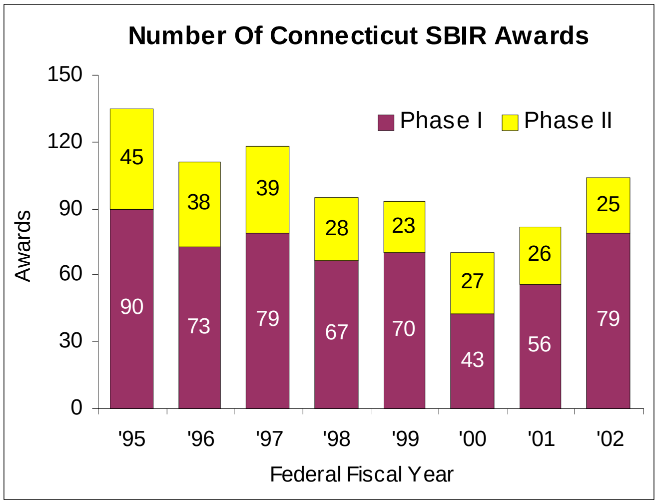
SBIR is an important federally-funded source of innovation capital for existing and emerging small businesses, which offers small firms the opportunity to compete for set-asides from federal R&D budgets to advance product development. The program involves two phases of funding: Phase I for feasibility and proof-of-concept, with typical funding in the range of $100,000 and Phase II for development involving a substantially higher level of funding, typically in the range of $700,000. Phase II awards require that small business applicants demonstrate a clear path to commercialization of the innovation.



Nationally SBIR awards have been rising. From FY 1995 to FY 2002, the total number of SBIR awards rose by 32 percent nationally, from 4,329 in FY 1995 to 5,733 in FY 2002. Growth in SBIR funds has risen even more substantially as federal agencies have increased funding per award. Overall SBIR funding has risen by 58 percent from $950 million in FY 1995 to $1.5 billion in FY 2002, with Phase I awards rising from an average of $76,000 in FY 1995 to $100,000 in FY 2002 and Phase II awards rising from $568,000 in FY 1995 to $680,000 in FY 2002.

In Connecticut, SBIR awards recorded substantial declines. From a high of 135 awards in FY 1995, Connecticut fell to a low of 70 awards in FY 2000 and by FY 2002 has not even reached its FY 1995 level, with only 104 awards in FY 2002. Overall the decline in awards from FY 1995 to FY 2002 has been 23 percent -- a major contrast to the strong national growth. SBIR funding to Connecticut fell even more sharply, by 30 percent.

This initiative will assist Connecticut companies in pursuing federal SBIR funding through a state SBIR



clearinghouse and technical assistance function, which will work with industry associations and cluster organizations. The Center for the Advancement of Science and Technology will be created within the OWC to conduct outreach and marketing of the SBIR program to Connecticut companies and provide technical assistance, mentoring, and proposal development funding. Capital dollars can be used as well to provide matches to federal requirements, as well as $250,000 being provided in carryforward funding to begin this program of technical assistance.

Ongoing OWC initiatives

Recognizing the gravity of Connecticut's future workforce situation, Governor Rowland proactively created the Office of Workforce Competitiveness (OWC) in 1999 to research the matter and establish pilot programs to pave the way for full-scale programs that will address the problem.

The Office of Workforce Competitiveness has lived up to the task. The success of its innovative programs brings hope for the future of Connecticut's economy. Faced with the inevitable demands of the 21st century economy, it becomes critically important to continue funding workforce development programs in the state. The following are the most critical projects that will continue to be funded from the OWC's workforce grant account:

- Connecticut Technology Workforce Development Strategy, $350,000
- Career Ladder Pilot Programs, $500,000
- Youth Programs, $350,000
- Capacity Building and Training Institute, $125,000
- Occupational Forecasting, $150,000
- Broad Band Access, $100,000
- Grant Acquisition Funding and Planning Grants, $175,000

Jobs Funnel

One of OWC's extremely productive programs has been the Jobs Funnel. The Hartford Jobs Funnel is a joint public-private effort to create career opportunities for Hartford residents in 14 different construction trades and other jobs. The Funnel has provided services to more than 2,539 people, including education and training, case management and job placement. At least 497 people have been placed in union and non-union construction positions and other jobs, with 62 Funnel graduates working on the Adriaen's Landing projects. The average starting hourly wage is over $16.

The Hartford model proved so successful that it was replicated in New Haven on a slightly smaller scale. There, more than 125 people have been placed on numerous construction job sites, with an additional 75 placements planned by year-end. Acknowledging the importance of this program to residents of CT's two biggest cities. Governor Rowland is proposing to carry forward $1 million from the current fiscal year to continue the activities of the program.

Connecticut Career Choices

At the core of the state's IT Workforce Strategy is the K-20 educational initiative called Connecticut Career

Choices (CCC). This initiative focuses on fostering interest in technology careers by students, adapting existing curriculum to industry-recognized skill standards in specific technology areas (for example, IT standards developed by the National Workforce Center for Emerging Technologies) and creating greater ties between technology businesses and education.

Currently ten pilots make up the CCC initiative in multiple districts across the state in urban, suburban and rural settings. CCC also includes a strong experiential learning component comprised of internships and career mentoring programs and has engaged key industry leaders to embrace the initiative and participate, such as the nationally recognized ACE Mentoring Program and Project Lead the Way. It also includes a strong labor component: a unique AFL-CIO internship program that offers work-based learning opportunities to high school students. It features labor, management and community representatives who work together to introduce high school juniors or seniors to career opportunities in unionized settings. In the first summer a total of 17 students were placed on sites including Shaw's, Sikorsky, Electric Boat and the town of Groton.

The Governor's adjusted budget recommends carrying forward $800,000 from the current fiscal year to continue this program.

Nanotechnology

Nanotechnology – the manipulation of individual molecules or atoms to create useful materials or devices -- has been correctly heralded as the Industrial Revolution of the 21st Century. Innovations through this new hybrid science will produce materials and systems that will have superior electrical, chemical, mechanical or optical properties with a broad spectrum of potential uses across many industries.

As a modern science, it stands at the intersection of multiple disciplines such as physics, electrical engineering, chemistry, biology and materials science. Currently, approximately $4 billion is being spent on nanotechnology research worldwide. Over a billion dollars will be spent over the next two years.

Connecticut – home to leading research institutions, scientists and companies – has a long history on invention and a penchant for innovation. Yet, it does not currently hold a competitive position in the nanotechnology arena. A nanotechnology competitiveness study will frame the necessary strategies and identify the critical resources required to move the state into a stronger and more visible position in the area of nanotechnology and allow Connecticut companies and research institutions to compete on a global scale.

Governor Rowland is proposing to carry forward $200,000 for a study that will take an inventory of the nanotechnology landscape in Connecticut, identify potential linkages between academia and business.

Connecticut Space Grant Consortium.

Governor Rowland is proud to lend financial support to the Connecticut Space Grant Consortium. The Consortium, whose members include The University of Hartford, The University of Connecticut, The University of New Haven, Trinity College and the Consortium of Community Colleges, have partnered with NASA to develop research, educational curricula, human resources, public awareness and cooperative agreements. The state's $50,000 investment is expected to yield $200,000 in federal grant funding that can be used to increase public awareness of aerospace education and research and its potential benefits to the state.

Connecticut Center for Science & Exploration

In December 2003, the State Bond Commission approved the allocation of $93 million in state urban act bonding to support the development of the Connecticut Center for Science & Exploration at Adriaen's Landing in Hartford.

The Center, which is still in the development phase, is based upon a model that emphasizes education in a popular setting that will appeal to children and families, arriving via class trips as well as weekend family outings.

The Center, as an educational and cultural asset to the state and region, will focus on helping to develop the next generation of scientists, mathematicians and engineers by capturing their attention in their most impressionable years of development. This educational emphasis does not come at the exclusion of tourists, for whom the center will serve as a major destination within and well beyond the Adriaen's Landing project in downtown Hartford.

The Governor's recommended budget proposes to provide $1 million in operating funding for the center within the Commission on Arts, Tourism, Culture, History and Film budget.

In addition, to help stabilize one of the state's largest tourist attractions, the Governor is also proposing a new $1 million subsidy for the Mystic Aquarium.

Connecticut Education Network and NEREN

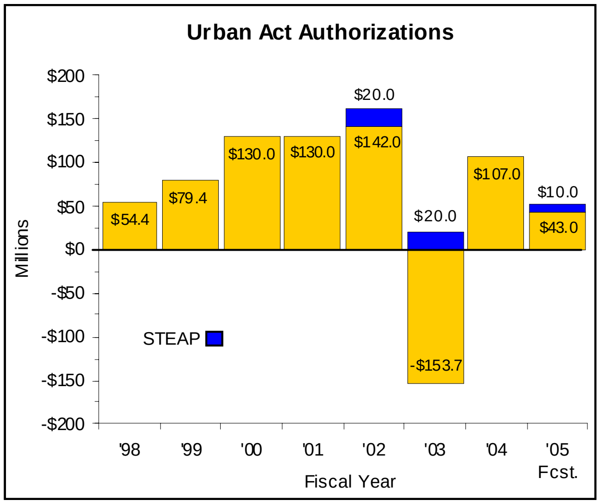
The state's investment in the Connecticut Education Network (CEN) will produce significant returns for students throughout the K-20 system. The CEN will connect all Connecticut colleges, universities, public elementary, middle and high schools and libraries together in a high-speed broadband digital network. The CEN will literally bring world-class educational programming and research to the fingertips of every student and adult learner in the state.

The Governor's adjusted budget also includes $5 million in capital funds to continue the build out. Additionally, Connecticut just received preliminary approval for $3.5 million in federal matching funds through the ERATE program in support of the CEN build out, increasing the number of sites connected to the CEN to 102 from the 50 originally planned for this year as well as allowing all the regional vocational-technical schools to be connected.

In addition, the CEN will be the central component to the developing *Northeast Research and Education Network* (NEREN), which will link the finest universities, museums and hospitals in the seven Northeastern States together into a single, robust digital superhighway for advanced research and education. The combined impact of CEN and NEREN will make the region one of the strongest competitors in the knowledge economy in the entire world.

The urban agenda

Since taking office Governor Rowland has made the revitalization of Connecticut's cities a hallmark of his administration. Over the last nine years hundreds of millions of dollars in urban act and other special economic development funding for cities have been authorized for projects across Connecticut.



In addition, hundreds of millions have been invested in attracting businesses through the MAA, new urban tax credit and enterprise zone programs.

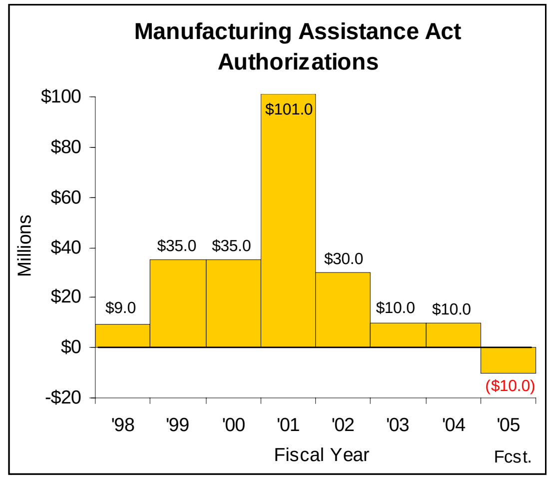
Governor Rowland will continue his efforts to attract business and revitalize urban communities. While no new MAA money is being proposed, over $55 million will be available for business development. The urban act has about $46 million in unearmarked funds and the Governor is calling for a new bond authorization of $50 million in OPM (an old DECD authorization of $7 million is being cancelled). The state will also have $5 million in biotechnology monies for next fiscal year.

Further, the adjusted budget proposes $10 million for the Small Town Economic Assistance Program and $10 million for housing development and redevelopment.

Legislation is also being recommended to make it clear that cluster projects are eligible under the MAA

Making the R&D tax credit exchange fix permanent

The Governor is proposing to allow on a permanent basis corporations that pay the $250 minimum tax or capital base tax to qualify for the R&D tax credit exchange. The purposes of the exchange program are to increase the level of R&D, innovation and entrepreneurship in Connecticut, encourage more start-up companies to begin and expand in-state, and regain one of Connecticut's few competitive advantages compared to most high tech regions in the country.



Lowering the urban tax credit threshold

The state's Urban Reinvestment Tax credit program has thus far saved and created hundreds of jobs. To make this tool more attractive for small scale development in urban centers, the Governor is proposing to amend the act to drop the required capital investment threshold from $20 million to $5 million.

Economic development revolving loan funds

Regional economic development revolving loan funds are an important tool to support local economic development and business. During the next fiscal year, the Governor proposes to use existing bond authority to recapitalize and enhance new and existing regional loan funds.

Base closing and relocation

Unallocated Balances
Economic Development Programs
After Proposed Cancellations
(In Millions)

Program	**Jan. 31 2004**
Urban Act	$32.7
Manufacturing Assistance	56.5
Biotechnology Grants	5.0

Congress has mandated another round of Defense Base Closing and Relocation activities beginning in FY 2005. As several Connecticut communities learned in the 1990s, a base closing or reconfiguration can have a profound impact on the entire area where the base is located. The Department of Economic and Community Development and the Office of Policy and Management will work closely with local leaders, and the state's Congressional delegation to preserve Connecticut's defense installations and the jobs and economic activity associated with them.

Keeping Connecticut Moving

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

The TSB's recommended transportation strategy was submitted to the Governor and the General Assembly on January 6, 2003. The TSB submission consisted of three parts:
- A proposed transportation strategy for the state;
- A ten year plan identifying other initiatives which advance that strategy and their cost;
- A plan for financing the initiatives.

The TSB's report is more than a series of projects and a plan for financing them; it is a strategic approach to meeting the state's transportation needs over the next decade.

Section 16 of Public Act 01-05 of the June special session appropriated $50 million in surplus funds (later reduced to $43.3 million in surplus and bond funds). Those funds have been used to support a number of initiatives, including:

Demand Management
- Deduct-A-Ride Marketing

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

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

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

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

In the first year of the current biennium, Governor Rowland recommended, and the General Assembly approved, funding for several initiatives recommended by the TSB, including:

- Planning and development of operational roadway improvements in Connecticut's coastal corridor;
- Expanded rail station parking including the Bridgeport Garage Expansion-400 spaces and other New Haven Line Parking;
- Tweed-New Haven Airport; and

- Continued funding of on-going TSB service initiatives

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

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

The Governor's proposed budget supports and invests in the recommended strategy in three ways. First, it supports $5 million in funding for six initiatives originally funded under Section 16 of Public Act 01-05. Second, it implements the Incident Management and Maritime Policy recommendations of the Transportation Strategy Board. Third, it provides funding for developing and planning service and facility improvements on the Danbury, Waterbury and New Canaan branches of the New Haven Line, including improvements recommended by the TSB.

Transportation Strategy Board

Initiatives Continued with TSB Project Account Funding

New Haven Line Commuter Connection
Fairfield County Interregional Service
Danbury Area Feeder Bus Service – Harlem Line
Expanded Hartford Area Express Bus Service
Shore-Line East Service Through New Haven-Bridgeport-Stamford
Southeast Jobs Access and Dial-a-Ride Services
Regional Planning Agency Support
Continuation of Subsidy for Tweed-New Haven Airport

New Initiatives

Expansion of CHAMP Motorist Assistance Services
Highway Diversion Plan Development and Distribution
Maritime Office and Commission
improvements for New Haven Line Branches

The Governor's recommended budget proposes funding continuation of six on-going initiatives initially funded by the TSB under Section 16 of Public Act 01-05 of the June special session. The initiatives, which are consistent with the TSB's recommended strategy, are to be funded directly from the TSB account:

- Extension of two Shore Line East rail services beyond New Haven to serve Bridgeport and Stamford. This initiative increases connectivity between Shore Line East and points west of New Haven, increases express service between New Haven, Bridgeport and Stamford, and frees up existing capacity on Metro North between those cities;
- Expanding bus service to and from rail stations in Stamford, Norwalk, Milford, Stratford in order to encourage use of Metro North commuter rail service;
- Enhancing commuter bus options along Routes 1 and 7 in Fairfield County;
- Continuing the highly successful bus service between the Danbury area and Metro North's Harlem Line;
- Expanding express bus service into downtown Hartford; and
- Continuing Jobs Access and Dial-a-Ride services for Southeastern Connecticut.

The Governor's recommended adjusted budget also includes $600,000 to continue the state's operating support for Tweed-New Haven Airport. That support is conditioned upon the City of New Haven continuing to provide at least its current level of operating subsidy to the airport. None of the proposed funds could be expended, directly or indirectly, to provide subsidies or financial assistance to any air carrier. These dollars also come from the TSB account.

During the last year, the TSB approved recommendations for improving the state's highway incident management system and for improving the state's maritime policy and operations. The Governor's recommended budget supports the implementation of both sets of recommendations.

Accidents, breakdowns and other "incidents" account for well more than half of the highway delays both in Connecticut and nationwide. The TSB's Incident Management Task Force has proposed a series of measures designed to improve the speed and effectiveness of the state's response to such incidents. Many have no cost or can be met from existing resources. Implementation of those recommendations is underway.

