

INTRODUCTION

INTRODUCTION

A TIME FOR CAUTION

One only has to read the daily news to know that we are living in very uncertain economic times. According to the National Association of State Budget Officers, a total of 19 states have announced budget and revenue shortfalls in FY 2007–08 or 2008–09. All three of Connecticut’s neighbors are included in those states and face large budget gaps in FY 2008–09. New York has announced a \$4.3 billion budget gap; Massachusetts has forecast a \$1.3 billion budget gap; and Rhode Island is facing a \$450 million budget gap. Leaders in these states are now struggling with the difficult decisions around raising taxes, cutting programs or both.

Neighboring States Budget Deficits Fiscal Year 2009	
State	<u>Announced Budget Gap</u>
Massachusetts	\$1.3 billion
New York	\$4.3 billion
Rhode Island	\$450 million

ECONOMIC BACKDROP

During the latter half of calendar year 2007, economic conditions in our country began to erode. Against the backdrop of already rising energy prices came the unfolding sub-prime mortgage meltdown. Almost overnight, interest rates rose dramatically, particularly for individuals and businesses without the strongest credit scores. This, of course, immediately impacted the nation’s housing market which had expanded significantly this decade, fueled by cheap credit which had existed since the depths of the last recession. The ensuing credit crunch and financial market uncertainty whipsawed investors as the new year began and led to the

dramatic reduction in interest rates by the Federal Reserve, and news of an emerging economic stimulus package from the federal government.

Economic projections for the state’s major indicators point to a slowing yet still expanding economy. Personal income growth in Connecticut is projected to rise by 3.6%, down from the 6.3% and the 4.5% growth registered in FY 2006–07 and 2007–08, respectively. Finally, given the recent lowering of interest rates and three successive years of declining housing starts, that sector is actually projected to show some gains in FY 2008–09 off of a very low base.

Within this economic environment the Governor developed her revenue and expenditure proposals for the new fiscal year. Concerned that the state would be facing a period of economic uncertainty, in the Midterm Budget Governor Rell is proposing targeted, and important, changes to the state’s budget while conserving the state’s resources, should the economic ill winds affecting the nation arrive at our doorstep.

THE FY 2008–09 MIDTERM BUDGET

Unlike so many of our sister states, Connecticut is extremely fortunate that it is not in a difficult fiscal position at this time. The Governor is aware of this nationwide trend and, as such, is proposing a conservative budget that is responsive to the most urgent issues facing our citizens. Focusing on areas such as rising energy costs, public safety and criminal justice, transportation, and high property taxes, Governor Rell is proposing a Midterm Budget that builds upon expansions already in the biennial budget and provides new elements of financial relief, protection from crime and more responsive and open government. The Governor’s budget remains \$20.4 million below the expenditure cap and grows just 4.8% above FY 2007–08 expenditures.

Governor Rell is proposing an all-funds budget of \$18,501.0 million for FY 2008–09. The FY 2008–09 all funds proposal represents an increase of \$89.3 million, or 5 tenths of one percent over the original appropriation for FY 2008–09.

The Governor is proposing a General Fund budget of \$17,172.0 million for FY 2008–09 which is projected to result in a \$3.3 million surplus. The FY 2008–09 proposal represents an increase of \$99.0 million or just 0.6 percent over the original General Fund appropriation. Technical adjustments to current services spending require the addition of about \$41.9 million in all funds. Technical adjustments add \$56.9 million to the General Fund and reduce Special Transportation Fund (STF) requirements by \$16.2 million.

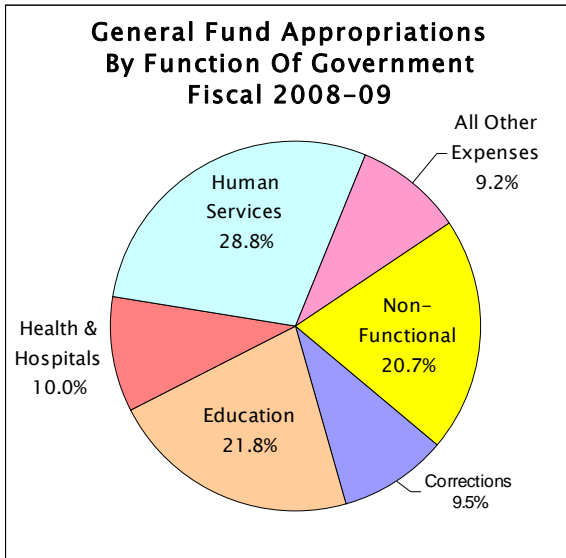
	Estimated 2007–08	Appropriated 2008–09	Revised Recommended 2008–09
Revenue			
General Fund	\$ 16,612.5	\$ 17,073.1	\$ 17,175.3
Transportation Fund	1,105.0	1,157.0	1,149.6
All Other Funds	184.7	184.9	186.4
Total	\$ 17,902.2	\$ 18,415.0	\$ 18,511.3
Expenditures			
General Fund	\$ 16,370.3	\$ 17,073.0	\$ 17,172.0
Transportation Fund	1,093.3	1,154.2	1,143.1
All Other Funds	184.2	184.5	185.9
Total	\$ 17,647.8	\$ 18,411.7	\$ 18,501.0
Balance – Surplus/(Deficit)			
General Fund	\$ 242.2	\$ 0.1	\$ 3.3
Transportation Fund	11.7	2.8	6.5
All Other Funds	0.5	0.4	0.5
Total	\$ 254.4	\$ 3.3	\$ 10.3

Growth in the General fund current services budget occurred in a few major areas. The Department of Social Services is expected to require an additional \$78.4 million, of which \$63.1 million is in the Medicaid account. Collective Bargaining salary increases are expected to require another \$9.8 million. Lastly, the rollout of the current year deficiencies in the Departments of Correction and Mental Health and Addiction Services are expected to require an additional \$25.6 million and \$12.3 million, respectively. These additions are offset by projected net decreases in state employee and retiree fringe benefits of \$54.4 million and PILOT

	Appropriated FY 09	Recommended FY 09
General Fund	\$17,073.0	\$17,172.0
Special Transportation Fund	1,154.2	1,143.1
Mashantucket Pequot & Mohegan Fund	86.3	86.3
Soldiers', Sailors' & Marines' Fund	3.3	3.3
Regional Market Operating Fund	1.0	1.0
Banking Fund	19.0	19.3
Insurance Fund	24.1	24.5
Consumer Counsel and Public Utility Fund	24.2	24.7
Workers Compensation Fund	24.0	24.3
Criminal Injuries Compensation Fund	2.6	2.6
Grand Total	\$18,411.7	\$18,501.0

INTRODUCTION

Manufacturing Machinery and Equipment of \$24.9 million. In the STF, decreases in state employee health benefits of \$2.1 million and debt service of \$14.1 million are projected.



Total policy changes in the Governor’s budget are projected to require a net \$47.4 million in additional funding. Expansions totaling \$81.2 million are partially offset by \$20.6 million in reductions and \$13 million of carry-forwards. Major initiatives include \$24.5 million for Parole Reform and Public Safety, \$9.4 million for Hospitals and Healthcare, \$12.8 million for Human Services, \$5.0 million for Transportation, \$6 million for Regional Incentives and Municipal fiscal support, \$3.6 million for a new Cultural Treasures program and \$2.5 million for Energy and Conservation related programs.

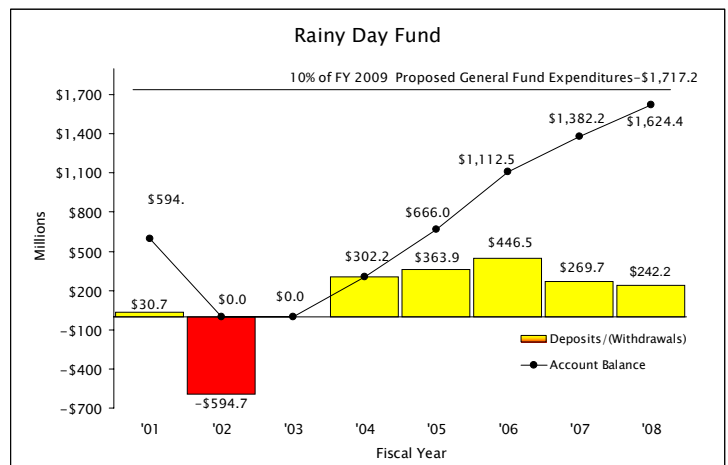
THE BUDGET RESERVE FUND

One of the greatest protections against an economic downturn that any state or municipality can have is a sizable budget reserve fund. At this time more than ever it is critical that the state fill up the Rainy Day Fund and remain

fiscally conservative and responsible so that if a budgetary downturn occurs like our neighboring states’ materializes, the state will be in a better position to manage the problem without drastic budgetary measures.

In Connecticut, per state statute, any unappropriated surplus at the end of a fiscal year shall be deposited into the State’s Rainy Day Fund until the fund equals ten percent of the net General Fund appropriations for the following fiscal year. Although we have never reached the 10% target, the current balance in the Rainy Day Fund is at an all time high.

Today, the Rainy Day Fund balance is \$1,382.2 million or 8.1% of net General Fund FY 2008-09 appropriations. Based on current estimates, if the Governor’s Budget were enacted, another \$242.2 million from the FY 2007-08 surplus would be deposited into the State’s Rainy Day Fund, bringing the total deposit up to \$1,624.4 million or 9.5% of the net revised General Fund appropriation in FY 2008-09.



INTRODUCTION

REVENUE GROWTH RATES

The Governor's proposed midterm budget adjustments assume that the State's major revenue sources will continue to grow, albeit at a pace commensurate with a slowing national economy. The income tax is projected to grow by 5.4% in FY 2008-09 after expanding at a very healthy projected 10.7% in FY 2007-08. Separating the income tax into its 2 major components, withholding receipts are projected to grow by 5.6% in FY 2008-09, down from 7.0% in FY 2007-08, while estimates and final payments are projected to increase by 5% in FY 2008-09, down from a torrid 18.3% in FY 2007-08. Growth in both the sales tax and the corporation tax are expected to hover around the rate of inflation, with sales tax projected to grow by 2.5% and the corporation tax to grow by 3.3%.

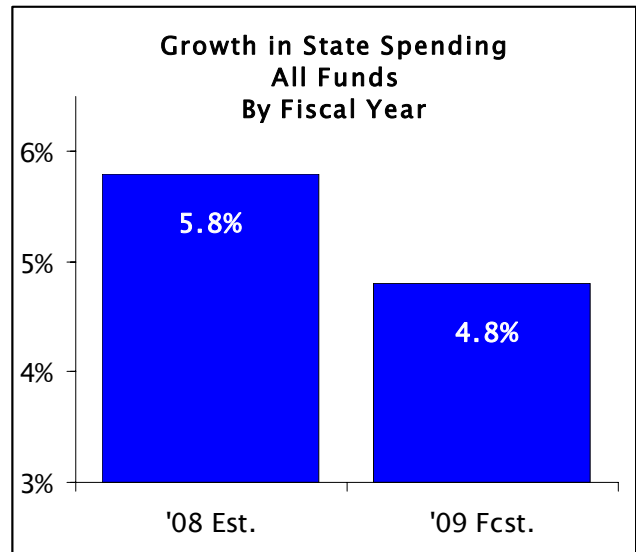
EXPENDITURE CAP

The Governor's proposed budget remains within the limits prescribed by the state's constitutional expenditure cap. Given that the State's Rainy Day Fund is yet to be filled and the State is entering a period of economic uncertainty, it would be imprudent to exceed the expenditure cap limit. Nor is there any need to do so, given that the expenditure cap still allows the overall State budget to grow by 4.8% in FY 2008-09.

The originally adopted biennial budget was \$28.2 million below the expenditure cap for FY

2009. Despite an increase in appropriations of \$89.3 million, the Governor's proposed budget remains \$20.4 million below the cap as a result of the following two factors:

- **Faster personal income growth**– The originally adopted budget for FY 2008-09 anticipated a five-year average growth in Connecticut personal income of 4.1%. Actual growth has been 4.6%, creating an additional \$70.1 million in room under the cap.
- **Federal mandates and court orders**– Increases in certain appropriations contained in this proposed budget are a result of federal mandates or court orders. These changes increased available room under the cap by \$48.5 million.



CRIMINAL JUSTICE REFORM

Public Safety is one of the most important functions of state government. Our citizens have every right to demand change and reform, when as in the last year, events shake the confidence of the public in our existing institutions.