The Connecticut Highway Assistance Motorist Patrol (CHAMP) motorist assistance program currently serves Southwestern Connecticut and the Greater Hartford area. In both areas it has helped to reduce the congestion and delays resulting from breakdowns and other incidents. The TSB has recommended expanding the service to the Merritt Parkway, Southeastern Connecticut and the Waterbury area. This would require an investment of $1.32 million for four additional trucks and annual operating cost of $600,000. Since the additional service cannot begin until the equipment is purchased, operating expenses for three months of operation ($150,000) are proposed to be funded from the TSB project account. The truck purchase is funded from TSB bonds.

The Department of Transportation is the lead agency in developing diversion plans along the State's limited access highway system. Diversion plans, which are implemented when there is a significant closure of the highway for 3 hours or more, have been developed to cover the following routes:

- Rt 8 from Exit 11 in Shelton northerly to Exit 23 in Beacon Falls
- I-84 from Exit 33 in Plainville easterly to the Massachusetts State Line
- I-91 from Exit 15 in Wallingford northerly to the Massachusetts State Line
- I-95 from the New York State Line easterly to Exit 56 in Branford
- I-95 from Exit 70 in Old Lyme easterly to the Rhode Island State Line
- I-395 from Exit 76 in Waterford northerly to exit 86 in Griswold

Diversion route plans are under development for:

- I-84 from Exit 32 in Plainville westerly to Exit 11 in Newtown
- I-91 from Exit 1 in New Haven northerly to Exit 15 in Wallingford
- I-95 from Exit 56 in Branford easterly to Exit 69 in Old Saybrook

Projects are also underway to redo first generation plans along I-95 from the New York State line easterly to Exit 56 in Branford. In summary, all of I-95, I-91, and I-84 are, or will be, completed except for I-84 from Exit 11 westerly to the New York State line.

The TSB project funds will provide $60,000 to:

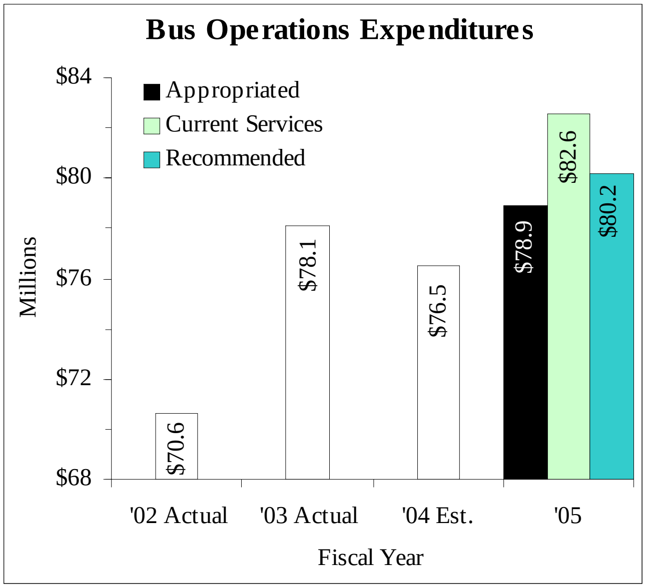
- Fund additional highway to highway diversion plans in the Hartford area
- Complete plans for I-84 from Newtown to the New York State line
- Provide electronic versions of diversion plans to responders
- Provide diversion plans on-line where they can be viewed by the public.

Maritime policy commission

In January 2003' the TSB created a Maritime Task Force to recommend changes to the state's maritime policy and governance structure that would maximize the benefits of the state's waterways and maritime resources. The Governor has endorsed and is submitting legislation to implement these recommendations to:

- Create an Office of Maritime Policy, within the Department of Transportation, to coordinate all state maritime policy activities, serve as a liaison between the State of Connecticut and federal and local organizations and entities involved in maritime policy matters and advocate for the state's maritime policy.

- Establish a Maritime Policy Commission. The commission proposed by the Governor would advise the Commissioner, the Governor and the General Assembly concerning the state's maritime policy and operations, develop and recommend to the Governor and the General Assembly a maritime policy for the state, support the development of Connecticut's maritime commerce and industries, including its deep water ports, recommend investments and actions, including dredging, required in order to preserve and enhance maritime commerce and industries, conduct studies and present recommendations concerning maritime issues and support the development of Connecticut's ports, including; identifying new opportunities for the ports, analyzing the potential for and encouraging private investment in the ports and recommending policies that support port operations.



The Governor's budget recommends increasing the Department of Transportation's authorized position count by two in order to provide staffing for the Office of Maritime Policy. The department will reallocate existing funding in order to meet the needs of the Office and the Maritime Commission.

In recent years there has been significant population growth in the towns along the Danbury, New Canaan and Waterbury branches of the New Haven Line. Recognizing that population growth, as well as the increasing number of residents commuting to jobs in Stamford and New York City. The Governor is recommending using $1.25 million in TSB monies to develop and plan service enhancements and facility improvements on those three branches, including improvements recommended by the Transportation Strategy Board.

Rail and bus fare increases

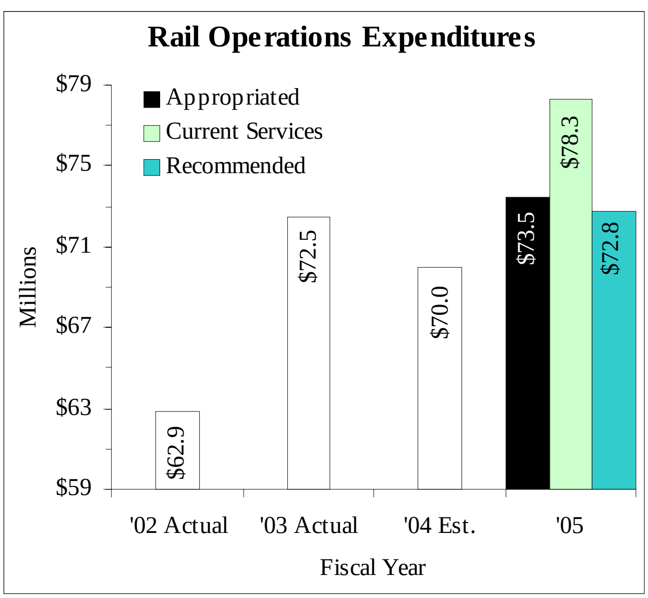
Due to the rapidly increasing costs associated with the provision of bus and rail services, the Governor is recommending that rail fares be increased and the planned bus fare to be accelerated to offset the increasing subsidies necessary to provide these services.

The Connecticut Department of Transportation (CDOT) participates in the operating deficit of the New Haven Commuter Rail Line according to a structured formula contained in the Amended and Restated Service Agreement among CDOT, the Metropolitan Transportation Authority (MTA), and Metro-North, the service operator.

Bus Ridership

	Nov. 2003 Ridership
Fairfield Commuter Connection	2,087
Fairfield County Interregional Bus	25,319
Danbury-Katonah Feeder Bus *	3,077
Hartford Bus Service	2,264
Total	28,758

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



The FY 2004-05 budget was based on the projection of an operating deficit that was developed in June of 2002. The latest budget projection dated October 2003 now estimates Connecticut's share of the deficit for FY 2004-05 to be $53.4 million, or $4.8 million more than budgeted.

To lower the state subsidy, the Governor's adjusted budget also recommends that Metro-North rail fares to and from stations in Connecticut will be increased by 5.5 percent on July 1, 2004. The last rail fare increase in CT was a 15 percent increase on July 1, 2003. The last fare increase in NY was a 25 percent increase on May 1, 2003. The current fare differential, the difference between Connecticut fares and New York fares, is approximately 8.9 percent. The New Haven Line carried over 33.2 million person trips in FY 2002-03. All Connecticut fares would be affected by the proposed fare increase. This change will generate approximately $5.5 million, offsetting the unanticipated deficit.

A series of expense and revenue-related factors have negatively affected the cost of bus operations. The causes for this shortfall are as follows:

- An interest arbitration award was made in August of 2002 for the Hartford, New Haven and Stamford Divisions (HNS), the three largest of the state-owned operations. The major expense-related impact of the arbitration was an increase in pension contributions from about $2.3 million to $4.0 million, reflecting the multiplier awarded in arbitration and the replacement of plan assets lost in the stock market. This net increase is $1.7 million over the original budget forecasts.
- Operating revenue (fares) were forecasted to remain flat for the current fiscal year and next. In fact, for FY 2002-03, ridership and revenues were almost 5 percent below forecasts, with a net decrease in revenue of $1.2 million below the original forecast in FY 2002-03. An additional decline in revenues is now forecast for FY 2004-05, for another $300,000 in unrealized revenues compared to the original forecast.
- Employee health insurance premiums at HNS were forecasted to increase by 10 percent per year. Actual increases in the premium period that overlaps FY 2003-04 were 16 percent, and are forecasted to increase by at least 15 percent for FY 2004-05. The net increase over forecast is about $500,000.

The current forecasted shortfall for next fiscal year is in excess of $3.7 million.

The eight CT Transit divisions (including Hartford, New Haven and Stamford Divisions) zone-one fares are scheduled to be increased from the current $1.10 fare implemented on January 1, 2004, to $1.25 to be implemented on January 1, 2005. To make up for some of the unexpected extraordinary expenses and revenue shorfalls, factors resulting in the need for additional state subsidy, bus fares will go to $1.25 on July 1, 2004, six-months earlier.

This fare change will generate approximately $2.45 million.

Special Tax Obligation Bond Authorizations*
(In Millions)

Fiscal Year	Total
93	244.1
94	172.3
95	190.6
96	173.2
97	189.8
98	144.8
99	186.5
00	208.0
01	155.2
02	207.9
03	211.0
04	248.7
05-Est	195.0

***Does not reflect subsequent legislative cancellations**

Transportation bond authorizations

The proposed bond package includes Special Transportation bond authorizations of $195 million in FY 2004-05.

Ferry service

During the past session, Public Act 03-3 of the June Special Session enacted a new fee structure for ferry services. This included fees for motor vehicles, passengers, walk-ons and bicycles. It no longer allowed the Commissioner of the Department of Transportation the flexibility to adjust fees if necessary. Special Act 03-1 of the September Special Session further revised the statute by allowing the Commissioner to establish a commuter discount rate for ferry services.

The Governor is proposing that the revised language be eliminated and that the Commissioner, with the approval of the Secretary of the Office of Policy and Management, be again allowed to fix the rates for this service. This change will not impact ferry service which will be running at full schedule in the spring. Sufficient funds are budgeted to ensure normal service.

Branch reopenings

The Department of Motor Vehicles had been scheduled to close nine offices/branches as a result of the layoffs that occurred last fiscal year. The DMV did not close three of the identified branches: the Putnam and Stamford Satellite Offices and the Northwestern (Winsted) Branch.

The Five Photo Licensing Centers (New Milford, Derby, Middletown, Milford, and Waterbury) and the Willimantic Branch have been reopened although at reduced hours. $1.4 million in funding has been added in order to provide for the reopened operations.

DMV IT position adds

The Department of Motor Vehicles received funding in the amount of $800,000 to add Information Technology staff for the Real Time On-Line project, which will allow owners to register their motor vehicles on-line, and to assist in making modifications to systems based on statutory changes. Current systems development staff must maintain over forty systems and one million plus lines of code.

Protecting the Homeland and Ensuring Public Safety

There is no more important mission of government than to protect its citizens. The events of September 11, 2001 launched this country and this state on a rigorous examination of government's ability to fulfill this mission and to assure that we are addressing the new realities of our time.

As this nation continues to learn the lessons of that fateful day and works to become better prepared, Connecticut must continue to enhance its own response systems and the capacity of its first responders to address any kind of emergency or disaster.

To date, Connecticut has accomplished a great deal considering its efforts cut across several broad planning areas of homeland security: public health, safety and security, and victim assistance. Using a combination of federal, state and local public resources, as well as considerable private resources, Connecticut has developed new integrated emergency plans, procured essential equipment, and provided critical training.

Under Governor Rowland's leadership, Connecticut has also developed a unique common voice communication system linking police, fire, and other emergency personnel, which is already improving incident management throughout the state.

To continue to enhance Connecticut's homeland security, Governor Rowland's adjusted budget calls for significant new capital investments totaling over $70 million. Highlights of this comprehensive strategy include:

- $2.4 million to properly equip Connecticut's new Urban Search and Rescue (USaR) team affiliated with the Department of Public Safety Division of Homeland Security. Federal Byrne funding is also scheduled to continue to support USaR training and stipends for the Statewide Anti-terrorism Task Force.
- Funding for Phase III expansion and improvements at DPS' Forensic Lab. With the lab's DNA and Computer Crimes Units expected to significantly expand their casework, and general lab and office space in short supply, $7.9 million is recommended for full funding for this critical project.
- $300,000 for capital equipment funding for the Military Department to enhance their emergency operations center.
- $800,000 to the Department of Public Health to provide essential equipment and instrumentation for the state public health lab to develop a radiologic testing capacity, equipment for the Disaster Medical Assistance Team and improvements to their emergency operations center.
- The purchase of a 100-bed mobile and surge hospital and equipment, which could support disaster response, provide surge capacity in any location of the state during a mass casualty event, or provide isolation care for any type of infectious disease. Within the $10 million bond authorization proposal are grants to support the HEPA filtration of 65 isolation rooms in emergency rooms across the state. Combined with the mobile hospital, these initiatives will bring the number of beds that comply with CDC guidelines for isolation care to 165 from the current 6 statewide.
- $45 million in additional funding for a new Public Health lab with Level 3 capacity, capable of detecting any bioterrorism agents thereby greatly aiding in the rapid response of the public health community to any incident. This amount will be combined with the $5 million currently authorized. Deliberate

Homeland Security
Proposed Capital Expenditures
(in millions)

		FY-05
Department of Public Safety		
Purchase of Aircraft	$	4.2
Urban Search and Rescue		2.4
Phase III Forensic Laboratory		7.9
Sub-Total	**$**	**14.5**
Department of Public Health		
New Public Health Laboratory*	$	45.0
Mobile Hospital/Hospital Grants		10.0
Capital Equipment		0.8
Sub-Total	**$**	**55.8**
Office of Emergency Management		
Capital Equipment	**$**	**0.3**
Grand Total	**$**	**70.5**

* Total project cost is $50 million, including $5 million previously authorized

planning for this state of the art facility continues.

Criminal Justice Information System

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

The adjusted budget provides continued support toward the implementation of the Connecticut Justice Information System (CJIS), an initiative aimed at using the benefits of technology to bring greater cohesion and improved effectiveness to our criminal justice system.

One of the major projects, the creation of the Offender Based Tracking System (OBTS), will streamline a series of Information Technology (IT) systems by routing state criminal justice data from fifteen (15) different law enforcement and judicial information sources into a single, central repository so that law enforcement personnel can more effectively and efficiently track offenders, and so that critical public safety information is available to police officers in the field instantaneously.

As part of the initiative, the state has also set up the Statewide Mobile Data Communications System (MDCS). This system gives officers in the field immediate access to critical information including, criminal history, driver and vehicle information, and photo images of offenders when available. This system is currently serving some 85 municipal police agencies throughout the state with over 1300 Mobile Data Terminals (MDT's) in police vehicles.

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

Criminal Justice Information System
Bond Authorizations and Recommendations
(In Millions)

	Est. Cost	Authorized	Allocated
Authorized - Previous		$ 38.4	$ 30.1
FY 2005 Proposed		11.3	
OBTS	24.8		
COLLECT SYSTEM	8.5		
MDCS	5.0		
AFIS	7.0		
Misc. Projects	4.4		
TOTAL	$ 49.7	$ 49.7	$ 30.1

Connecticut is the first state in the country to integrate executive and judicial branch criminal justice agencies and systems and create and maintain a new centralized data repository. The new system will permit and facilitate the exchange of critical offender and case information among all criminal justice agencies. The development of the OBTS has progressed to a stage where new data are being successfully shared from legacy source systems to the OBTS software.

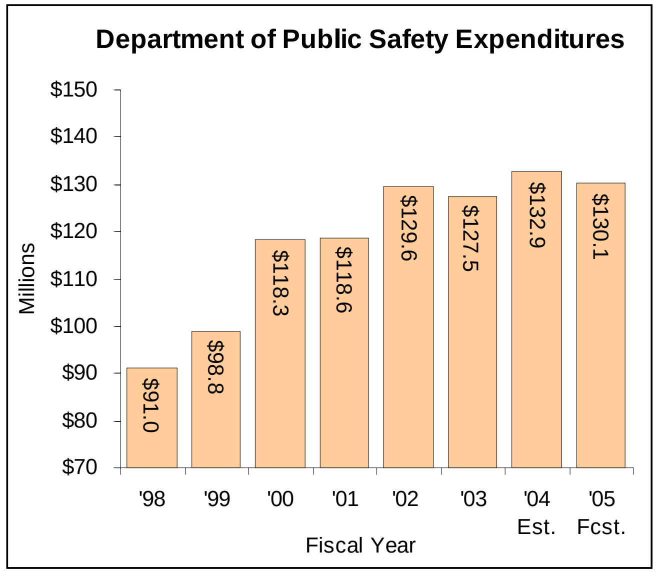
Connecticut has taken a leadership role in the use of technology in the criminal justice arena. Through the continued support and vision of projects like CJIS, we will maintain public confidence in, and the integrity of, the criminal justice system.

To date, a total of $38.4 million in bond funds have been authorized for the projects and it is anticipated that some projects, including the OBTS, will be brought to completion and many others will be in progress during the next fiscal year.

Included in the Governor's adjusted capital budget is a proposal for $11.3 million for CJIS projects. When combined with anticipated support from federal homeland security dollars for CJIS projects, this request represents a final installment to completing the vision of the major projects associated with CJIS.

DPS staffing and a new trooper class

Governor Rowland's commitment in the area of public safety is significant. In FY 1994-95, DPS expenditures were just $80.4 million. The FY 2004-05 adjusted budget calls for spending $130.1 million at DPS, a growth of $49.7 million or 62 percent. Funding in the FY 2004-05 budget will be down slightly -- $2.8 million -- from estimated expenditures in large measure due to lower staffing on the civilian side after the early retirement program.

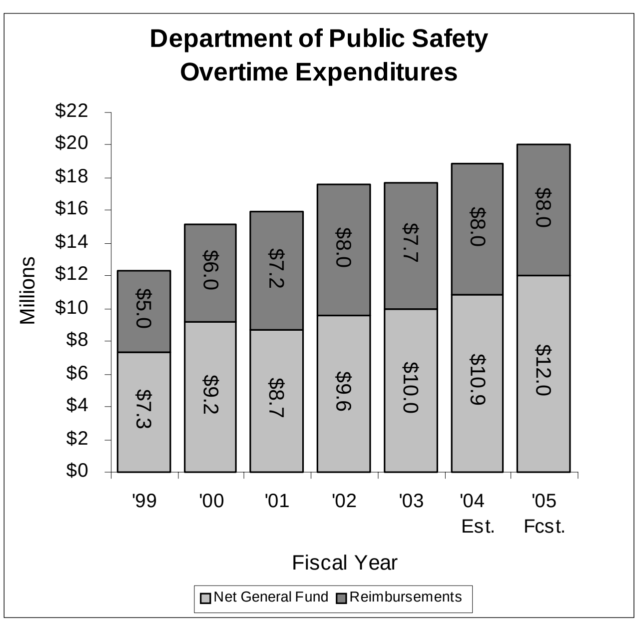


The Department of Public Safety (DPS) had a total of 129 General Fund retirees under the Early Retirement Incentive Program. This included 61 civilian and 68 sworn retirements. Currently, 33 of the 68 sworn personnel have been approved for one-year retirement deferrals to provide an increased law enforcement presence due to heightened security considerations.

DPS' ERIP Plan received approval to refill 38 of 61 civilian positions. In addition, 56 of 68 sworn positions were tentatively approved for refill contingent upon the 33 sworn deferrals.

Section 174 of P.A. 03-6 suspended the 1248 minimum sworn level until January 1, 2006. Consequently, there is no statutory obligation for a specific sworn level. However, the Governor has added $2.58 million in his adjusted budget to ensure maintenance of staffing through a trooper training class so as to continue effectiveness of services and to safeguard the protection and safety of the public.

The size of the class is predicated on the outcome of the deferrals. The class could range in size from 23 to 56 depending on how many of the individuals who deferred their retirements actually retire or choose to rescind their retirement papers.



DPS overtime

The DPS allotment for overtime has been adjusted by $4 million in FY 2004-05 in an effort to efficiently manage overtime expenditures and to reflect historical trends. In addition, the Governor's commitment of $2.58 million to maintain staffing through rescinded retirements and/or a potential trooper class to fill vacancies is expected to increase the number of troopers protecting Connecticut and stabilize overtime expenditures.

It should be noted that, even with the reduction of $4 million from current services estimates, the amount budgeted for overtime will be $12 million in FY 2004-05, up $1.1 million from estimated overtime expenditures this fiscal year.

DPS homeland security location

The Military Department transferred the Brainard Hanger facility to the Department of Public Safety to be used by the Division of Homeland Security as a multi-functional Emergency Response Facility to house the Urban Search and Rescue Task Force, the Emergency Response Bomb Truck, the Connecticut Disaster Medical Assistance Team, bio-chemical response trailers, fixed and rotary wing aircraft and various equipment. The Coast Guard Auxiliary and the Civil Air Patrol will continue to utilize the facility.

The Governor's budget includes an adjustment of $192,981 for operating expenses of the Brainard Hangar and to install and implement an access control security system based on card swipe entry to protect aircraft, emergency, communications and other advanced technological equipment.

Military armories changes

The New Haven, Manchester and Bristol armories were scheduled for closure in FY 2004-05. National Guard troops and armory operations would have been redeployed to nearby federally maintained armories in a manner that would not compromise public safety and support. This was contingent upon relocation of Navy units and the availability of anticipated new federal facilities, which have been delayed indefinitely. Funds have been reallocated from Personal Services to Other Expenses to support ongoing operational expenses.

DNA testing program

During the last legislative session, greater emphasis was placed on the use of technology to aid law enforcement. With the enactment of PA 03-242, An Act Concerning the Collection of DNA Samples from Persons Convicted of a Felony, all felons must now submit biological samples to the DNA Database maintained by the State Forensic Laboratory. This includes an estimated 79,000 individuals currently under supervision of the court or in custody of the Department of Correction. Prior to this legislation, only those individuals convicted of crimes requiring sex offender registration were included in the DNA Database.

In support of this expanded mandate, Governor Rowland is making available over $1 million in federal Byrne funds to implement the statute. About $340,000 in funding is being provided in the current fiscal year to purchase Buccal Swab Evidence Collection Kits and for staff necessary to collect the samples.

Additional funds next fiscal year totaling $732,000 are provided so that all of the involved agencies (Departments of Public Safety and Correction, and the Judicial Branch) will be able to collect the necessary evidence for analysis. The addition of such a large number of samples will increase the number of "hits" (suspect profiles matched) and police investigations will be immeasurably aided.

Forensic sex evidence exams

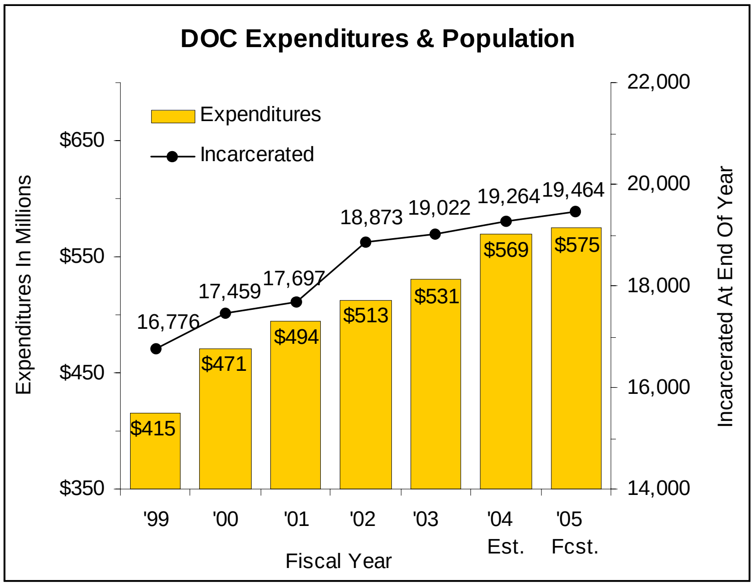
Section 19a-112a Subsection (e) of the Connecticut General Statutes previously stated that no costs incurred by a health care facility for the examination of the victim of sexual assault shall be charged directly or indirectly to the victim of such assault when such examination is performed for the purposes of gathering evidence. Such costs are charged to and paid from the Division of Criminal Justice's (DCJ) Forensic Sex Evidence Exam account. Under this legislation, reimbursements were capped at $300 per incident of sexual assault.

Section 163 of Public Act 03-6, passed during the June 30, 2003 special legislative session, modified prior legislation to require that no costs, including the costs of testing for pregnancy and sexually transmitted diseases and the costs of prophylactic treatment, shall be charged directly or indirectly to such victim for purpose of gathering evidence. Consequently, the Division of Criminal Justice's per incident cost will be approximately $800. This new legislation passed without the proper adjustment to DCJ's budget.

The Governor has included a technical budget adjustment of $323,407 to further assist victims of sexual assault and to implement PA 03-6.

DOC costs and out of state placement

Prison populations and expenditures in Connecticut continue to rise, but the explosion of caseload and costs is ebbing somewhat. The last major leap in the incarcerated population occurred from FY 2000-01 to FY 2001-02. Since then, the number of incarcerated individuals is expected to increase by just 400 prisoners through the end of this fiscal year.



The population is only expected to increase by about 200 inmates next fiscal year. The original biennial forecast suggested that the incarcerated population would reach over 20,900. The current projection is less than 19,500.

The jump in expenditures has not yet mitigated, however. From FY 2002-03 to the current fiscal year, spending is expected to increase $38 million, or over 7 percent. This would include about a $10 million increase caused by the merger of the Board of Parole with DOC in FY 2003-04. Growth is expected to curtail next fiscal year. The budget calls for spending $575 million for DOC expenses next fiscal year, up just $6 million from the current fiscal year, or just 1 percent.

Currently, the Department of Correction has a contract for the housing of 500 high-security inmates at Greensville State Prison in Virginia. Placement of inmates in facilities outside of the State of Connecticut has several advantages:

- Competition amongst vendors may result in per diem cost per inmate lower than is possible in Connecticut.
- It provides capacity to alleviate crowding situations in high security housing units.
- Aging or temporary facilities can be vacated, and existing housing units that require major renovation can be addressed.

During the last legislative session, DOC obtained statutory permission to increase the number of prisoners it can ship out of state by 2,000 more through June 30, 2005. The Department of Correction will seek proposals from public and private contractors for the care and custody of up to 2,000 additional offenders in out-of-state facilities.

The delay in the passage of the budget last year pushed back the time line to begin sending inmates out of state. That has prompted the Governor to look to revise statutory language to allow the Commissioner of Correction to contract with a governmental or private vendor for up to 2,500 prisoners permanently, thus making the out of state placement option a permanent statutory authorization.

Tuition waivers honoring our state's heroes

The people of this state owe a debt of gratitude to the men and women who have sacrificed their lives for the protection of our country and our way of life in the fight against terror. To assist the families of these brave Connecticut men and women, the Governor is proposing to waive tuition at the University of Connecticut, the Connecticut State University system and the Regional Community-Technical College system for the spouse or any dependent child of those who have died while defending this country.

A More Efficient Government

In these tough economic times, the public sector must do all it can to lessen the burden that the private sector shoulders. Anything less, simply means higher and higher taxes on businesses and fewer and fewer jobs for Connecticut residents.

While taxes have increased on citizens and businesses alike over the past few years, Governor Rowland has done all that he can to try to reduce the size and scope of government. When the recession hit the state and the budget was looking at hundreds of millions in structural holes, the Governor approached the union coalition to attempt to gain wage and benefit concessions. When that did not occur, unfortunately the state had to resort to painful layoffs almost one year ago.

In a further effort to reduce the work force and the state's ongoing personnel costs, the Governor crafted one of the most rigorous Early Retirement Incentive Plans (ERIP) that limited refills to the most essential positions. Earlier ERIPs failed to save much money because agencies were allowed to fill a multitude of jobs.

The combination of these two efforts and ongoing negotiations that have netted individual concession packages has meant reducing state costs by hundreds of millions of dollars and the shedding of thousands of positions. At the same time, essential government programs and services have continued with few missteps.

Workforce downsizing

In an effort to control costs, there have been continued efforts to downsize the state workforce. As mentioned above this was achieved through a combination of an early retirement incentive program and layoffs made in lieu of union concessions. Over 2,400 of the originally estimated 3,000 layoffs and other separations went into effect. Concessions reached with some of the higher education bargaining units eliminated the need to follow through with some of the planned layoffs. It is estimated that these layoffs and other separations will result in combined general fund and special transportation fund savings of $116.4 million in FY 2003-04 and $120.6 million in FY 2004-05. These numbers are less than originally forecast partly due to restorations in the biennial budget and the concession agreements reached with some higher education units.

Impact of Layoffs, Separations and ERIP* on FY 03-05 Budget - All Funds

	Est FY 04	Est FY 05
Workforce Reductions		
Total Layoffs & Other Separations	(2,431) *	(2,431) *
Early Retirement Incentive Program (ERIP)	(4,725) **	(4,725) **
Total Workforce Reductions as of 6/30/03	(7,156)	(7,156)
Workforce Increases		
Additional Filled Through 6/30/04	2,000 ***	2,000 ***
Additional Filled Through 6/30/05		800
Total Workforce Increases	2,000	2,800
Net Impact on Workforce - All Funds	**(5,156)**	**(4,356)**

* 1,227 of the laid off or separated employees have been reemployed by the state as of January 2004.
** Includes 96 employees who have deferred retirements to a date after June 30, 2003 but not later than June 30, 2004.
*** As required by Public Act 03-2.

An early retirement plan with a window from March 1, 2003 through June 1, 2003 was implemented in an effort to effect further savings. The ERIP provided "three chips" to be used for age and/or service. All employees age 52 or older with at least ten years service or hazardous duty employees with at least twenty years service were eligible. Payments for accrued leave will occur over a three-year period starting in FY 2005-06. Over 10,500 employees were eligible for the incentive and 4,725 took advantage of it, including 96 employees who received up to a twelve month extension until no later than June 2004. This exceeded the estimated target of 4,340 employees.

This ERIP allowed for work force reductions without having to resort to additional layoffs and created re-employment opportunities for many of the previously laid-off workers. In fact, as of January 2004, 1,227 of the employees laid off in FY 2002-03 have been reemployed by the state. Over 1,700 of the positions vacated by employees taking advantage of the ERIP will not be refilled statewide. Savings are occurring principally due to this reduction in the state work force. Additional savings are accruing from less than average initial compensation of replacement workers, and due to the savings from the interim re-certification of the State Employees Retirement System that has been done.

Initial targets for combined general fund and special transportation fund savings from the ERIP were $164.4

million in FY 2003-04 and $150.5 million in FY 2004-05. Combined general fund and special transportation fund personal service savings are $8.5 million less in FY 2003-04 and $9.2 less in FY 2004-05 than originally targeted. A significant portion of this difference is due to efforts to ensure that direct care staffing requirements are fully met.

Impact of Layoffs, Separations and ERIP on FY 03-05 Budget
General Fund & Special Transportation Fund
(In Millions)

	Est FY 04	Est FY 05
Estimated Savings of Layoffs and Other Separations		
Personal Services	$94.0	$95.7
Fringe Benefits	22.4	24.9
Total Estimated Savings due to Separations	$116.4	$120.6
Early Retirement Incentive Program Estimated Savings		
Personal Services	$143.1	$134.1
Fringe Benefits	6.1	-8.9
Total Estimated Savings due to ERIP	$149.2	$125.2
Total Estimated Savings - Separations & ERIP	$265.6	$245.8
General & Special Transportation Fund		
Total Estimated Savings by Fund		
General Fund	$237.9	$219.8
Special Transportation Fund	$27.7	$26.0

Another significant factor in the current ERIP estimates being lower than our earlier targets is the lower than expected savings due to the re-certification of the employer contribution for the State Employees Retirement System. The initial estimates were that this would reduce the employer contribution by $24.3 million in FY 04 and by $22.7 million in FY 05. These estimates were based on the savings certified by the SERS actuary for the 1997 ERIP. Upon reviewing the impact on the SERS for this ERIP, the SERS actuary has determined that savings to the employer contribution of only $17.6 million in FY 04 and $6.7 million in FY 05 will be achieved due to the 2003 ERIP. This results in a reduction in the state's ERIP savings from the initial target of $6.7 million in FY 04 and $16.0 million in FY 05. Without a doubt, from an ongoing savings and permanent personnel reduction standpoint, this ERIP was the most successful the state has ever seen.

All told, between the layoffs and ERIP, the state work force will be down at least 4,350 positions. Total savings in the general fund and transportation fund will be almost $250 million, about $60 million less than the original estimate.

The original adopted budget for FY 2004-05 showed ERIP savings through a statewide lapse at the foot of the budget in the general and transportation funds. The adjusted budget removes the ERIP lapse and apportions all the savings to personal services accounts in each agency and the central fringe benefits accounts. Consequently, agency PS accounts may appear to be reduced, although they were artificially high in FY 2003-04 because of the foot-of-the-budget lapse.

Rehiring of laid off workers

As noted above, at least 1,227 of the employees who were laid off or otherwise separated in FY 2002-03 when the state failed to get concessions from the union coalition have been reemployed as of January 2004. This represents approximately 50 percent of the 2,431 employees who were laid off or otherwise separated. Other employees have been offered employment, but have declined. In addition a small number of laid off employees chose to participate in the Early Retirement Incentive Program (ERIP).

Clerical (NP-3) Wage Increase Pattern

Contract Year	GWI	AI
First Year of Contract	0%	No AI
Second Year of Contract	3%	6 Month Delay
Third Year of Contract	3%	6 Month Delay
Fourth Year of Contract	3%	On Time

This ERIP implemented after the layoffs provided the opportunity to bring back many of these laid off employees to replace employees who had taken advantage of the ERIP. The state launched an aggressive recruitment program including job fairs to get as many of these laid off employees back to work as quickly as possible in order to fill the vacancies created by the ERIP. The hiring to replace employees who participated in the ERIP has been largely completed at this point, but we still hope to see some more reemployment opportunities during the coming fiscal year.