Governor Rell convened a Sentencing and Parole Review Task Force. This diverse group of individuals represented experience in every facet of our criminal justice system. The charge of the Task Force was clear: to conduct a top to bottom assessment of all procedures and processes involved in our criminal justice system and formulate recommendations for consideration by the Governor and the General Assembly. The members of the Task Force answered the call and served the people of Connecticut well.

On January 8th, Governor Rell announced sweeping reforms to improve the criminal justice system and on January 25, 2008, the Governor signed into law P.A. 08-1, the January special session, "An Act Concerning Criminal Justice Reform." In addition, the Governor's Recommended Budget includes further reforms to address the concerns of Governor Rell, criminal justice professionals and the citizens of Connecticut.

Governor Rell's Midterm Budget supports the addition of five full-time Parole Board Members to work with the part-time Board of Pardons and Paroles members. All members must have expertise in criminal justice, mental health or other relevant disciplines. Because of the tremendous responsibility of deciding whether certain offenders deserve parole and whether they would succeed in the community, comprehensive training will be provided to all Board members.

These reforms also included a tougher home invasion law that includes: a ten year mandatory minimum prison sentence; an enhanced burglary statute for all burglaries at night; an improved persistent offender law that makes it easier for prosecutors to seek longer sentences for repeat offenders; more rights for victims; and better coordination of services between the courts, the Department of Correction (DOC) and the Board of Pardons and Paroles.

BUDGETING FOR THE ENACTED REFORMS

Governor Rell supports the inclusion of the reforms enacted in the January 2008 Special Session in her budget as follows:

- One position for a psychologist to the Board of Pardons and Paroles who will have expertise in risk assessment and will assist the Board in its parole decisions;
- Enhancement of community supervision of parolees through the use of passive global positioning surveillance (GPS) devices. This initiative adds 300 new GPS devices and 9 Parole Officers to monitor the offenders;
- Service enhancements for victims of crime which added 2 positions and nearly \$246,000 for General Fund pickup of federally funded positions to be utilized by the Board of Pardons and Paroles and 3 contracted family violence victim advocates in the Norwalk, New Britain and New London domestic violence dockets. These three new family violence victim advocates will ensure that all domestic violence dockets in the state utilize a progressive team approach in handling these difficult cases;
- \$125,000 to provide a secure video link between DOC and the Board of Pardons and Paroles. This effort will streamline the hearing process and improve the Board's efficiency by

INTRODUCTION

reducing travel time for staff and Board members;

- \$8.8 million to contract for re-entry, diversionary and mental health beds. This will maintain the number of additional beds at 270 as included in the legislation but will redirect 55 of those beds to those with mental health needs and provide for the additional cost of more intensive mental health programs;
- \$2 million to provide secure residential treatment facilities for sex offenders;
- \$750,000 to establish and implement a state-wide automated victim information and notification system;
- 8 positions and nearly \$836,000 to create a new mental health pre-trial diversionary option within the Judicial Department that will provide intensive supervision to defendants with psychiatric disabilities; and
- \$1.7 million to expand re-entry and diversionary services contracted through DOC and the Judicial Department.

ANNUALIZE THE DEPARTMENT OF CORRECTION'S FY 2007-08 DEFICIENCY

The FY 2007-09 biennial budget for the Department of Correction was constructed under the presumption that alternative to incarceration programs, funded in FY 2006-07 and geared toward reducing prison overcrowding, would be fully implemented and would result in lower numbers of incarcerated offenders.

However, with the sweeping changes of P.A. 08-1, January Special Session, "An Act Concerning Criminal Justice Reform" and the decisions made prior to the bill, the savings projected due to a reduction in prison population will not occur. Rather, the Department of Correction is experiencing a \$17 million shortfall in FY 2007-08

funding. These costs will continue into FY 2008-09 and the Governor is providing \$25.6 million to annualize the costs of the changes impacting the current fiscal year.

These changes include the following:

- \$6.5 million to pay the UCONN Health Center for Inmate Medical Services provided by their Correctional Managed Health Care unit;
- \$500,000 for community supervision of an estimated 240 parolees convicted of Burglary I and II offenses through the use of passive global positioning surveillance (GPS) devices;
- Nearly \$3 million for the opening of 2 quads at the Carl Robinson Correctional Institution;
- \$4.7 million to keep Burglary II offenders in prison for 85% of their sentence;
- \$4.6 million for staffing enhancements to prison and parole systems, which includes \$2 million for residential and non-residential services for parolees; and
- \$6.3 million in Other Expenses for costs associated with keeping inmates housed, such as food, clothing, and utilities.

To accommodate the staffing requirements in Department of Correction facilities, the Governor is providing 125 additional Correction Officers and additional staff with appropriate funding beyond what was provided in the originally enacted FY2007-09 biennial budget. The DOC has reconditioned 3 former dormitory areas (2 mentioned above) at the Carl Robinson Correctional Institution that were being used for other purposes but will again provide the physical capacity for an additional 340 inmates.

GOVERNOR RELL'S ADDITIONAL REFORMS

In order to reinforce the changes enacted in P.A. 08-1, January Special Session, Governor Rell expands on these initiatives and has included in her Midterm Budget Adjustments:

- \$107,000 for the DOC, in conjunction with the Department of Motor Vehicles, to issue IDs to all inmates lacking identification who are legal citizens. This will help them in obtaining housing and employment upon release;
- Funding for a position in the Department of Social Services to expedite eligibility for State Administered General Assistance for inmates being released. This will allow the more timely access of health care services without interruption for those who are eligible for these services;
- Nine probation staff and \$414,000 to establish one additional warrant squad to increase the number of warrants served for violation of probation by 50%. Currently, there is an insufficient number of staff to serve the warrants;
- \$566,000 for the Connecticut Offender Re-entry Program (CORP) in the Department of Mental Health and Addiction Services. This program targets offenders with serious psychiatric disabilities up to 12 months prior to release from prison, providing integrated substance abuse and mental health services in the community upon release, in addition to addressing housing issues;
- Funds in the DOC to replace expiring federal funds for five substance abuse counselors;
- \$500,000 to expand Urban Youth Violence Prevention funding which provides competitive grants to non-profits and municipalities for supports services for children aged 12-18 to reduce urban violence. This program was first initiated in FY 2007-08 and has had great

success. The funds are used for locally designed and implemented services;

- The addition of three support positions to the Board of Pardons and Paroles to expedite and ensure the completion of files prior to review by the Board; and
- A requirement that any person mandated to register as a sex offender must obtain a motor vehicle operator's license or identification card issued by the Department of Motor Vehicles with a designated marking to demonstrate such person's status on the sex offender registry. This will provide another method of maintaining information for those persons required to register.