Labor concessions

Since the layoffs and ERIP, the state has continued to pursue cost-savings through negotiations with individual unions.

In FY 2002-03, nearly all of the higher education units reopened contract negotiations on their current contracts in order to provide concessions during the state's fiscal crisis. The following units renegotiated their contracts with a wage freeze for FY 2003-04: Charter Oak Professionals, Congress of Connecticut Community Colleges, State Technical College Administrators, State University Non-faculty Professionals, State University Faculty, University of Connecticut Faculty and University of Connecticut Professionals. The Higher Education Professionals unit negotiated a successor contract, which became effective July 1, 2003 and provided a wage freeze for FY 2003-04. Only two higher education units did not provide concessions: State Technical College Faculty and the University of Connecticut Health Center Non-faculty Professionals. Higher education units offering concessions have a total of 5,341 employees and a total payroll of $336 million. Those not offering concessions have a total of just over 2,000 employees and a total payroll of just less than $100 million.

All Funds Wage Base for Agreements with a Wage Freeze in One Year

	Number of Employees	All Funds Payroll	Year of Freeze
Contracts Passed by the Legislature in 2003 Session			
University of Connecticut Faculty (AAUP)	1,266	$98,150,872	FY 2003-04
UConn Professional Employees Assoc (UCPEA)	1,216	$62,199,749	FY 2003-04
Connecticut State University Faculty (AAUP)	1,228	$78,715,505	FY 2003-04
Connecticut State University Administrative Faculty	428	$27,304,252	FY 2003-04
Congress of Connecticut Community Colleges	1,065	$61,860,257	FY 2003-04
Technical College Administrators	62	$3,642,398	FY 2003-04
Charter Oak State College Professionals	46	$2,633,155	FY 2003-04
DHE Professional Employees	30	$1,905,683	FY 2003-04
	5,341	**$336,411,871**	
Awards and Agreements to be submitted to Legislature in 2004 Session			
Administrative Clerical (NP-3)	4,355	$172,451,321	FY 2002-03
Judicial Employees	1,227	$52,898,878	FY 2002-03
Judicial Professional Employees	898	$56,299,866	FY 2002-03
Social & Human Services (P-2)*	3,429	$183,957,197	FY 2002-03
	9,909	**$465,607,262**	
TOTAL FOR ALL BARGAINING UNITS	**15,250**	**$802,019,133**	

Statistics are based on the 10/31/03 Payroll.
* The Social & Human Services contract provides for no GWI in FY 2002-03 but does include AIs for that year.

Thus far, in FY 2003-04, there have been three contracts that have been ratified by the unions which provide for wage freezes and delays in their Annual Increments (AIs). The Administrative Clerical, the Judicial Employees and the Judicial Professional Employees contracts each provide for an absolute wage freeze in the first year of their contracts and 3 percent General Wage Increases (GWI) and delays in AIs by six months in the second and third years of their contracts.

The Social and Human Services arbitration award provides AIs but no GWI in the first year of the contract, a 2.5 percent GWI and a delay in AIs for six months in the second year of the contract and a 3 percent GWI and a three month delay in AIs in the third year of the contract.

The Social and Human Services award comes close enough to the negotiated concession pattern. Consequently, the administration supports the approval of the arbitrator's decision and is providing funding in the adjusted budget. Indeed, when you compare the arbitrated award against the general fund costs for the union had they accepted the pattern, the difference in FY 2004-05 is about $2.5 million for over 3,000 employees, or $838 per employee.

The Corrections Supervisors award, however, is an award that the administration cannot endorse. It is unaffordable for taxpayers. The award is for the first contract between the state and the Correction Supervisors unit. This unit is composed of correctional employees predominantly in the class of Correctional Lieutenant who were previously excluded from bargaining because they were management employees.

This award provides for no wage freezes and also has a provision in it that changes the line supervisor schedule to five days on and three days off, which the Department of Correction believes will result in the need for considerable additional staff. All told, this award would cost the state an additional $7.7 million over the FY 2003-05 biennium beyond what would have occurred if the award had been along the line of the agreement reached with the Administrative Clerical and two judicial bargaining units.

Wage Base of Units That Provided No Concessions

Bargaining Unit	Contract Termination	Number of Employees	All Funds Payroll
Correctional Supervisors (NP-8)[(a)]	N/A	325	$18,514,102
Administrative & Residual (P-5)	6/30/03	2,711	$167,128,014
DCJ Prosecutors & Juvenile Prosecutors	6/30/03	247	$20,412,183
Vocational - Technical Directors	6/30/03	58	$4,807,889
Vocational - Technical Faculty	8/28/03	1,077	$63,139,787
Corrections (NP-4)	6/30/04	4,801	$211,947,451
Judicial Marshals	6/30/04	636	$22,845,938
Protective Services (NP-5)	6/30/04	796	$40,015,156
State Police (NP-1)	6/30/04	1,129	$63,178,555
DCJ Employees	6/30/05	125	$5,490,284
DCJ Inspectors	6/30/05	73	$5,098,648
Education - Administrators (P-3A)	6/30/05	203	$16,679,479
Education - Educators (P3-B)	6/30/05	819	$49,547,154
Engineering & Science Related (P-4)	6/30/05	2,255	$140,141,629
Health Care Para Professional (NP-6)	6/30/05	4,135	$186,804,966
Health Care Professional (P-1)	6/30/05	2,204	$142,071,875
Service Maintenance (NP-2)	6/30/05	3,577	$149,238,016
State Technical College Faculty	6/30/05	108	$7,274,884
UConn Health Center Non Faculty Professionals	6/30/06	1,932	$90,317,642
		27,211	**$1,404,653,652**

Statistics are based on the 10/31/03 Payroll except as noted.
(a) Statistics are based the cost sheet. This unit has an arbitration award that will be submitted to the Legislature this session.

While a relatively small unit of 325 employees, the cost to the state over the biennium will amount to almost an additional $23,700 per current employee. The cost is $11,200 more per employee than the clerical pattern in FY 2004-05 for the general fund, compared with the $838 per employee difference in the Social and Human Services award. (see chart on page 133 bottom)

Consequently, there is no money in the Governor's budget for this award.

In sum, all unions that offered concessions or have an arbitration award that the state is supporting have employees totaling 15,250 and a total payroll of over $800 million. All unions that have settled or unsettled contracts but have yet to offer concessions have total membership of 27,211 and a total payroll of about $1.4 billion.

In essence, a little over one-third of the unionized work force has stepped forward to offer real concessions in these tough economic times for the state.

Funding in the Reserve for Salary Adjustments

Almost $36 million was added to the Reserve for Salary Adjustment in the adjusted budget submission to cover collective bargaining increases. This increase will fund ratified contracts that the administration supports, which include the Social and Human Services arbitration award, the Clerical agreement, the Judicial Employees agreement and the Judicial Professionals agreement. Again, no funding is provided for the corrections supervisors unit.

DOIT centralization

Over the past year, the state IT work force has decreased significantly due to early retirements and layoffs. The total executive branch IT work force of just over 800 employees lost approximately 200 positions to layoffs and ERIP -- almost 25 percent. Concurrently, the IT needs of state agencies are growing. To continue to meet the needs of client agencies, DOIT must have the collective skills and expertise of a centralized work force.

This budget endorses the concept of centralization of IT personnel under one roof and begins that process. The centralization of IT positions in DOIT will increase fiscal accountability by placing all positions in one agency where fiscal oversight for the state's IT functions can be more efficiently accomplished. The shifting of funding for some positions to appropriated funds due to this centralization will also reduce the reliance upon the revolving fund for IT positions resulting in increased expenditure control.

Comparison of General Fund Contract Requirements through FY 2004-05

	Bargaining Unit		
	Clerical (NP-3)	**Corrections Supervisors (NP-8)**	**Social and Human Services (P-2)**
# of Employees	2,992	325	3,019
FY 2002-03	$0	$860,100	$1,391,600
FY 2003-04	$3,893,200	$5,017,900	$7,125,500
FY 2004-05	$11,268,300	$6,130,225	$16,055,000
Total General Fund Cost	**$15,161,500**	**$12,008,225**	**$24,572,100**
Average per employee cost including Social Security*	**$5,067**	**$20,416**	**$8,139**

Note: Above requirements include social security.

* Average per employee cost is calculated by dividing the total cost by the number of employees except for the Corrections Supervisors, which is the total cost minus the cost of the 40 new employees required for the change in the line supervisor schedule divided by the number of employees.

The Clerical Agreement provides for a wage freeze in FY 2002-03; GWIs of 3% on time and a six month deferral of AIs or Lump Sum Payments at Maximum in FY 2003-04; and a GWI of 3% on time and a six month deferral of AIs or Lump Sum Payments at Maximum in FY 2004-05.

The Corrections Supervisors Award provides GWIs of 3% on time, a six month deferral for AIs or Lump Sum Payments at Maximum and a retroactive longevity payment in FY 2002-03; GWIs of 3% and AIs or Lump Sum Payments at Maximum on time in FY 2003-04; and GWIs of 3% on time and a three month deferral of AIs or Lump Sum Payments at Maximum in FY 2004-05.

The Social and Human Services Award provides no GWIs and AIs on time in FY 2002-03; GWIs of 2.5% on time and a six month delay in AIs in FY 2003-04; and GWIs of 3% and three month deferral of AIs.

The transfer of these positions and their related funding to DOIT will place the state in the position it needs to commence planning and to negotiate over the eventual transformation of the state's IT services, which are scheduled to be implemented during the FY 2005-06.

Centralization will enable ample time to adequately complete the planning process with input from all parties before transformation. This will allow for negotiations with the state labor unions that must be done as well as providing a date which will enable the transformation to coincide with the beginning of the next biennium. In addition the contract for the union representing most IT employees will expire on June 30, 2005, so any changes necessitated by the negotiations over the transformation can be incorporated into a new labor contract beginning July 1, 2005.

This centralization and eventual transformation will allow the state to achieve a number of important objectives:

- **Strengthening the State IT Workforce** -- A consolidated work force would enable the state's IT needs to be met by a strategically deployed work force. A strategically deployed work force ensures all agencies are being serviced, priority projects properly staffed, and may also provide employees with additional career opportunities.

- **Leveraging Investments to Benefit All Agencies** -- The state's greatest IT asset is the skill level and expertise of the IT work force. And traditionally, the largest agencies have the best technology and largest staff. Often overlooked is the fact that many of the state's most pressing needs are being met by smaller agencies, which also regulate, provide services and run programs. With staffing down overall, the need for better technology has never been more pressing. Consolidating the workforce will help DOIT develop more statewide technologies for all agencies and be able to dispatch experts to both large and small agencies to help them take advantage of enterprise-wide solutions.

- **Continuing Development and Deployment of Enterprise-Wide Solutions** -- The state IT environment has been undergoing a gradual centralization for years. The Core-CT project, development of unified standards governing 84 categories of technology, Criminal Justice Information Systems (CJIS), centralized e-mail, security techniques, internet access, and the state's $15 million Data Center are all examples. The time has come to do the same with the state's IT work force. With a centralized workforce DOIT can continue to improve the delivery of IT services statewide while meeting increasing demands.

This adjusted budget begins the process of centralizing the unionized workers as DOIT employees. Management employees had already become DOIT employees, but DOIT continued to charge agency other expense accounts for management services. In the adjusted budget, positions and funding for unionized employees and funding for managers is transferred from most agencies to the central DOIT account. The DOIT position count is increased by a requisite number. Revolving fund activity will go down considerably with most employees now budgeted in the General Fund.

A limited number of IT employees' wages and benefits remain in agencies due to the nature of their funding stream. In these cases, a DOIT position count has been set up in these funds for IT employees.

Core-CT

CORE-CT state-of-the-art computer system has replaced Connecticut state government's core financial and administrative computer systems, including central and agency accounting, purchasing, accounts payable, accounts receivable, assets, inventory, project accounting, payroll, time and attendance, personnel, and other business systems. The financial system went live at the beginning of the current fiscal year, with the human resources component going live toward the end of the 2003 calendar year.

The project is led by a Steering Committee consisting of the State Comptroller, Secretary of the Office of Policy and Management, Chief Information Officer, and the Commissioner of Administrative Services. The project started May of 2000 with the release of an RFP for a vendor to "Assist in the Requirements Definition, Software Selection, and Implementation of an ERP System for the State of Connecticut", followed in January 2001 with the release of an RFP for "CORE-CT, Connecticut's Enterprise Resource Planning (ERP) Initiative." PeopleSoft was selected as the ERP software and Accenture was selected as the implementation consultants.

The new system integrates basic human-resource, payroll, and financial work for all agencies. It:

- Streamlines government operations: eliminates redundant, non-value added tasks (like re-keying and reconciliation).
- Facilitates better decision-making: gives managers and end-users easy access to timely and accurate information.
- Standardizes and modernizes technology: reduces the variety of computers, programming languages, database packages, etc. used in State government.
- Eliminates redundant systems: eliminates systems that the agencies use to perform financial and administrative functions that the CORE-CT system can and should perform.
- Avoids replacing core systems piecemeal: removes the potential costly replacement of single major systems, which would lead to a new generation of nonintegrated systems.

The first phase of Financial Modules was implemented in July 2003 when the General Ledger, Purchasing, Accounts Payable, and Accounts Receivable went on line. This was followed in October 2003 with the implementation of the Payroll, Time and Attendance, and Personnel Modules. Phase 2 of the Financial Modules will be implemented in early 2005 when the Assets, Inventory, Project Accounting, and Billings modules go live.

In order to implement the Financial Modules, the project team conducted nearly 700 training classes covering 26 topics. These classes ranged from half day to full day sessions, with the vast majority being hands on computer sessions. Each impacted employee attended approximately 3 sessions with nearly 2000 employees participating. For the Human Resource Modules the training covered 15 topics by conducting nearly 430 classes. Approximately 1000 employees participated in this hands on training with staff averaging 3 classes

Reserve for Salary Adjustments
FY 2004-05 General Fund Requirements

- Professional Development for unsettled executive bargaining units
- SCOPE/OJE
- Agency Accrual Payments
- Clerical (NP-3) Agreement
- Social Worker (P-2) Arbitration Award
- Judicial Non-professional Employees Agreement
- Judicial Professionals Agreement
- Social Security Costs on above items

each. This massive training effort that was designed to assist staff to learn the new system and the new business process that are required for agencies.

While the implementation has had its share of difficulties and challenges for everyone, it is progressing quite well considering the magnitude of change from both a technical and business process perspective. As the chief architect of the idea to replace the antiquated system, the State Comptroller deserves accolades for her vision and perseverance in making CORE-CT a reality.

The primary goal for the coming year will be to smooth out the operation of the system, increase staff knowledge and skill in using the system, implement the new financial modules, and solidify the support team that will need to be in place to manage this large and complex business system.

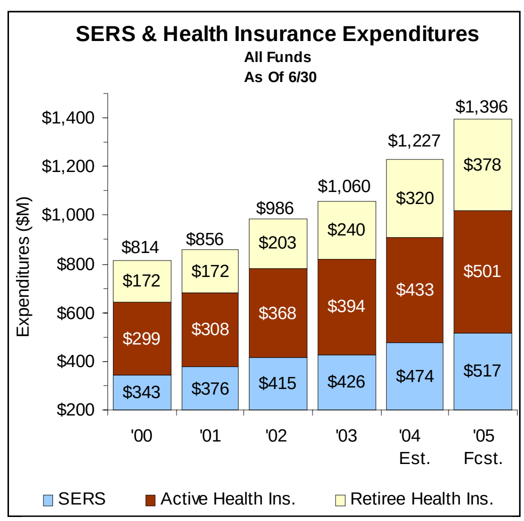
CORE funding changes

In order to continue the implementation and ensure the proper funding of the CORE-CT project, reallocations and additional funding have been recommended to more closely reflect the costs associated with the project. In order to fund the project directly, General Fund dollars that had been appropriated to agencies in order to pay for BOSS costs in the DOIT Revolving Fund have been reallocated and are now included as a direct appropriation in DOIT’s Personal Services and Other Expenses Account. This transfer of $4.4 million will be used to fund both staff and other operating costs associated with the CORE-CT project.

Additional funds for two positions in the Department of Administrative Services and three positions in the Comptroller’s Office have been recommended. Approximately $2.5 million in funding for software maintenance and consultants has been recommended in the Comptroller’s Office. DOIT's recommended Other Expenses Account has been increased by $1.1 million, of which $1 million is to fund the CORE-CT portion of a Disaster Recovery contract.

With the reallocation and additional funds provided, it is anticipated that sufficient funds will be available for the continued implementation of the project.

While the additional dollars seem large especially in these times, it should be noted that the state-of-the-art system should mean great savings over time compared with the old system. Further, the platform is much more efficient and will mean expanded efficiencies throughout state government. Finally, many of the additional funds are for critical functions that have been long ignored but are vital to state government.

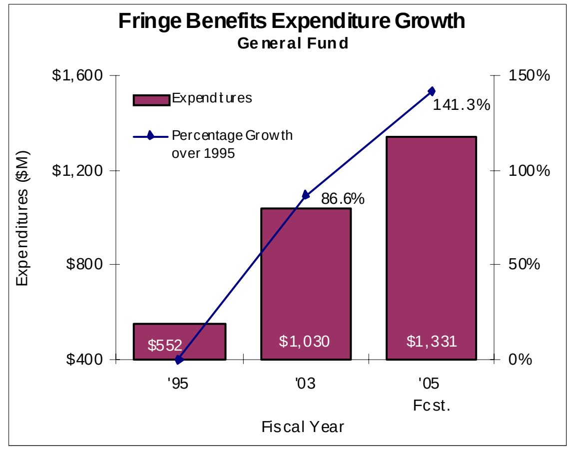


Fringe benefit costs

Despite the downsizing mentioned above, fringe benefits for state employees and retirees have grown dramatically and will continue to do so.

In FY 1999-00, all funds cost for pension and health contributions was $814 million. In FY 2002-03, the cost was $1.1 billion. The cost for FY 2004-05 is estimated at $1.4 billion, an increase of 27 percent in a period of two years.

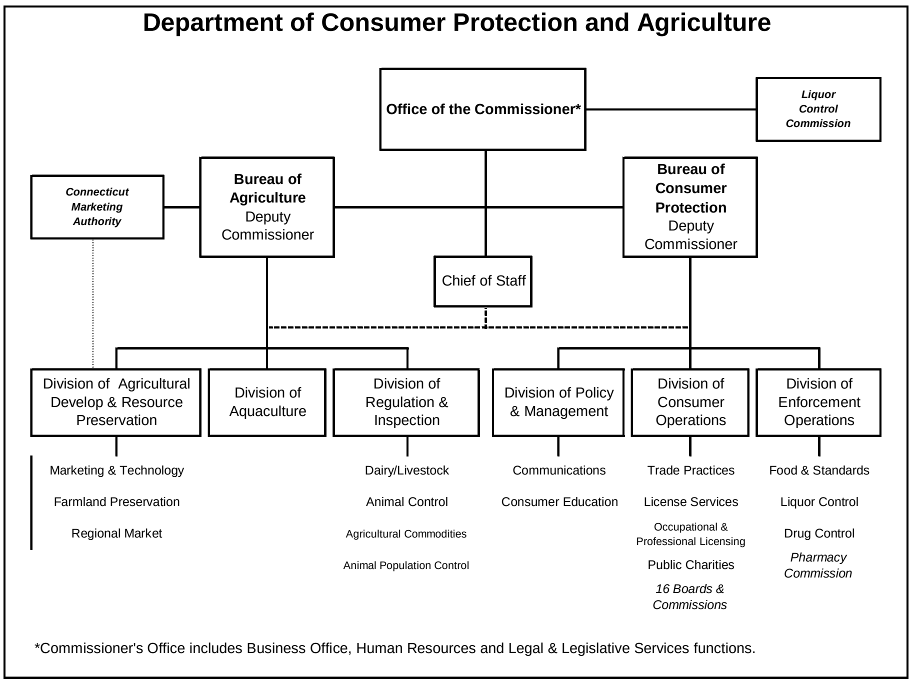
Since FY 1994-95 the general fund fringe benefit costs have increased 87 percent through FY2002-03, and are estimated to increase 141 percent through FY 2004-05.



Departments of Consumer Protection and Agriculture Merger

The 2003-05 biennial budget merges the Department of Consumer Protection and the Department of Agriculture effective July 1, 2004. The new organization will focus on the two new bureaus – the Bureau of Agriculture and the Bureau of Consumer Protection.

While the organization will remain essentially the same as that of the precursor agencies, savings will be realized through the consolidation of administrative staff and by instituting efficiencies in agency activities. For example, instead of both agencies sending staff to inspect different product lines at the same site, it would be more efficient to have one staff person do the entire inspection.



Constituencies of the current agencies will continue to receive the same quality services under the new agency, especially in the Bureau of Agriculture where the Governor is committed to have a Deputy Commissioner for Agriculture.

CATCH-F

The new Connecticut Commission on Arts, Tourism, Culture, History and Film is off to a good start. After some delays in setting up in the new financial system, the new agency, the successor to the Arts Commission, Historical Commission, and Tourism Bureau of DECD, has begun making grants to both tourism districts, arts organizations and other attractions listed in the special act statute, arts organizations.

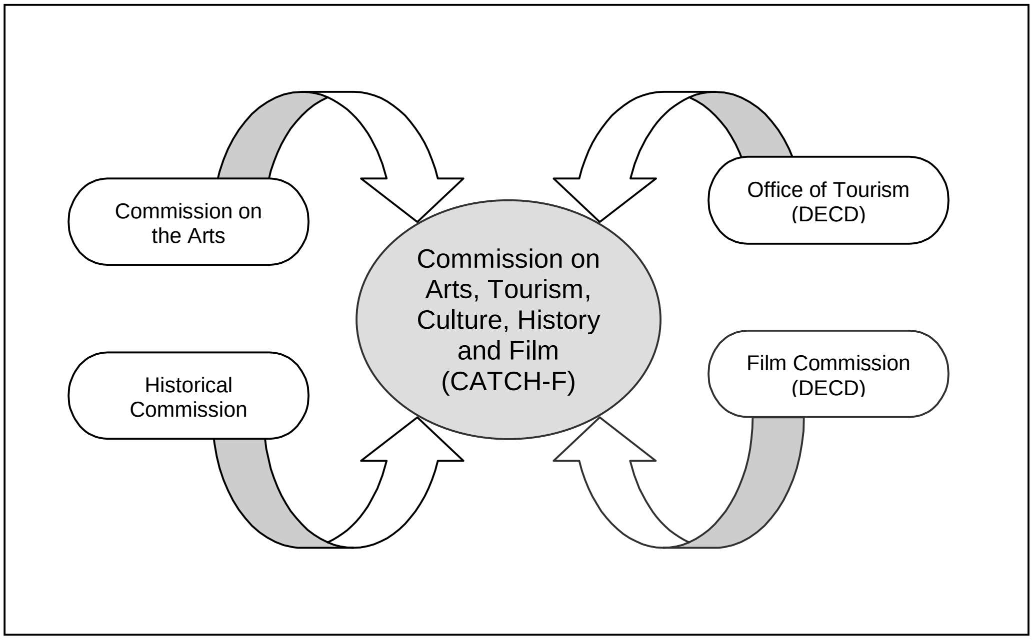
The primary change proposed in this adjusted budget is that the agency will now be subject to appropriation rather than being funded through an intercept. The change ensures that the agency is subject to as much scrutiny as other agencies. Further, an appropriation ensures that funding can go out in a timely fashion to entities relying on predictable funding each year. Under current law, funds will not be able to go out until October at the earliest of each fiscal year because hotel tax receipts are not credited until that time.

While just $20 million in funding was intercepted for CATCH-F in the adopted budget, Governor Rowland's adjusted budget makes $26 million available to CATCH-F, with an additional $1.1 million budgeted on behalf of the agency in fringe benefit accounts.

In the current fiscal year, the agency had $24.5 million available to it, including carryforward funding. The Office of Policy and Management had an additional $4.2 million for the convention center, bringing total CATCH-F funding to $28.7 million. Thus, reductions in the agency are minimal.

Notable increases in the agency are $1 million for Mystic Aquarium and $1 million for the Science Center.

Tourism districts continue to receive $950,000, although supplemental grants to some districts have been eliminated.



ERIP Savings
FY2003-2005 Appropriated Savings Compared to January 2004 Estimates

	FY2004			FY2005		
	Appropriated	**Estimated**	**Difference**	**Appropriated**	**Estimated**	**Difference**
GENERAL FUND						
Personal Services	141,317,600	129,548,095	(11,769,505)	133,825,300	123,465,502	(10,359,798)
Fringe Benefits						
Social Security Net Savings	10,810,800	10,810,800	-	10,237,600	10,237,600	-
Employee Net Health Insurance Savings	13,702,900	13,702,900	-	15,742,200	15,742,200	-
Retiree Health Insurance Cost	(35,184,400)	(37,723,500)	(2,539,100)	(40,582,000)	(43,510,600)	(2,928,600)
State Employees Retirement System	22,664,400	17,605,047	(5,059,353)	21,172,100	6,703,529	(14,468,571)
TOTAL GF ERIP SAVINGS:	153,311,300	133,943,342	(19,367,958)	140,395,200	112,638,231	(27,756,969)
SPECIAL TRANSPORTATION FUND						
Personal Services	10,198,200	13,514,894	3,316,694	9,657,500	10,807,112	1,149,612
Fringe Benefits						
Social Security Net Savings	780,200	780,200	-	738,800	738,800	-
Employee Net Health Insurance Savings	988,900	988,900	-	1,136,000	1,136,000	-
Retiree Health Insurance Cost	(2,539,100)	-	2,539,100	(2,928,600)	-	2,928,600
State Employees Retirement System	1,635,600	-	(1,635,600)	1,527,900	-	(1,527,900)
TOTAL STF ERIP SAVINGS:	11,063,800	15,283,994	4,220,194	10,131,600	12,681,912	2,550,312

Summary of ERIP Personal Services and Full Time Position Savings				
Agy #	Agency	FY 2004	FY 2005	Positions
General Fund		$	$	
1001	Legislative Management	500,000	1,038,964	0
1005	Auditors' of Public Accounts	634,816	593,661	0
1102	Secretary of the State	494,572	470,093	8
1201	Treasurer, Office of the State	202,498	149,784	0
1202	Comptroller, Office of the State	425,281	500,000	0
1203	Revenue Services, Department of	3,686,087	3,477,576	44
1204	Special Revenue, Division of	1,241,621	1,184,534	17
1310	Policy and Management, Office of	1,897,033	2,249,302	23
1312	Veterans' Affairs, Department of	1,757,383	1,527,917	15
1315	Workforce Competitiveness, Office of	0	107,636	0
1320	Administrative Services, Department of	2,066,667	2,005,613	23
1324	Information Technology, Department of	408,244	484,192	5
1326	Public Works, Department of	603,754	676,484	13
1501	Attorney General, Office of the	1,793,720	1,707,079	17
1504	Criminal Justice, Division of	947,887	725,633	0
2000	Public Safety, Department of	4,126,899	5,800,000	35
2003	Police Officer Standards and Training Council	83,551	45,843	0
2201	Military Department	277,999	244,381	3
2304	Fire Prevention & Control, Commission on	71,657	62,512	1
2500	Consumer Protection, Department of	926,733	1,038,804	12
2610	Labor, Department of	281,634	150,120	2
2901	Human Rights & Opportunities, Commission on	241,620	226,194	3
2902	Protection & Advocacy for Persons with Dis., Office of	100,643	84,170	1
3002	Agriculture, Department of	525,002	0	0
3100	Environmental Protection, Department of	3,389,181	3,228,750	36
3400	CATCH-F	201,213	164,178	3
3500	Economic & Community Development, Dept. of	463,229	436,882	5
3601	Agricultural Experiment Station	326,699	292,308	2
4001	Public Health, Department of	2,906,726	2,577,938	31
4090	Chief Medical Examiner, Office of the	176,561	171,396	2
4100	Mental Retardation, Department of	18,271,344	17,970,041	259
4400	Mental Health & Addiction Services, Dept. of	13,990,092	11,183,170	207
6100	Social Services, Department of	11,334,108	10,708,080	164
7001	Education, Department of	10,217,036	6,900,000	47
7101	Board of Education and Services for the Blind	571,889	476,208	5
7102	Deaf & Hearing Impaired, Commission on the	24,950	25,699	0
7104	State Library	279,717	238,183	5
7250	Higher Education, Department of	68,527	66,961	1
7301	University of Connecticut	7,124,173	8,907,068	130
7302	Uconn Health Center	1,137,001	1,187,091	29
7601	Teachers' Retirement Board	139,764	123,101	2
7700	Regional Community Technical Colleges	5,059,686	6,475,286	83
7800	Connecticut State University	4,759,348	6,492,285	95
8000	Correction, Department of	8,095,493	6,475,723	81
8100	Children and Families, Department of	7,106,429	5,689,415	61
9001	Judicial Department	9,846,210	8,588,142	0
9007	Public Defender Services Commission	763,418	537,105	0
Total General Fund		**129,548,095**	**123,465,502**	**1,470**
Other Appropriated Funds				
2101	Motor Vehicles, Department of	2,845,803	2,727,661	33
5000	Transportation, Department of	10,669,091	8,079,451	82
2402	Banking, Department of	191,190	175,727	2
2403	Insurance Department	593,453	560,154	6
2406	Consumer Counsel, Office of	79,452	65,150	1
2407	Public Utility Control, Department of	912,556	829,902	11
2904	Workers' Compensation Commission	515,500	461,866	6
Total Other Appropriated Funds		**15,807,045**	**12,899,911**	**141**
Total Appropriated Funds		**145,355,140**	**136,365,413**	**1,611**

Social Worker (P-2) Award vs. Social Worker (P-2) with Clerical Pattern
General Fund Requirement for FY04 and FY05

	Arbitration Award 2003-2004	Arbitration Award 2004-2005		Clerical (NP-3) Pattern 2003-2004	Clerical (NP-3) Pattern 2004-2005
FY 2002-03			**FY 2002-03**		
No G.W.I. for FY 2002-2003	$0	$0	No Salary Increases	$0	$0
Annual Increments on time	$2,777,400	$2,777,400			
Other Contract Items	$1,100	$1,100			
FY 2003-04			**FY 2003-04**		
2.5% G.W.I. Effective July 11, 2003	$3,786,800	$4,102,300	3% GWI effective 7/11/03	$4,467,200	$4,839,500
Annual Increments delayed 6 months	$5,200	$2,546,200	Annual Increments delayed 6 month	$5,200	$2,546,200
Other Contract Items	$52,500	$52,500	Other Contract Items	$53,300	$53,300
FY 2004-05			**FY 2004-05**		
3% G.W.I. Effective June 25, 2004		$4,925,200	3% GWI effective 6/25/04		$4,866,400
Annual Increments delayed 3 months		$433,900	Annual Increments delayed 6 months		$3,800
Other Contract Items		$83,200	Other Contract Items		$83,200
Total	**$6,623,000**	**$14,921,800**		**$4,525,700**	**$12,392,400**
Difference				**$2,097,300**	**$2,529,400**

Note: The requirements above do not include social security costs. As of August 8, 2003, there were 3,019 General Fund employees with a wage base of approximately $162,774,247.

Corrections Supervisors (NP-8) Award vs. NP-8 with Clerical (NP-3) Pattern
General Fund Requirement for FY04 and FY05

	Arbitration Award 2003-2004	Arbitration Award 2004-2005		Clerical (NP-3) Pattern 2003-2004	Clerical (NP-3) Pattern 2004-2005
FY 2001-02			**FY 2001-02**		
Longevity	$158,500	$0	Longevity	$158,500	$0
FY 2002-03			**FY 2002-03**		
3% GWI effective 6/28/2002	$524,600	$524,600	No Salary Increases	$0	$0
3% AI (6 month delay)	$394,900	$394,900			
Lump Sum Pmt at Max (6 month delay)	$15,000	$15,000			
Other Contract Items	$2,811,800	$2,970,600			
FY 2003-04			**FY 2003-04**		
3% GWI effective 6/27/2003	$531,200	$552,500	3% GWI effective 7/11/03	$484,200	$524,600
3% AI (on time)	$221,900	$328,400	3% AI (6 month delay)	$84,000	$394,900
Lump Sum Pmt at Max (on time)	$71,100	$71,100	Lump Sum Pmt at Max (6 month delay)	$9,300	$15,000
Other Contract Items	$93,300	$98,825	Other Contract Items	$42,800	$370,800
FY 2004-05			**FY 2004-05**		
3% GWI effective 6/25/2004		$556,900	3% GWI effective 6/25/04		$531,200
3% AI (3 month delay)		$107,200	3% AI (6 month delay)		$65,000
Lump Sum Pmt at Max (3 month delay)		$77,000	Lump Sum Pmt at Max (6 month delay)		$47,400
			Other Contract Items		$93,300
Total	**$4,822,300**	**$5,697,025**		**$778,800**	**$2,042,200**
Difference				**$4,043,500**	**$3,654,825**

Note: The requirements above do not include social security costs. The General Fund wage base prior to FY 2002-03 was $18,514,102 for 325 employees.

GENERAL FUNDS TRANSFERRED DUE TO IT CENTRALIZATION

Agency	Requested Change
Office of the Chief Medical Examiner	(105,196)
State Library	(121,682)
Department of Administrative Services	(2,037,089)
Department of Children and Families	(2,125,927)
Department of Consumer Protection and Agriculture	(143,966)
Department of Mental Retardation	(976,093)
Department of Correction	(1,130,336)
Department of Labor	(157,455)
Department of Public Health	(1,127,115)
Department of Public Safety	(718,634)
Department of Public Works	(263,934)
Department of Revenue Services	(3,378,858)
Division of Special Revenue	(663,967)
Department of Social Services	(2,551,793)
Department of Veterans Affairs	(357,488)
Department of Economic and Community Development	(339,918)
Board of Education and Services for the Blind	(264,076)
Office of Health Care Access	(70,746)
Commission on Human Rights and Opportunities	(86,193)
Department of Mental Health and Addiction Services	(2,856,281)
Military Department	(61,838)
Office of Policy and Management	(269,312)
Department of Education	(938,361)
Police Officer Standards and Training Council	(59,613)
Teachers' Retirement Board	(438,152)
Division of Criminal Justice	(119,151)
Office of the State Comptroller	**853,000**
Department of Information Technology	**18,964,249**

Funds have been transferred to fringe benefit accounts in the Office of the State Comptroller to cover the costs associated with the movement of IT Managers from the Revolving to the General Fund. Funds have not been transferred from other funds - DOIT will charge the salaries and fringe amounts to the appropriate funds.