EXPANDED DNA TESTING

Governor Rell is committed to assisting law enforcement with the identification of criminals through the use of DNA testing. In order to accomplish this initiative, the Governor is proposing legislation to expand the collection of DNA to inmates in correction facilities not yet tested and persons newly incarcerated for the most serious offenses. Additionally, all persons charged with Class A and B felonies will be required to submit to a DNA test at arraignment, and all convicted felons released without being incarcerated must submit to a DNA test upon disposition of the case.

Incorporating all of the changes made through P.A. 08-1 of the January Special Session and those made by the Governor, an additional 22 Parole Officers for supervision of offenders will be added to the Department of Correction. The Board of Pardons and Paroles' staffing will increase by 9 positions and there will now be 5 full-time parole board members along with the part-time board, a forensic psychologist and 3 clerical staff to

INTRODUCTION

coordinate the influx of paperwork needed to ensure a complete package of information is provided on each offender being considered for parole release.

INFORMATION SYSTEMS

P.A. 08-1 of the January Special Session, "An Act Concerning Criminal Justice Reform" provides \$2 million in FY 2008-09 to design and implement a comprehensive, statewide system for the sharing of criminal justice information among the various law enforcement and criminal justice agencies. In addition, it provides \$100,000 in FY 2007-08 and \$250,000 in FY 2008-09 for an executive director to oversee the design and implementation of the system.

Governor Rell's Midterm Budget includes additional funding in the Department of Information Technology (DOIT) for technology needs related to her criminal justice initiatives. Funding in the amount of \$293,577 is provided for five IT positions and related costs and \$1,550,000 is provided for associated systems costs.

Funding in the amount of \$760,000 is included in the Department of Public Safety to provide for the software purchases and DOIT costs related to upgrades to the Sex Offender Registry (SOR) required by the Adam Walsh Child Protection and Safety Act. The Act requires that the system include registry functions such as "in-person" verifications, the establishment of a tier system, electronic notification and transfer of documentation, and e-mail alerts to individuals or organizations requesting information on the movement of registrants into and out of their community. The federal government has mandated that states become substantially compliant with the requirements of the Walsh Act by July 2009.

Additionally, there have been numerous changes to the Connecticut sex offender registry statues that the SOR has been unable to respond to as a result of limitations of the database system, including the requirement in Public Act 02-7 from the May Special Session that information be collected on registrants attending or employed at educational institutions.

The Bond Proposal includes \$8 million to begin the implementation of systems to meet the need of the criminal justice community as follows:

- Division of Criminal Justice Case Management System - Funding is provided for the development and implementation of a prosecutorial case records management system that includes a database of law enforcement incident reports accessible to other criminal justice agencies. Currently, the state's attorneys have no case management system, although state and municipal law enforcement agencies have record management systems poised to provide incident case data for prosecution considerations. No automated system exists to process search and arrest warrants. Cases are manually processed and court scheduling, documents, and processing are obtained via different systems. With a case management system, increased productivity for both the State's Attorney, specifically, and the criminal justice information system, generally, will be achieved.
- Criminal Justice Information System (CJIS) Master Plan - A CJIS master plan will provide a long term, state-wide information technology blue print for the criminal justice community, which will include (1) an evaluation of the current criminal justice systems which are in operation, under development, or proposed, (2) the consideration of business needs of the various criminal justice agencies and the

INTRODUCTION

Judicial Department, including a focus on the Offender Based Tracking System (OBTS) and a plan for a statewide online booking system, and (3) the means for improving coordination, communication, and data sharing to better facilitate criminal justice services and community treatment.

- COLLECT System Revisions – The upgrade of the COLLECT system will allow for operational efficiencies, compliance with security standards and compatibility with information technology standards and operating procedures established by the FBI and state information technology and criminal justice agencies. COLLECT is the law enforcement telecommunication system of first responder data which utilizes resources from the FBI, other states, and state agencies over a secure network. Currently the system serves approximately 13,000 end users. It provides for communication with other law enforcement agencies nationwide.