POSITION CHANGES DUE TO IT CENTRALIZATION

Agency	Current Authorized	Requested Change	Total Recommended
General Fund			
Office of the Chief Medical Examiner	53.00	-2.00	51.00
State Library	68.00	-2.00	66.00
Department of Administrative Services	282.00	-22.00	260.00
Department of Children and Families	3,457.00	-28.00	3,429.00
Department of Consumer Protection and Agriculture	210.00	-2.00	208.00
Department of Mental Retardation	4,316.00	-10.00	4,306.00
Department of Correction	6,836.00	-13.00	6,823.00
Department of Labor	121.00	-2.00	119.00
Department of Public Health	491.00	-13.00	478.00
Department of Public Safety	1,820.00	-10.00	1,810.00
Department of Public Works	169.00	-2.00	167.00
Department of Revenue Services	745.00	-44.00	701.00
Division of Special Revenue	152.00	-8.00	144.00
Department of Social Services	1,894.00	-39.00	1,855.00
Department of Veterans Affairs	329.00	-3.00	326.00
Department of Economic and Community Development	105.00	-3.00	102.00
Board of Education and Services for the Blind	75.00	-4.00	71.00
Office of Health Care Access	24.00	-1.00	23.00
Commission on Human Rights and Opportunities	105.00	-1.00	104.00
Department of Mental Health and Addiction Services	3,320.00	-25.00	3,295.00
Military Department	59.00	-1.00	58.00
Office of Policy and Management	171.00	-2.00	169.00
Department of Education	1,763.00	-11.00	1,752.00
Police Officer Standards and Training Council	25.00	-1.00	24.00
Teachers' Retirement Board	28.00	-5.00	23.00
Department of Information Technology	**36.00**	**273.00**	**309.00**
Special Transportation Fund			
Department of Motor Vehicles	647.00	-22.00	625.00
Department of Transportation	3,360.00	-33.00	3,327.00
Department of Information Technology	**6.00**	**57.00**	**63.00**
Banking Fund			
Department of Banking	132.00	-3.00	129.00
Department of Information Technology	**0.00**	**5.00**	**5.00**
Insurance Fund			
Insurance Department	159.00	-4.00	155.00
Department of Information Technology	**0.00**	**5.00**	**5.00**
Public Utility Fund			
Department of Public Utility Control	146.00	-2.00	144.00
Department of Information Technology	**0.00**	**2.00**	**2.00**
Workers' Compensation Fund			
Workers' Compensation Commission	143.00	-5.00	138.00
Department of Information Technology	**0.00**	**5.00**	**5.00**
Revolving Fund			
Department of Information Technology	**273.00**	**43.00**	**316.00**

Differences in fund counts reflect the movement of IT Managers from the Revolving Fund to the Appropriated Fund count within DOIT.

A More Accountable and Responsible Government

In the wake of last fiscal year's budget difficulties, there have been many calls for reform of the state budget process, including a report by the Legislative Program Review and Investigations Committee and the legislature's ACE Committee.

Governor Rowland has studied many of the ideas and as part of his adjusted budget proposal is recommending a series of initiatives that are aimed at strengthening the budget process and ensuring long-term financial planning and monitoring:

The initiatives he is proposing as legislation are:

- Requiring the Secretary of the Office of Policy and Management and the Director of the Office of Fiscal Analysis to prepare status reports on the state budget each November and to present them to the Appropriations and Finance, Revenue and Bonding Committees.
- Requiring that legislative fiscal notes reflect all of the costs and revenue impacts of legislation, including those that occur in future fiscal years;
- Mandating the transfer of $50 million a year to the Rainy Day Fund anytime the balance in the fund drops below five per cent.
- Requiring that the state budget be passed fourteen days before the mandatory adjournment deadline in odd numbered years and seven days before the deadline in even numbered years and prohibiting action on all other bills if these deadlines are not met.

The Governor is also proposing legislation to require the Secretary of the Office of Policy and Management to develop and implement a federal revenue maximization program, which would include monitoring pharmacy costs and developing strategies to contain them.

November budget assessment

Governor Rowland's proposal builds on the recommendation of the Legislative Program Review and Investigations Committee's recommendation to require the Appropriations and Finance, Revenue and Bonding Committees to meet each November to "consider the current and future balance of the state general budget."

The Governor's proposal would require that, on or before November 1st of each year, the Secretary of the Office of Policy and Management and Director of the Office of Fiscal Analysis each submit to the committees:

- An estimate of state revenues, expenditures and ending balance in each fund for the current biennium and the next three fiscal years thereafter;
- The tax credits projected to be utilized in the current biennium and the next three fiscal years thereafter;
- Federal funding projections for the current biennium and the next three fiscal years thereafter;
- A description of any projected deficiencies in the current fiscal year and the reasons for them;
- The projected balance in the budget reserve fund at the end of the current fiscal year, the current biennium and the next three fiscal years thereafter;
- An updated spending cap calculation and considerations for the biennium and into the future;
- An analysis of expenditure and revenue trends and a discussion of the major cost-drivers in the budget now and in the future and efforts being undertaken to reduce or contain their costs and any efforts to garner federal funds to offset such costs;
- The planned bond authorizations, allocations and issuances in each of the next five years and their impact on the debt service of the major funds of the state;
- Possible uses for surplus funds, including, but not limited to the budget reserve fund, debt retirement, and funding pension liabilities.

While there are statutory requirements to prepare and present outyear reports, thus far such reports have been perfunctory and rarely analyzed. The proposal above requires administration officials, legislative officials, and lawmakers – outside of the crunch of the legislative session -- to look closely at the true fiscal health of the state and contemplate the long-term impacts on taxpayers and those who rely on services.

This proposal will provide better financial planning and better financial accountability.

The real cost of legislation

For more than a quarter century, state law has mandated legislation that would require the expenditure of state or municipal funds or affect state or municipal revenue be accompanied by a fiscal note. The goal of the law is to ensure that the members of the General Assembly know the cost of the legislation that they are considering.

But, there is a loophole. If the costs or revenue loss are pushed off into future fiscal years, they often go unreported. The Governor is proposing to close that loophole by requiring that fiscal notes “clearly identify the cost and/or revenue impact to the state and municipalities in the current fiscal year and each of the next five succeeding fiscal years”.

Rebuilding the Rainy Day Fund

The Budget Reserve Fund is an important safeguard against future economic downturns and budget deficits. But, under current law, the state only contributes to the fund when it has a budget surplus. The Governor is proposing to require that whenever the balance in the fund drops below five per cent the state must begin to replenish the fund by transferring $50 million into it at the start of the next fiscal year. Recognizing the growing nature of the budget, beginning as of July 1, 2009, the state would be required to transfer $100 million at the start of the fiscal year if the fund dips below 5 percent.

The proposed legislation would also require the legislature to support such a transfer at the beginning of any year in its budgeted revenue estimates. The revenue estimates supporting any budget shall include sufficient funds, in excess of appropriations, for any required transfer.

The effect of the statute is that the state will be required to rebuild its fund beginning on July 1, 2005 with a $50 million deposit each year even if no surpluses are booked at the end of the fiscal year. On July 1, 2009, the state will have to deposit $100 million per year until we get to at least 5 percent.

The state recently changed the maximum Budget Reserve Fund requirement to 10 percent. That is the amount we are shooting for. But this act would compel the state to immediately begin rebuilding its Rainy Day Fund if it is ever extinguished (as was the case in FY 2001-02 in one fell swoop) and encourages the rebuilding of the fund if the balance ever drops below 5 percent, a minimal amount needed to safeguard state finances.

Ensuring timely budgets

Last year the budget system broke down. A state budget was not adopted until more than a month into the new fiscal year. Everyone agrees that is unacceptable. Legislators, studies and commentators have suggested a number of ways to prevent that ever happening again.

Governor Rowland is proposing that the General Assembly be prohibited from acting on all other bills if a state budget has not been passed fourteen days before the mandatory adjournment deadline in odd-numbered years and seven days before the deadline in even-numbered years.

Federal funds maximization

Connecticut generally ranks among the top two states in terms of the tax revenue per capita that it sends to Washington, but near the bottom in terms of the assistance per capita that it receives back in the form of federal grants and other assistance.

Governor Rowland is proposing legislation which requires the Secretary of the Office of Policy and Management to develop and implement a program to increase the level of federal funds accessed by the state, including competitive grants, incentive payments, performance bonuses, the maximization of federal funds, and applications for new resources, when available.

There are those who would argue that, at least in tough fiscal times, the state should take virtually every federal dollar that it can get. The Governor's proposal does not go that far. Indeed, it rejects the notion that "every federal dollar is a good dollar." It recognizes that each federal funding opportunity requires the state to evaluate not only the potential federal revenue but also the state costs (in personnel or matching funds) and the policy and programmatic requirements of the grant. In short, the state would maximize federal dollars that support its programs and policies.

Under the Governor's proposal, the Secretary is required to:

- Identify state programs and services eligible for federal funding and the requirements associated with such programs;
- Require the head of each budgeted agency to develop and carryout a plan for maximizing the federal revenue available to such agency;
- Establish a system for the review and approval of state agency applications for federal funds, in order to determine the long term costs of such grants, availability of state funds and whether accepting the grant is in the interest of the state;
- Monitor budgeted agencies' success in obtaining and utilizing available federal funds;
- Identify obstacles preventing the state from qualifying for additional federal funding;
- Monitor federal legislative and regulatory actions for their impact on state programs, services and receipt of federal assistance and recommend appropriate actions to the Governor and the General Assembly

The Secretary can also require the head of any agency in the executive branch to implement any policy, programmatic or regulatory action which the secretary determines is (1) necessary and appropriate in order to, within state financial limitations, maximize the state's utilization of federal funds; and (2) in the best interest of the state.

Reinvigorating purchases of services project

While the state's fiscal situation makes it difficult to respond to the fiscal stress of private providers with major rate increases, the state is committed to reinvigorating the Purchase of Services Project.

The Secretary of the Office of Policy and Management will reconvene a project work group to investigate numerous ways to reduce administrative costs for providers and bring more certainty to their relationship with the state.

Among the issues to be addressed are:

- Further streamlining contracts to make them as uniform and standard as possible across state agencies, and expediting approvals.
- Establishing uniform cost accounting principles for providers across agencies as well as uniform reporting requirements;
- Seeking to make agency audit standards, outcome measurements, quality assurance, and other contract compliance standards uniform;
- Exploring and expanding joint contracting across agencies;
- Exploring multi-year contracting, even if the fiscal components of contracts need to stay on annual or biennial cycles;
- Exploring prospective pricing and explore the expansion of retention of funds at year's end;
- Exploring ways for non-profits to piggyback off state contracts in a myriad of areas to reduce their costs and, thus, save state taxpayers' dollars; and
- Ensuring timely payments to providers.

Binding arbitration reform

The economic challenges of the state make it clear that the generous state aid increases of the past cannot continue. If the state cannot aid towns the way it has done in the past on the revenue side, i.e. large increases in municipal aid, the state must look for initiatives that would allow towns to control their expenditures.

The current collective bargaining system is one of the biggest cost drivers for local budgets. The system favors wage and benefit patterns over time that are simply unaffordable for the average taxpayer, especially those in distressed communities. Health care costs, increasing at rates of between 15 and 20 percent per year, only add to the burdens caused by collective bargaining.

By all accounts, municipal wages and benefits comprise at least 75 percent of most municipal budgets. That means that huge portions of municipal budgets are oftentimes outside the decision-making authority of town leaders, and thus the taxpayers. Furthermore, there is no local control over increases to municipal wages and benefits, regardless of the overall fiscal climate or the fiscal health of a specific town. Towns are often forced to depart from best practices in management. For example, "rainy day funds" are apt to be considered as part of a town's ability to pay for increases in wages and benefits and thus there is no incentive to build such reserves if arbitration is looming.

As part of the adjusted budget proposal, Governor Rowland is proposing collective bargaining reform to empower towns to take back control of their budgets, and thus reduce the property tax burden on their citizens. The initiatives:

- Give towns the ability, through a vote of its legislative body, to suspend collective bargaining for up to three years on any open contract as long as the current wage and benefit package and other work rules remain in effect.
- Require in both the Municipal Employees Relations Act (MERA) and the Teacher Negotiation Act (TNA) that arbitrators disregard the presence of a fund balance at any level in determining a town's ability to pay for contract increases.
- Require in both MERA and TNA that arbitrators consider, at the town's request, the town's high effective tax rate as published by OPM.
- Require in both MERA and TNA that when a town legislative body rejects a first arbitration award that the contract go back for a full arbitration hearing and that the arbitrator must give great weight and deference to the stated reasons for the rejection.
- Strengthen the ability of towns to seek court relief from arbitration awards if arbitrators do not give the appropriate weight or consideration to financial capability issues when rendering awards.

The state is facing the same hurdles in controlling its spending as it relates to wage and benefit packages for its employees. In recent years, this state has had to weather a financial storm that resulted in painful sacrifices by both taxpayers and those who rely on state services. The state has had to fully deplete its "Rainy Day Fund" to address the shortages in previous budgets. Furthermore, the state is constrained by a constitutional spending cap that severely limits any increase in state spending from one year to the next. Thus, the financial status of the state must be a top consideration when arbitrators make decisions regarding state employee contracts.

Under current law, the General Assembly need not take any action to have a negotiated contract or arbitration award to go into effect. This diminishes its ability to manage state spending increases, and ultimately takes control away from the people of Connecticut. The legislators of this state, who are elected by the taxpayers, should have a say in how their constituents' money is spent.

To address these shortcomings in the current collective bargaining system, the Governor proposes the following reforms:

- Instruct arbitrators that funds in the Rainy Day Fund cannot be considered as financial wherewithal for issues being arbitrated if such funds are less than or equal to 10 percent of the General Fund Appropriations for the fiscal year in progress.

- Instruct arbitrators to consider the lack of funds or deficient funds in the Rainy Day Fund in determining the state’s ability to pay;
- Instruct arbitrators that the ability of the employer to pay is the primary consideration;
- Instruct arbitrators that the state spending cap shall be a consideration as to the state’s ability to pay;
- Strengthen ability of the state to seek court relief if financial capability is not considered;
- Ensure interest on awards will no longer accrue while approval is pending; and
- Require that state collective bargaining contracts and arbitration awards be approved by both houses of the General Assembly in order to become effective.

General Government Changes and Efficiencies

Continuing vital services after federal funds end

The adjusted budget includes nearly $244,000 for staff and program costs to continue the Waterbury Community Court previously paid from federal Byrne funding. The "community court" concept is a restorative justice project where "quality of life crimes" are adjudicated and high visibility and meaningful community service projects are completed under the supervision of the court.

Funding will support two positions within the court and support services provided directly to project participants, supervised community work crews and anger management through community-based contracts.

Further, the adjusted budget includes $200,000 to support five expiring federal positions, which are critical to preventing closure of the Public Defender Services Commission's Stamford Juvenile Field Office.

The public defender is responsible for statewide representation of children charged with offenses before the Juvenile Matters sessions of the Superior Court. Eleven Juvenile Field Offices are currently located throughout the state in Bridgeport, Danbury, Hartford, Middletown, New Britain, New Haven, Stamford/Norwalk, Rockville, Waterbury/Torrington, Waterford and Willimantic, which service the 13 Juvenile Court locations.

The public defender attorneys, investigators and social workers work on the defense of the juvenile criminal charges and find appropriate community-based treatment, educational services and after school vocational activities at pre-trial, sentencing, and post-conviction.

Judicial facility delayed openings

The adjusted budget removes $2.2 million for 49 positions and facility-related costs corresponding to the revised occupancy dates for two facilities.

The original budget included over $1.3 million to enter into a new lease at 90 Washington Street in Hartford. This space, when occupied, will add critically needed court space and relocation of administrative staff from a temporary location. Currently, the revised occupancy date is now April 2005, changed from January 2004, allowing a substantial reduction on a one-time basis next fiscal year.

The original biennial budget as passed also included $908,000 for 49 staff and related facility costs for one-quarter year in FY 2004-05 for a new juvenile detention center in Bridgeport. The occupancy date has been changed from April 2005 to January 2007 allowing removal of these costs fully next fiscal year.

Judicial e-filing

The adjusted budget adds over $600,000 for staff and system costs to continue development and implementation of an integrated Case and Document Management system. Recently, the Governor supported the allotment of Judicial technology bond funds to enable the purchase of computer hardware and necessary network modifications.

The first phase of this project will be electronic filing for certain civil cases, allowing attorneys and litigants access to court files and the official court record. Implementation of these cases is expected in July 2004.

Increasing judges' salaries

The Governor is sponsoring legislation to increase judges' salaries to levels that more closely match commissioners in the executive branch, certain directors in the legislative branch and compensation more in line with federal judges and the private sector, such as partners in law firms within the state.

The Governor proposes to increase salaries for judges over the next three years. Superior court judges would increase from $125,000 to $135,000 effective July 1, 2004; to $145,800 on July 1, 2005; and to $157,464 on

July 1, 2006. Magistrates will also receive commensurate increases.

These increases amount to 8 percent per year for three years.

These increases will also impact salaries of family support referrees, retired judges that continue to serve in different capacities and workers' compensation commissioners.

A total of about $2.5 million is added for these increases in both the Judicial Branch and the Workers' Compensation Commission.

Buying smart – spend management

Spend Management is an analysis initiative that will allow the Department of Administrative Services to fully understand what the state purchases in goods and services, identify opportunities to apply leading-edge spending best-practices in order to get the most value for our constituents, and ensure that agencies are able to buy goods and services of similar or improved quality for less cost.

This project represents an opportunity for Connecticut to fully maximize the spending power of the state through a process known as leveraged purchasing.

Specific goals of the project Include:

- Analyze spending across every agency and department in Connecticut,
- Review supplier contracts, Master Purchasing Agreements and agency-level contracts,
- Review all specifications, pricing and purchasing policies for several dozen categories of goods and services being purchased by one or more state agencies, and
- Assess opportunities to identify where Connecticut can leverage spending to reduce costs while maintaining and improving the quality of supplies relationships.

Through this process, it is anticipated that the State will achieve $3.75 million in savings during FY 2004-05 in the executive branch agencies and the Judicial Branch. Any savings derived by the higher education units will be retained and not be deducted from block grants.

This savings is included as a lapse at the foot of the budget.

Fleet savings

In order to effect efficiencies in the state's fleet operations, the Department of Administrative Services conducted a study of the use of the state vehicles. Based on this evaluation, fleet services recalled 650 underutilized vehicles. In addition, requests for vehicle purchases were reviewed and reduced. This effort saved approximately $2.5 million. These savings were removed from each agency in the adjusted budget.

In addition, the DAS is proceeding with its efforts to outsource fleet maintenance and daily motor pool. By using contractors to perform these services, it is estimated that an additional $2.5 million can be saved annually. These savings are included as a lapse at the foot of the budget.

Restoration of positions in watchdog agencies

As with many other agencies statewide, the Elections Enforcement, Ethics and Freedom of Information Commissions (FOIC) were negatively affected by layoffs, the Early Retirement Incentive Program and other legislative changes in the biennial budget passed by the General Assembly.

The Governor has recognized that these position and funding changes will restrict each commission from performing its daily operations and statutory missions and has committed to fully restore positions and funding to the actual levels of FY 2002-03. Addbacks began in the current fiscal year and are annualized into the adjusted budget. In addition, the remaining position in the FOIC is added back as of July 1, 2004. In addition, an Accountant Trainee is added in the Elections Enforcement Commission to insure all requirements of PA 03-241, which mandates changes to the direct primary process, are met.

Summary of Positions and Personal Services Funding

Commission	FY03 Authorized Positions	FY03 Reductions Positions	FY03 Actual $	FY04 FAC Positions	FY04 Deficiency $	FY05 Revised Positions New	FY05 Revised Positions Final	FY05 Revised $
Elections Enforcement	11	-1	$731,474	1	-	1	12	$876,122
Ethics	10	-3	$737,387	3	$154,000		10	$749,540
Freedom of Information	16	-3	$1,147,583	2	$120,000	1	16	$1,332,977

The accompanying table illustrates these changes in detail.

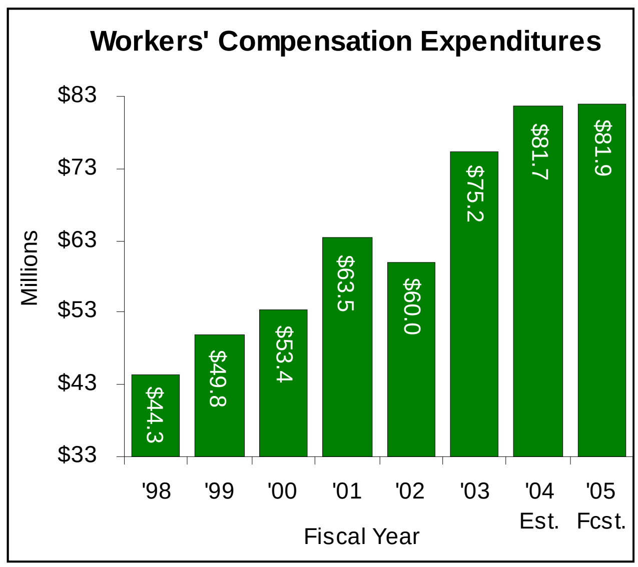
Council on Environmental Quality

As agreed in the 2003 budget negotiations, funding was found to continue the services of the Executive Director of the Council on Environmental Quality during the current fiscal year. The agency budget has formally been reinstated as part of the adjusted budget.

A funding arrangement similar to the one that is being used in the current fiscal year is recommended. A three-way split between the General Fund, federal funds and private sources is anticipated – $50,000 from each funding source.

Workers' compensation claims

Expenditures for workers' compensation claims have been increasing at alarming rates. In an effort to stop this growth, the Department of Administrative Services hosted a Workers' Compensation Summit in May 2003. This meeting involved the Office of Policy and Management, agency commissioners and program managers and addressed the spiraling costs of workers' compensation in state agencies. In addition, the department launched a fraud control initiative, offering rewards for the identification of fraudulent workers' compensation claims.



These efforts, along with the efforts of individual agency workers' compensation units, have resulted in a projected leveling off of expenditures next fiscal year. Even with this progress, the $5 million lapse included for workers' compensation savings could not be achieved and it was removed from the adjusted budget.

Rehabilitation services

As a result of the layoffs, compounded by the ERIP, there was no staff remaining in the Rehabilitation Services Division of the Workers' Compensation Commission. Under the ERIP refill plan, the commission was allowed to fill all five positions in this division that were vacated by ERIP retirements.

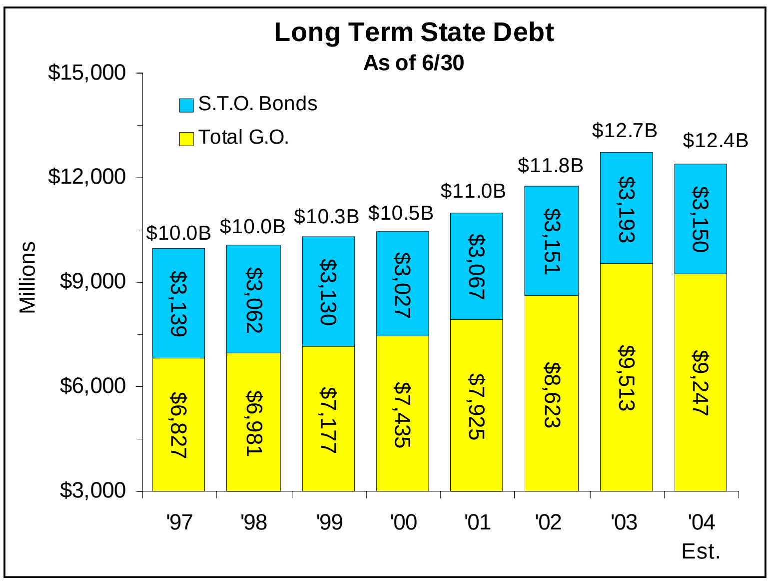
These refills will allow services to continue, but at a much reduced level. A reduction of $1 million is being recommended in the adjusted budget to reflect the fewer new plans that would be initiated.

Capital Investments

Governor Rowland has been concerned for some time now that Connecticut's overall long-term debt and debt service expenditures have been increasing.

Some of the reasons our debt has increased are good ones. The state is now about seven years down the road of its new financing mechanism for school construction projects. The practice ended the wasteful double-bonding scenarios of the 1980s and early 1990s. While we are taking on more debt in the near term (because we are paying off old bonds and upfronting the full cost of new projects), beginning during the next decade our debt should begin dropping substantially. In addition, while debt service for higher education and urban revitalization is increasing, these investments were long overdue and will reap huge rewards.

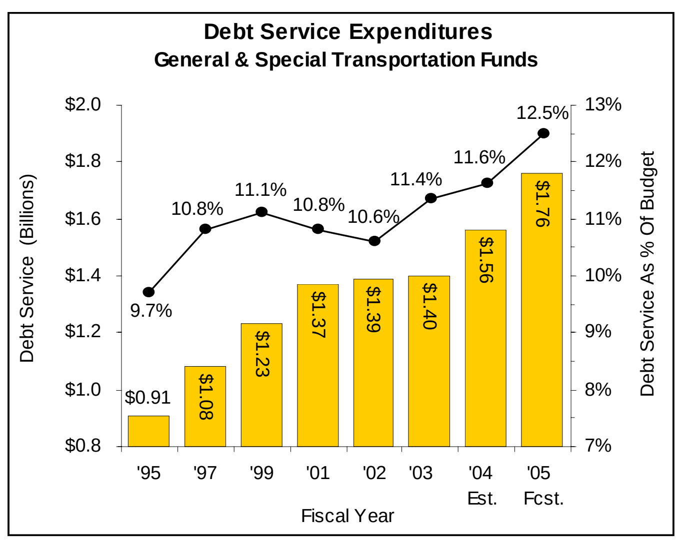
To deal with the increasing debt, Governor Rowland has tried to limit the allocations approved at bond commission meetings over the past year. Consequently, our long-term state debt is projected to come down at the end of the current fiscal year as long as we continue to be prudent with our capital investments.



But what explains the fact that our debt service costs are increasing dramatically both in real terms and as a percentage of the budget? After leveling off over the past few years, debt service as a percentage of the general and transportation fund expenditures is expected to increase from 11.4 percent in FY 2002-03 to 12.5 percent in FY 2004-05. The actual amount of debt service will grow by approximately $360 million over the biennium.

The issuance of economic recovery notes to extinguish the FY 2001-02 and FY 2002-03 deficits has increased the General Fund debt service requirement by approximately $49.2 million in FY 2003-04 and $79.8 million in FY 2004-05. Another reason is the timing of issuance. Even as allocations slow, issuance continues at higher levels for some time due to the length of time capital projects take to come to fruition.

While these deficit notes will be paid off over a five year period, it is still essential that the state continue to limit allocations and debt issuance. Last calendar year, allocations were limited to approximately $900 million. While allocations will be slightly higher in 2004 because of school construction demand, allocations will be limited to the greatest extent possible. Discretionary bond projects will be kept to a minimum. School construction and higher education will be the top priorities. Key urban reinvestments will still be maintained.

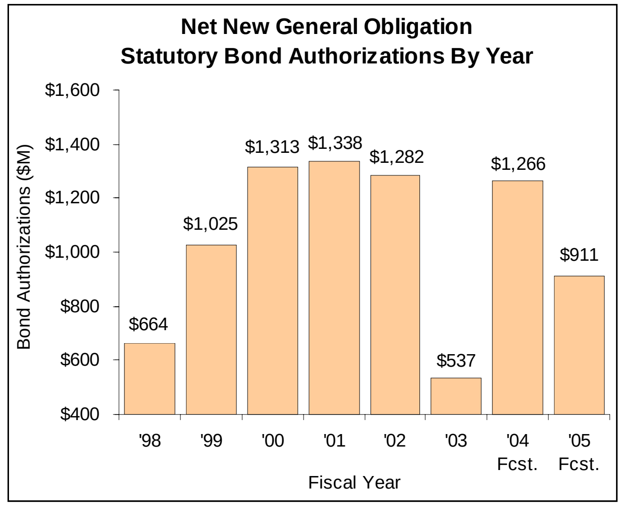


The state is well below the 90 percent statutory bond limit, provided that legislation is adopted to exempt the economic recovery notes from the statutory debt limit calculation and proposed revenue enhancements are adopted. Including this capital budget submission, the state's debt incurring margin would be almost $2 billion as of July 1, 2004 or about 87 percent of the overall cap. This would leave the state about $500 million below the soft 90 percent debt cap.

Capital plan

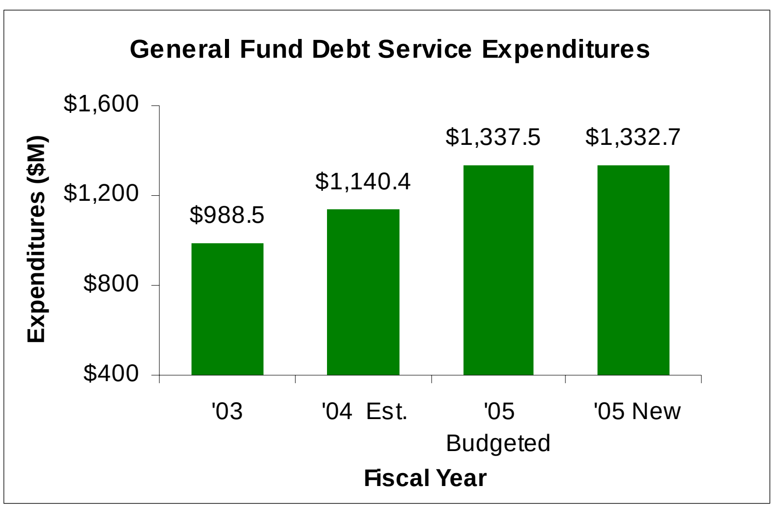
In FY 2002-03, because of the state's fiscal crisis, a number of GO bond authorizations were deferred to the current fiscal year because of bond cap limitations. About $480 million was on the books at the beginning of the fiscal year, not including the long-term UCONN authorizations. The legislature failed to pass a complete bond package last fiscal year, but did supplement GO authorizations and pass a STO package. New GO authorizations for school construction and the tax administration and CORE-CT systems amounted to approximately $530 million, bringing the FY 2003-04 total authorizations to about $1.1 billion, including UCONN 2000 authorizations.

The Governor is proposing to supplement the FY 2003-04 authorizations with a small number of high-priority projects. Total additional GO authorizations recommended are about $160 million. The recommendations are almost exclusively for the Connecticut State University and community college systems.



It is important that these proposals are authorized before the end of February as some of the projects are already behind schedule and further delays could increase the overall cost of the projects. Out of fairness to these two systems, swift action is needed.

In total GO bond authorizations for the current fiscal year would be about $1.27 billion. Previously authorized STO bonds amounted to about $250 million.



FY 2004-05 recommendations

With the failure to pass a biennial capital budget, aside from the UCONN authorization, just $27 million was authorized in GO bonds during the 2003 session for FY 2004-05. Those funds were for the two financial administration systems noted above.

Governor Rowland is recommending net additional GO authorizations of approximately $784 million. Including UCONN and the previously authorized projects for FY 2004-05, total GO authorizations would be a net $911 million.

This $911 million in GO authorizations is net of $225 million in GO bond cancellations.

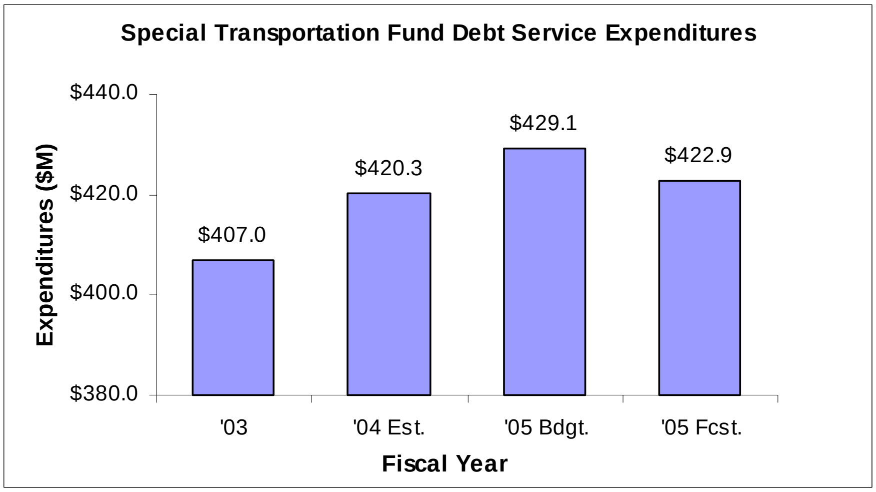
The Governor is also recommending $195 million in STO authorizations for the state's transportation program.

School construction authorizations for FY 2004-05 will be $623 million, up from $485 million. The increase is tied to the continued demand at the local level, especially in large urban centers and the magnet school program as well as the impact from the school construction financing conversion noted above. The school construction authorizations amount to over two-thirds of the total net requested GO authorizations for the coming fiscal year. This compares with authorizations in the early to mid 1990s of between $73 million and

$130 million annually.

Total education-related authorizations are $884 million, or 97 percent of total net GO authorizations being recommended in FY 2004-05.

Capital initiatives



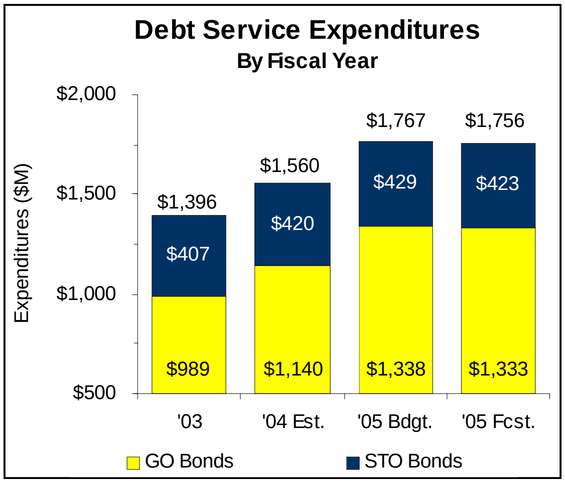
As noted above, the vast majority of capital bonding over the biennium will be school construction and higher education. Other projects included in the bond package:

- Almost $16 million for affordable housing programs.
- $10 million to repair a building at UConn Law School.
- A net of $43 million for the Urban Act.
- $10 million for the Small Town Economic Assistance Program.
- $15 million for needed improvements at the Veterans' Home and Hospital. These funds will match over $27 million in federal funds and mean critical improvements at the campus and a new health facility.
- $5 million for the Connecticut Education network.
- A myriad of homeland security projects, including the state health lab, mentioned in an earlier section.