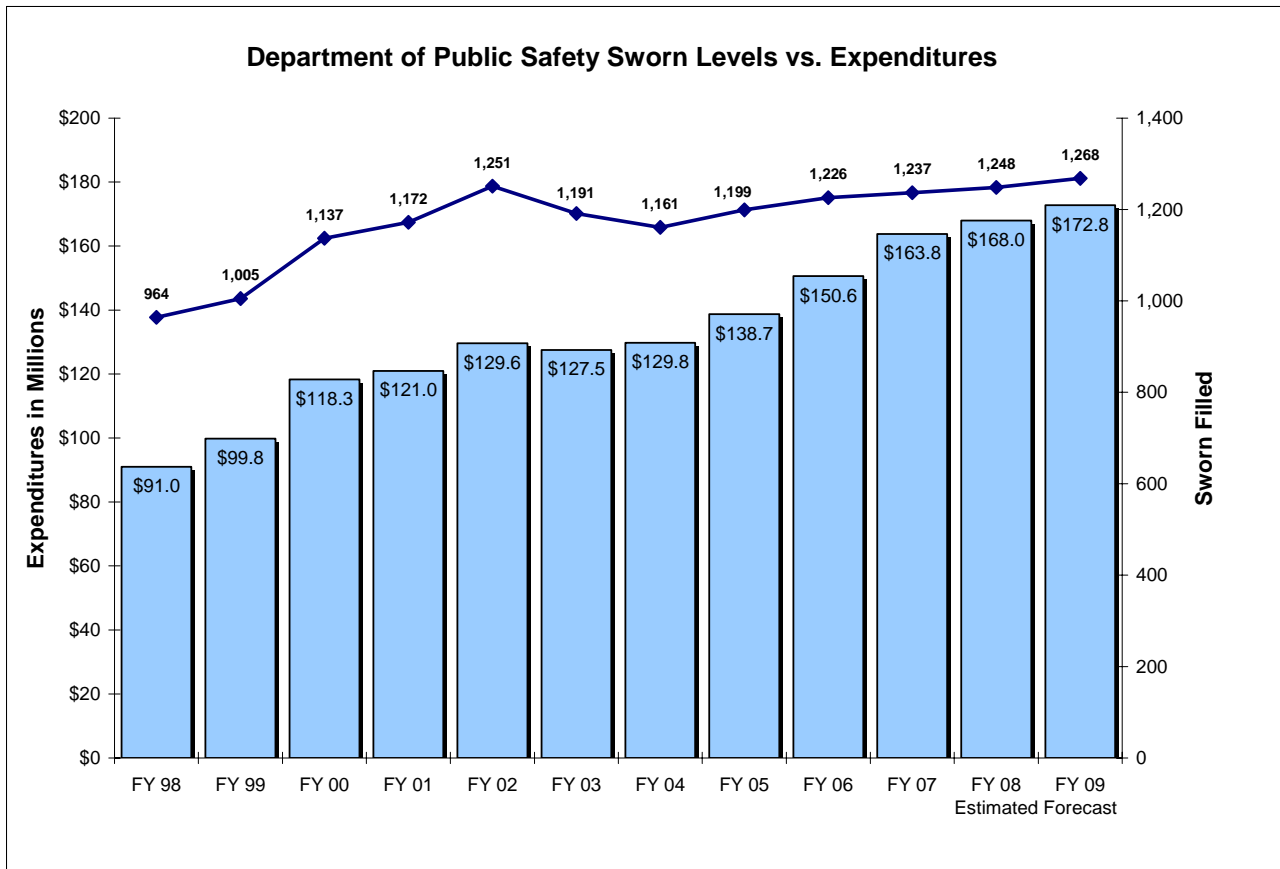
PUBLIC SAFETY

Governor Rell has proposed a number of both budget and legislative changes to enhance the public safety of Connecticut residents.

TRAFFIC ENFORCEMENT

With the growing need for additional State Police Troopers the Governor is proposing adding 100

State Troopers over the next 5 years for traffic enforcement, starting with 20 Troopers in the FY 2008–09 Midterm Budget. This proposal aims to make Connecticut highways safer. Additionally, the Governor is proposing a Pilot program in the Old Lyme/Lyme area for electronic camera radars aimed at catching and ticketing speeders.



INCREASED TRUCK SAFETY

Section 14-270c of the Connecticut General Statutes dictates that both the Commissioners of the Department of Public Safety (DPS) and Motor Vehicles (DMV) shall staff the truck weighing areas throughout the State. The Governor is proposing statutory revisions to require increased coverage of the Greenwich weigh station, adding three Saturday shifts every month.

Weigh Station Hours of Operation Minimum Mandates per C.G.S. 14-270c			
Agency	Weigh Station	8-hour Shifts	Total Hours of Operation
DMV	Union	5	40
Either	Greenwich	8	64
DPS	Danbury	3	24
	Portable	10	80
Total		21	208
Governor's Recommended Addition			
DPS	Greenwich	3	24
Total		24	232

INCREASE COMMERCIAL VEHICLE SAFETY

Commercial vehicle safety continues to be a major concern and an issue that the Governor has again made one of her top priorities. Immediately following the Avon Mountain accident in July 2005, Governor Rell ordered more frequent and thorough commercial vehicle inspections. These inspections especially targeted companies with vehicles that had a history of failing safety inspections, and would conduct repeat inspections to ensure that previous infractions and deficiencies had been resolved. Although the number of inspections of commercial vehicles statewide subsequently has increased, there are still too many unsafe vehicles on our roads.

The Governor believes it is in the best interest of the State to bolster truck inspections again. In her Midterm Budget for FY 2008-09, the Governor

provides over \$700,000 for the addition of ten Commercial Vehicle Safety Inspectors within the DMV in order to enhance inspection squad activity to cover all areas in need, particularly when other mandates such as school bus inspections are taken into consideration. With this appropriation DMV will be able to deploy two additional truck squads to areas as needed.

TEEN DRIVER SAFETY

The escalating number of cases in which teen drivers are the cause of unfortunate motor vehicle tragedies has lead the Governor to broaden her focus on public safety to this driving segment of the State population. In order to foster a greater sense of responsibility through greater consequences, the Governor supports increasing penalties for those teenagers found to be in violation of motor vehicle traffic laws. Such proposals would include

- Increasing the number of mandatory hours behind-the-wheel, on-the-road instruction for driver's license issuance from twenty to fifty hours;
- Strengthening seat belt laws by increasing fines for not wearing seatbelts and not having a seat belt for each passenger in the vehicle;
- Changing the hour after which a teen driver can no longer be on the road from midnight to 10:00 p.m.;
- Extending the period of time a driver of sixteen or seventeen years of age must wait to transport passengers based on the passengers' age or driving experience from three to six months;
- Including teen drivers in the list of violators who must enroll in a treatment program should their infraction stem from the use of alcohol abuse; and

INTRODUCTION

- Suspending the license of a driver who evades attending a hearing resulting from their infractions for a period of not less than a year.

THE REMOVAL OF SNOW AND ICE FROM MOTOR VEHICLES

Safety on Connecticut's roadways is not just limited to the mechanics, speed, or operation of the vehicles utilizing these roads. Although a seasonal concern, "ice missiles" pose a safety concern for all on Connecticut's roads during the winter months. Governor Rell aims to eliminate this danger by mandating that all drivers, both commercial and passenger, clean off the ice and snow that builds up on a vehicle's hood, roof, and surfaces and which may become dislodged while the vehicle is in motion. This change on the part of the commuter would prevent an accident as it mandates cleaning off the car before the ice dislodges.

BOATING SAFETY

In light of recent events on Connecticut's waterways, the Governor has expanded and strengthened safeguards beyond Connecticut's roadways. Governor Rell's proposal will target those who disregard their boating responsibilities and privileges by extending the charge of manslaughter to cover boating accidents caused by those under the influence of drugs or alcohol. This charge will also be considered a Class C felony.

METHAMPHETAMINES

The manufacture, sale and use of methamphetamines continues to be a problem in Connecticut. Governor Rell is proposing to make dealing or manufacturing methamphetamine-type substances subject to the same criminal penalties as similar controlled substances. This will eliminate the anomaly where equally dangerous substances

are treated differently under the law. Specifically, the Governor is looking to raise the penalties for the manufacture or distribution of methamphetamine and methamphetamine-type substances as follows:

- First offense: Up to 15 years in prison and/or a fine of up to \$50,000;
- Second offense: Up to 30 years and/or up to \$100,000 fine; and
- Subsequent offense: Up to 30 years and/or up to \$250,000 fine.

The manufacture of methamphetamine and methamphetamine-type substances creates significant environmental problems. Cleaning up labs where these drugs have been manufactured has proven to be quite costly, and too often the State or municipal agencies are saddled with these expenses. To address this problem, the Governor is again proposing the establishment of the Methamphetamine Laboratory Clean-up Account, which will be a separate, non-lapsing account within the General Fund. Under the Governor's plan, courts will require those convicted of methamphetamine related crimes to pay into the account. The account would then be used to reimburse State or municipal agencies for costs associated with the clean-up of methamphetamine manufacturing sites.

ADDITIONAL STAFF FOR THE DEPARTMENT OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT

Currently the Department of Public Safety (DPS) has an agreement with the Department of Emergency Management and Homeland Security (DEMHS) for the services of up to 19 Troopers in areas such as the Joint Terrorism Task Force, Urban Search and Rescue, and Training. However, as the responsibilities of DEMHS evolve, the needs of the agency change. The Governor is proposing to add

INTRODUCTION

8 civilian positions while keeping 10 Troopers in DEMHS to handle critical law enforcement functions. The funding for these positions, currently within DEMHS as a portion of the reimbursement for the Troopers, will now be used to support DEMHS' own civilian positions. This change will allow both DEMHS and DPS more flexibility in staffing for the needs of their agencies.

The Governor is also proposing to make the Enhanced 9-1-1 database available to the Department of Emergency Management and Homeland Security and the state's municipalities, free of charge, for use in connection with an Emergency Notification System. This system would allow emergency responders and public safety providers to notify the public of an emergency using a reverse 9-1-1 system.

COMPUTER CRIMES AGAINST CHILDREN

The Governor is proposing legislation to strengthen laws aimed at individuals who solicit minors over the internet and then coerce them into providing inappropriate images of themselves or performing lewd acts over webcams or cell phones. Additionally, the legislation will close certain loopholes regarding the viewing of child pornography.

PUBLIC SAFETY DATA NETWORK

The Governor is proposing the creation of a Connecticut Public Safety Data Network. This data network will connect all public safety responders and providers. The Connecticut Public Safety Data Network shall meet the following objectives:

- State agency stand-alone networks will be consolidated;
- Enhanced 9-1-1 data exchange functionality will be established;
- Public safety responders with no connectivity will be connected; and
- The convergence of data and voice will be established.

Recent history has shown that the need to share data in a real time mode to a multitude of agencies in order to respond to natural disasters or acts of terrorism.

JUDICIAL DEPARTMENT

The Governor's Midterm Budget for FY 2008–09 includes funding to adjust for the revised occupancy date of the new Bridgeport Detention Center from October to July of 2008; to expand Intensive In–Home Child and Adolescent Psychiatric Services (IICAPS) as described later; funding to support 50% of the implementation of a Community Diversion Board in Waterbury; to provide a 2% raise to judges, magistrates and per diem judges effective January 2009 and to provide specific programs associated with the Governor's Parole Reform Initiatives.

INTENSIVE IN–HOME CHILD AND ADOLESCENT PSYCHIATRIC SERVICES (IICAPS)

Until January 1, 2008, the Court Support Services Division (CSSD) within the Judicial Department provided intensive community services for children who have serious psychiatric problems through its Adolescent Community Treatment (ACT) programs funded through two accounts – the Juvenile Alternative Incarceration and Youthful Offender Services accounts. These services included a mix of day programs and home–based services that mirror services provided under the Connecticut Behavioral Health Partnership (CT BHP).

In FY 2007–08, CSSD will fund an expansion of the CT BHP IICAPS network in the Department of Social Services (DSS) and the Department of Children and Families (DCF) and transfer necessary funds including startup costs and Quality Assurance expenses. Effective January 1, 2008, all CSSD, children who are HUSKY A, HUSKY B or DCF–involved will receive their services through the CT BHP.

- All of the costs of serving the HUSKY A and HUSKY B children will be borne by DSS;
- All of the costs of serving non–HUSKY DCF involved children will be borne by DCF; and
- All non–HUSKY/non–DCF–involved children will continue to receive services through CSSD.

In addition to providing a fuller array of behavioral health services, the conversion of CSSD services to IICAPS under the CT BHP will enable the state to claim federal revenue for these services under Medicaid to the extent that they are provided to HUSKY A and HUSKY B enrolled children. Additional funding of nearly \$730,000 is provided to increase the number of teams providing these services from 11 to 18.

HEALTH AND HUMAN SERVICES

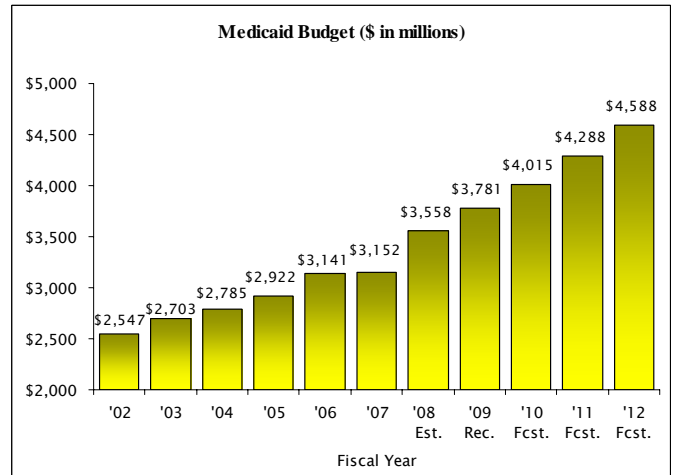
Governor Rell’s adjustments to the FY 2008–09 budget continue her commitment to serving low-income, disabled, and vulnerable persons, and improving their quality of life and safety. Initiatives include: stabilizing Connecticut’s hospitals; increasing the movement of individuals from long-term care into community settings; providing additional supports and services for persons with developmental disabilities or behavioral health needs; continuing to make gains in child welfare and protection; implementing a Medicaid hospice benefit; honoring the sacrifices made by the families of Connecticut’s veterans; and enhancing energy programs for low-income persons.