While no new open space authorizations are recommended, after cancellations below, almost $20 million will still be available for allocation for open space acquisition.

Major cancellations proposed include:

- $10 million from the Manufacturing Assistance Act.
- $60 million from Clean Water GO bond authorizations.
- $5 million for Tweed airport improvements.
- About $10 million for state building parking.
- Almost $21 million for York Correctional remediation.
- $5 million from bio-tech expansion funds.
- About $10 million from miscellaneous DEP accounts.
- About $5 million from miscellaneous DMR accounts and $15 million out of DMHAS accounts.
- $9 million from CDA for loan guarantees.
- $2.5 million from the state open space program.
- About $19 million from miscellaneous Judicial accounts.
- About $4.5 million from the UCONN Health Center.



Debt service budget

The General Fund Debt Service requirement in the adopted budget is reduced by $4.78 million. The issuance of five-year economic recovery notes that will extinguish the FY 2002-03 deficit and the General Assistance lag claim costs is projected to cost the state approximately $29 million in FY 2004-05. These costs were not originally budgeted for FY 2004-05, but are more than being absorbed. Savings achieved from lower than budgeted interest rates, premium savings, refunding savings and a change in the projected issuance schedule more than offsets the economic recovery note costs.

A reduction to the Special Transportation Fund Debt Service account in the amount of $6.1 million has been made for FY 2004-05. Savings have been achieved from refunding and new money sales that have taken place in the current fiscal year.

School construction changes

The school construction conversion program as well as vigorous school construction activity in urban areas and the vocational-technical schools are creating some short-term spikes in our bond authorizations and debt service. Returning to the old program – where the state essentially bonded twice for the same school project – is tremendously costly. The current system, while costly now because we are paying off the old bonds and issuing new ones, will save the state hundreds of millions in the long run.

Because of the demand noted above, the school construction authorizations will grow to $623 million for the next fiscal year, up from $430 million in FY 2002-03 and $485 million for this fiscal year. We expect to allocate $600 million in calendar year 2004, up from $476 million in 2002 and $373 million in 2003.

Local School Construction Bond Authorizations*
(In Millions)

Fiscal Year	Total
91	$73.0
92	148.0
93	112.0
94	129.1
95	138.0
96	130.0
97	130.0
98	176.8
99	301.6
00	376.8
01	410.0
02	120.0
03	430.0
04	485.0
05-Est	623.0

***Does not reflect subsequent legislative cancellations**

Hopefully, this is the peak for authorizations and allocations in the program. One good sign is that the December 2003 priority list submitted to the legislature was a mere $378 million, with $278 million in state costs over time. The December 2002 list was $956 million and the 2001 list was almost $2 billion.

Local School Construction Bond Allocations
(In Millions)

Fiscal Year	Total
90	$96.1
91	$80.1
92	$169.7
93	$139.8
94	$164.0
95	$131.3
96	$89.4
97	$160.1
98	$230.8
99	$343.3
00	$196.8
01	$348.0
02	$476.0
03	$372.8
04 - Est	$600.0

While demand seems to be peaking, the adjusted budget proposes additional reductions to limit our overall debt. Among those already approved in recent years are:

- The reimbursement rate was lowered from 100 percent to 95 percent for the construction of Vocational Agriculture Centers, Regional Special Education facilities and Interdistrict Magnet schools. It is only appropriate that communities financially contribute to the facilities that they will use. It should be noted that this is still a more generous reimbursement formula than the 20 percent to 80 percent for non-specialized School Construction projects.

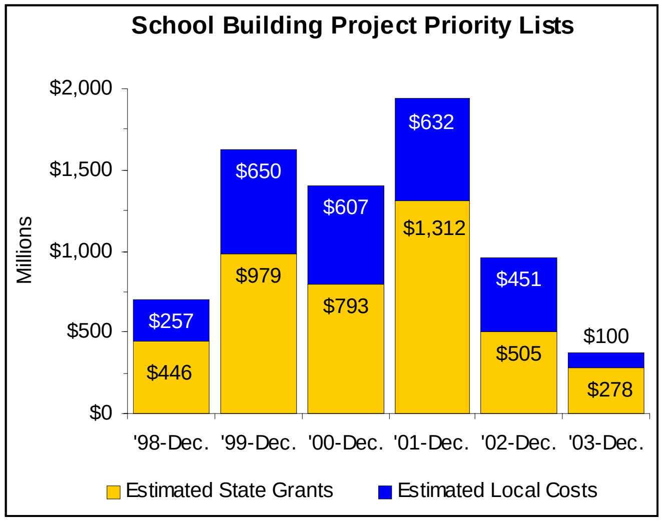
- Effective for December 2003, communities are required to gain local approval before any project is submitted for inclusion on the School Construction priority list. Too often, communities submit major projects that ultimately fail in local bond referenda. Having communities receive approvals prior to priority list inclusion should result in more thoughtful, more cost-effective projects.

- School construction lists are limited to $1 billion annually for two lists beginning with the list submitted in December 2003.

New recommendations to limit debt in the program include:

- Capping the December 2004 and 2005 lists at $500 million. Thereafter, lists will be capped at $750 million.

- State reimbursement for new projects on the December 2004 and 2005 lists will be 10 percentage points below current statutory levels, meaning the scale will change from 20-80 percent to 10-70 percent for the three years. Thereafter, reimbursement will return to current levels.



Allocation Schedule Calendar 2004

Agency/Fund	Est. 2004
CTC	$80.0
CSU	80.0
UConn	100.0
School Const/ASD/VT	600.0
All Other	200.0
Total	**$1,060.0**
Average per meeting	96.4

Limitation on allocations in biennium

Governor Rowland will continue the aggressive scrutiny of bond projects. Hundreds of millions in reductions are planned. The following chart shows that, by and large, only school construction and higher education authorizations will be allocated at the State Bond Commission. Just $200 million is programmed for all other allocations.

Preventing Further Cuts To Municipal Aid

The past few years have been bumpy roads for municipal leaders. Despite garnering huge funding increases in the mid to late 1990s, aid increases have been sparse and aid has even fallen in some communities over the last few years. While the Rowland record on state aid increases over the last ten years has been impressive -- it is up $638 million, or 41 percent, over 10 years -- it does not take away the fact that towns have recently had to grapple with rising costs and diminished state aid.

The state budget situation is slowly improving so Governor Rowland is maintaining state aid commitments in the FY 2004-05 adopted budget. Indeed, state aid will increase slightly from the adopted budget – by about $6.5 million. Overall, statutory formula grants in aid will increase in the adjusted budget by $26 million from estimated expenditures this fiscal year.

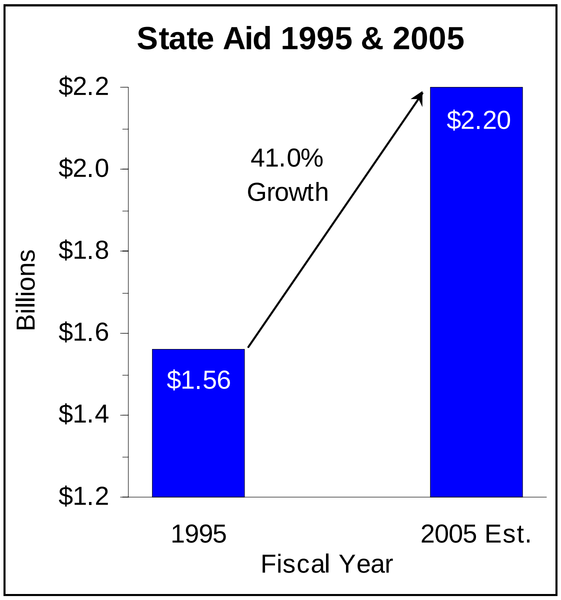
The Governor has worked tirelessly to identify resources to remove the $55 million extraordinary rescission in the original adopted budget. Given recent cutbacks throughout state government, that rescission would have had to be used almost entirely against municipal aid if it remained in the budget as a budget-balancing tool. That would have subjected towns to as much as $55 million in midyear aid cuts, an unpalatable situation for local budgets already faced with flat funding in most areas.

The Governor's move to strip the rescission from the budget provides greater certainty to towns as they begin the process of formulating their own budgets.

Grant	FY 2003	Estimated FY 2004	Recommended FY 2005
State-Owned PILOT	$67.0	$67.1	$67.9
College & Hospital PILOT	100.9	100.9	100.9
Pequot Grant	106.0	85.0	85.0
Town Aid Road Grant	16.0	12.5	12.5
LoCIP	30.0	30.0	30.0
Miscellaneous General	22.6	20.0	19.1
Machinery & Equipment	55.8	50.7	50.7
Sub-total - General Government	$398.3	$366.2	$366.1
Public School Transportation	$43.1	$43.1	$43.1
Non-Public School Transportation	4.3	3.3	3.3
Adult Education	16.9	16.9	16.9
Education Cost Sharing	1,514.9	1,522.7	1,522.7
Miscellaneous Education Grants	208.2	218.1	243.8
Sub-total - Education	$1,787.4	$1,804.1	$1,829.8
Total - Formula Grants	$2,185.7	$2,170.3	$2,195.9

Funding levels

The vast majority of major school grants are level-funded, except for increases in categorical grants outlined in the education section of this document. The vast majority of non-education grants are level-funded as well.



The Governor is proposing no changes to either the Distressed Municipalities/Enterprise Zone reimbursement program or the PILOT-Manufacturing Equipment program.

Housing PILOTs

The adjusted budget proposes to eliminate the Payment-in-lieu of Taxes and Tax Abatement for housing authorities for a savings of $4.8 million. These grants, funded in the Department of Economic and Community Development, help compensate some towns for the loss of taxes on non-profit developments and housing authorities. These programs are proposed for elimination mostly because of inequitable distribution of benefits among towns since not all towns benefit from the grants.

Drug grant eliminated

The Drug Enforcement program is being eliminated in the adjusted budget, for a savings of $850,000. The program provided support for drug law enforcement, anti-drug education, and crime prevention activities in municipalities. This fiscal year, 5 municipalities were funded.

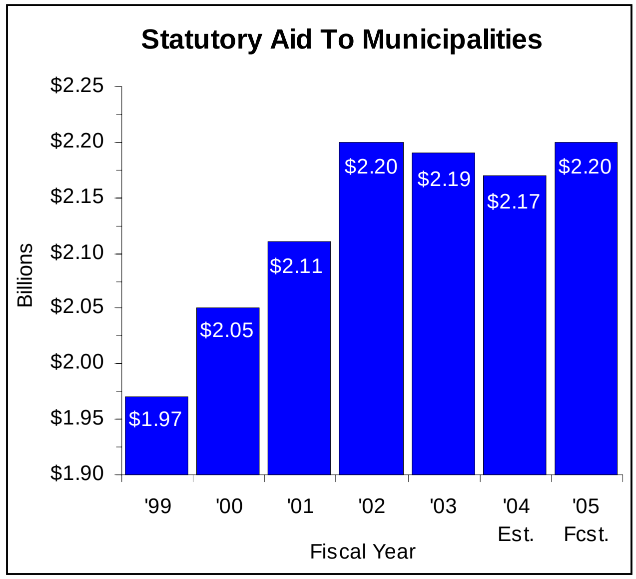
Funding for this program has gone from $15 million in FY 2001-02 to $850,000 in the current year's appropriation. As a result, the program has become a shadow of its former self and cannot make a significant impact on any municipal program, when distributed among the various communities.

Many of these programs are either duplicated to some extent by other local, state, and/or federal programs or are simply augmented by this program.

Veterans exemption unchanged from current fiscal year

The non-means-tested portion of the veterans reimbursement program was eliminated as a state reimbursement in the biennial budget, although towns were required to continue offering the exemption. Approximately 185,000 veterans continue to receive the property tax break even though the state does not reimburse the towns.

Another 22,000, means-tested veterans continue to receive the property tax break with the towns receiving reimbursement ($2.9 million) from the state. The state has been able to achieve an estimated $5.9 million in savings while veterans continue to receive the same property tax break and the towns continue to receive $2.9 million in reimbursements for means-tested veterans.



A technical reduction was made in the account based on lower needs for the means-tested reimbursement portion.

Level Funded Grants

General Government
Distressed Municipalities
Property Tax Relief Elderly – Circuit Breaker
State-Owned Pilot
College and Hospital Pilot
Town Aid Road
Machinery and Equipment Pilot

Department of Education
Vocational Agriculture
Transportation of School Children
Adult Education
Health Services for Pupils in Private Schools
Education Cost Sharing Grant
Bilingual Education
Young Parents Program
School Breakfast Program
Excess Cost – Student Based
Non-Public School Transportation
School to Work Opportunities
Youth Service Bureaus
Early Reading Success

State Library
Grants to Public Libraries
Connecticard Payments

Local Capital Improvement Program (LOCIP) funds still available

Towns will receive their full allotment of LOCIP funds in FY 2003-04. Although LOCIP authorizations have been sporadic over the past few years, the adjusted budget makes it clear that towns are able to draw down all their annual allotments for the past several years.

Significant collective bargaining relief

As already outlined in the section of accountable government, the Governor is proposing a series of collective bargaining and binding arbitration changes that would mean huge savings over time for towns in terms of wage and other compensation costs.

Local option on conveyance tax

As a way of shoring up municipal revenue during these lean local aid times, during the 2003 session, the legislature increased the local conveyance tax for all towns from 0.11 percent to 0.25 percent through June 30, 2004.

PILOT Payments

TOWN	FY 2002-03	TOWN	FY 2002-03
City of Bristol	99,326	Town of New Caanan	10,934
City of Danbury	210,361	City of New London	154,731
Town of Darien	60,612	City of Norwich	202,685
Town of East Hartford	64,446	Town of Ridgefield	18,380
Town of Enfield	175,742	Town of Seymour	83,661
Town of Greenwich	122,140	Town of Sharon	11,113
City of Hartford	269,076	City of Stamford	473,027
Town of Mansfield	18,554	Town of Stratford	75,605
City of Meriden	163,941	Town of Westport	28,103
Town of Middletown	136,823	Town of Wethersfield	18,708
City of New Britain	282,127	Town of Windham	74,905
Grand Total	**$2,755,000**		

In addition, certain distressed communities, most notably the targeted investment communities, were given the option to further increase their local conveyance tax from 0.25 percent to 0.5 percent for that time period. Towns' legislative bodies had to affirmatively vote to do so.

Per law, all towns drop back down to a base rate of 0.11 percent. The Governor is not proposing a change to that sunset provision.

However, the Governor's adjusted budget recommends that the option of distressed municipalities to increase their rate by 0.25 percent above the base rate would be extended permanently -- meaning these towns could have a local conveyance tax rate of 0.36 percent. Local legislative bodies would have to vote again to permanently enhance their local conveyance tax revenue and could vote at any time to remove the increase.

Governor Rowland views this as yet another way to help the neediest communities bolster local revenues, diversify their income streams, and lessen the burden on property taxpayers.

Tax Abatement Payments

TOWN	FY 2002-2003
City of Ansonia	11,338
Town of Bethel	38,172
Town of Bloomfield	49,132
City of Bridgeport	139,082
City of Danbury	23,936
Town of Granby	10,212
City of Hartford	556,513
Town of Kent	7,181
Town of Middletown	72,065
City of New Britain	31,747
City of New Haven	428,302
Town of Norwalk	117,833
City of Stamford	362,150
Town of Waterbury	218,449
Total	**$2,066,112**

Conclusion

Governor Rowland's adjusted budget submission recognizes that the state's fiscal situation is slowly improving, but we have a fundamentally changed fiscal climate from just a few years ago.

The package he is submitting today is a pragmatic one. It puts a priority on keeping increases limited, but also seeks to limit further spending reductions given the cutbacks over the past several sessions.

It also responds to some crying needs in the areas of educational excellence in distressed communities, the DMR waiting list, DCF abuse and neglect, and needed child care for the working poor.

It reaches out to towns to assure them that further local aid cutbacks are not occurring upfront – and there will be no threat of midyear cuts, either.

The tax increases proposed ensure that further reductions are not needed, but do not raise revenues in areas that threaten the nascent recovery.

The budget is all about fiscal stability. It is all about providing certainty to a number of constituencies – those relying on government programs, providers seeking to provide services to clients, citizens and businesses worried about their taxes and the economy, and investors and bond rating agencies looking for a balanced approach and a balanced budget.

Given the multitude of special sessions and late passages of budgets, it is essential that the legislature and administration agree on a budget and complete their work on time. There is no reason to drag out the budget process any longer.

We must work together to ensure the timely implementation of the budget. The citizens of the state, taxpayers, clients of state services, providers, businesses, taxpayers and investors are counting on it.