HISTORIC INCREASES IN MEDICAID RATES

The 2007 legislative session concluded with a budget that makes significant investments in the Medicaid program during the FY 2007–09 biennium in order to ensure continued quality health care coverage for individuals with low income who are aged, blind, or disabled, and for families with children. Medical providers will see their rates increased by over \$221 million by the end of FY 2008–09. Rate increases were budgeted as follows:

<u>Provider Type</u>	<u>Amount (in millions)</u>
Hospitals	\$72.6
Physicians	\$27.3
Clinics	\$10.8
Dental	\$20.0
Transportation	\$2.0
Nursing Homes and ICF/MRs	\$39.0
Other (Home Health, Vision, PCA, ABI)	\$10.0
Managed Care Providers	\$40.0

These increases are expected to yield significant financial relief to providers, and should help to retain and expand the number of providers willing to serve Medicaid recipients.



In addition, to further assist hospitals facing significant financial hardship, \$30 million was provided for a Hospital Hardship Fund to help certain hospitals meet critical operating expenses, expand facilities and strengthen their long-term financial health. Grant awards have addressed critical infrastructure and physical plant upgrades, the resolution of operating shortfalls or pension obligations, and the purchase of medical equipment and technology. The FY 2007–08 grants are in addition to \$11.4 million that was distributed to hospitals experiencing financial hardships in FY 2006–07.

GOVERNOR RELL’S HOSPITAL SYSTEM STRATEGIC TASK FORCE – STABILIZING CONNECTICUT’S HOSPITALS AND CHARTING A COURSE FOR THE FUTURE

Concerned about the condition of Connecticut hospitals and residents’ access to health care, in April of 2007, Governor Rell announced the formation of a Task Force to develop strategies to

INTRODUCTION

stabilize and chart the future course of hospitals in Connecticut, many of which are facing financial hardship. The Governor requested that the Task Force examine: the current financial health of the State's hospitals; access to care; emergency room utilization; affordability; alternative delivery of primary care, and the Certificate of Need process.

Recommendations of the Task Force that are addressed in the adjustments to the FY 2008–09 budget include:

- Strengthened requirements for the State health plan, statewide facilities plan, and mental health and substance abuse services plan, including a mandate that the plans be updated every five years. In order to carry out its planning mandate, \$100,000 and one new position are recommended for the Office of Health Care Access (OHCA);
- \$250,000 in one-time funding for OHCA to conduct a study of hospital reimbursement systems as well as reimbursement mechanisms for specialist care at community health centers. This study will help the State determine whether the current reimbursement system should be modified;
- \$100,000 in one-time funding for OHCA to conduct a study of primary care service capacity. This study will help identify geographic and service gaps in the primary care service system;
- \$790,940 for increased nursing education opportunities through the community-technical colleges;
- \$500,000, annualizing to \$1 million, for a pilot emergency assessment crisis response center under the Department of Mental Health and Addiction Services (DMHAS). This pilot will implement effective and feasible models of care for psychiatric emergency assessment or crisis response centers in order to expand access to behavioral health crisis services for adults;
- \$100,000 in one-time funding for the Department of Social Services (DSS) to conduct a media campaign to encourage HUSKY clients and Medicaid recipients to seek out appropriate primary care providers rather than turn to hospital emergency departments for primary care;
- \$2 million for DMHAS to purchase three 15-bed high intensity programs for individuals with co-occurring psychiatric and substance abuse disorders, targeted to high users of hospital emergency departments or inpatient beds who often have criminal justice involvement. These services are expected to address the needs of approximately 137 persons whose community stability is so fragile that they spend more than 120 days in inpatient beds per year;
- \$1.5 million for DMHAS to purchase eight beds in private psychiatric hospitals to facilitate transfers out of hospital emergency departments; and
- Nearly \$1.0 million for the Department of Children and Families to continue the enhancement and expansion of emergency mobile psychiatric services.

A study of hospital reimbursement systems is long overdue. Currently, Medicaid hospital inpatient rates are established based on an outdated 1983 rate setting methodology. That methodology looks at allowable costs and establishes a target payment amount per discharge. While minor adjustments in the inpatient minimum payments have been implemented over the past few years, the underlying methodology has not been overhauled in over seven years. Over time, the result has been that disparate rates are in place for similar institutions, even if they operate in the same city. For instance, in one major city, Hospital A is paid

INTRODUCTION

35.2 percent less than Hospital B for a comparable service. In another city, the differential between Hospital C and Hospital D is 15 percent. No such disparity exists for hospital outpatient services, where every hospital is paid the same amount for similar services. The OHCA study could examine the impact of a variety of rate setting approaches, including acuity-based models, case rates, urban-suburban-rural approaches, and using the Medicare rate or some percentage thereof. Ultimately, rates should be tied to performance and quality, and should not provide an advantage or disadvantage to similarly-situated hospitals.

The Task Force is only one part of Governor Rell's broader effort to ensure that all residents of Connecticut have access to quality, affordable health care. In December of 2006, the Governor announced her Charter Oak Health Plan, which will provide low-cost health insurance to individuals and families who cannot currently afford private insurance. The plan - targeted at lower income people, newly graduated college students, and self-employed people, many of whom may not have access to employer-sponsored health insurance and do not qualify for programs such as HUSKY or Medicaid - is intended to provide health insurance for about \$250 a month, and includes State subsidies.

EXPANSIONS IN HUSKY ELIGIBILITY, AND CHANGES TO THE HUSKY PROGRAM

In order to significantly improve access to health care, effective July 1, 2007, eligibility for parents of children in the HUSKY program was increased from 150% to 185% of the federal poverty level. As a result of this change, enrollment in the HUSKY program increased by over 16,100 during the six month period from July 2007, through January 2008, and in total is projected to increase by

26,000 individuals from FY 2007-08 through FY 2009-10, at an annual cost of over \$63.0 million. In addition, effective January 1, 2008, eligibility for pregnant women was expanded to 250% of the federal poverty level. On top of this, Governor Rell won passage of her initiatives to enroll children in the HUSKY B program at birth and to work with schools to annually identify low-income families for HUSKY program eligibility. Taken altogether, these initiatives are expected to dramatically increase HUSKY program enrollment over the next several years.

While these eligibility expansions are significant in their own right, an even more noteworthy change to the HUSKY program was necessitated by Governor Rell's insistence that managed care organizations strictly adhere to Connecticut's Freedom of Information Act requirements. Concerned about aspects of such compliance, several managed care organizations balked at continuing their HUSKY contracts. As a result, beginning in December 2007, DSS renegotiated the contracts, fundamentally altering the arrangements by removing financial risk from the plans and shifting financial risk for health care services provided and decision making authority for medical necessity determinations to the department, in effect creating administrative services arrangements with the managed care organizations. The financial impact of this arrangement is unknown for FY 2007-08, and may require further action later in the year as potential costs or savings are identified.

For FY 2008-09 and forward, DSS issued a combined request for proposal in January of 2008, for the HUSKY A and HUSKY B programs as well as the Governor's Charter Oak Health Plan. Collectively, these programs will provide access to affordable health care for children and adults up to age 64, regardless of income, with lower income

INTRODUCTION

individuals and families receiving financial assistance in the form of State-subsidized premiums. It is anticipated that selected contractors will begin delivering services effective July 1, 2008. While it is possible that bids received from potential contractors could result in additional costs or savings, the recommended budget adjustments assume no significant programmatic changes beyond the rate and eligibility expansions noted above.

MOVING INDIVIDUALS FROM LONG TERM CARE FACILITIES TO COMMUNITY SETTINGS

The Department of Social Services will design intensive community-based programs under four specific initiatives: a long term care rebalancing effort; moving individuals with psychiatric disabilities to more appropriate community settings; continued efforts under the Money Follows the Person initiative; and the development of a state-of-the-art online screening system to ensure that nursing home placements are appropriate.

Long Term Care Re-Balancing Effort

Under this proposal, the Department of Social Services will plan and develop lower cost home and community-based options as an alternative to higher costing institutional care. By focusing efforts on the development of home and community-based services, the State will be able to provide more choices for Connecticut residents and begin to move away from an over-reliance on nursing home care.

Major program components include:

- Expansion of a Medicaid State plan option to allow a targeted number of individuals to receive home and community-based services, even though a functional assessment does not meet the criteria for nursing home admission;
- Exploration of the adoption of a State plan option to allow individuals to hire and self-direct their home care personnel; and
- Review of targeted increases in reimbursement for certain services that play a key role in community-based delivery systems (e.g., adult day care, personal care assistants, and home health services).

The Governor's budget assumes a FY 2008-09 savings of \$1.0 million as a result of this system rebalancing. It is expected the department will begin implementation efforts by January 1, 2009, with the goal of using 200 fewer nursing home beds over the next four years.

Serving Individuals with Psychiatric Disabilities in the Community

The Governor is recommending \$4.6 million in the Departments of Social Services and Mental Health and Addiction Services (annualized at \$9.5 million in FY 2009-10) to enhance efforts to move individuals with psychiatric disabilities from long term care facilities to community settings. It is anticipated that this funding will allow DMHAS to serve an additional 230 mentally ill individuals in community settings by FY 2010-11. Specific initiatives include:

- \$900,000 to support the costs of community medical service needs to be covered under the Medicaid program;
- \$1.1 million to expand existing mental health case management and supportive and supervised residential housing programs to accept persons transitioning from facilities to the community;
- \$243,000 to provide additional supportive housing opportunities;
- \$240,000 for food and other incidentals to support community placement;

INTRODUCTION

- \$1.3 million to establish three five-bed respite programs to prevent persons from reentering nursing home placement so they can remain in the community;
- 9 positions and \$870,000 to allow DMHAS to create a Nursing Home Evaluation & Treatment Unit; and
- \$6.1 million already in the FY 2008–09 budget (in DMHAS and DSS) to support 72 community placements under the Home and Community Based Services waiver for individuals with mental illness who reside in nursing homes.

Continued Efforts under the Money Follows the Person Initiative

The federal Money Follows the Person demonstration grant, approved in the fall, was established to help remove barriers to states in order to provide home and community-based services to individuals who have been in nursing home placement for at least six months. Based on the application to the federal government, DSS expects to assist in the transition of 700 individuals with physical disabilities, mental illness, mental retardation and multiple disabilities over the next five years. Governor Rell's recommended budget includes funding of \$6.5 million in FY 2008–09 to implement community placements for persons currently residing in nursing homes.

Development of an Online Nursing Home Placement Screening System

The Governor's budget includes \$1.3 million to develop a state-of-the-art, online screening system within DSS to ensure that nursing home placements are appropriate. The process will transition responsibility for screening individuals with mental illness and mental retardation for appropriateness for nursing home admission from the general hospitals and community providers to an objective review team, utilizing a new screening system.

Over the next five years, the enhanced screening process is expected to identify over 300 individuals who could be better served in community rather than institutional settings.

Another initiative included in the Governor's budget allows for the establishment of special needs trusts under the Aid to the Aged, Blind and Disabled (AABD) program for certain boarding home residents. Currently, the income of boarding home residents may, over time, reach levels which make them ineligible for AABD assistance. When this occurs, they are likely to move into a higher cost nursing home setting. To address this, the Governor proposes that special needs trusts be used to reduce the countable income of those boarding home residents whose increased income would have made them ineligible for AABD in order to avoid nursing home placement.

CONTINUING THE COMMITMENT TO THOSE NEEDING DEVELOPMENTAL DISABILITY OR BEHAVIORAL HEALTH SERVICES

The Governor is recommending \$8.0 million and 6 new positions for FY 2008–09 for the Department of Developmental Services. Of this amount, \$7.7 million is recommended for additional discretionary caseload growth beyond what is already budgeted for FY 2008–09. For individuals who will be graduating from high school and requiring day services on July 1, 2008, the Governor is recommending \$495,500 to support 19 additional placements. This is in addition to the \$9.6 million for 245 new placements and annualization of FY 2007–08 caseload costs already funded in FY 2008–09. For individuals aging out of the Department of Children and Families or educational placements who need day or residential services, the Governor is recommending \$658,187 for 18 individuals who will be requiring day services on

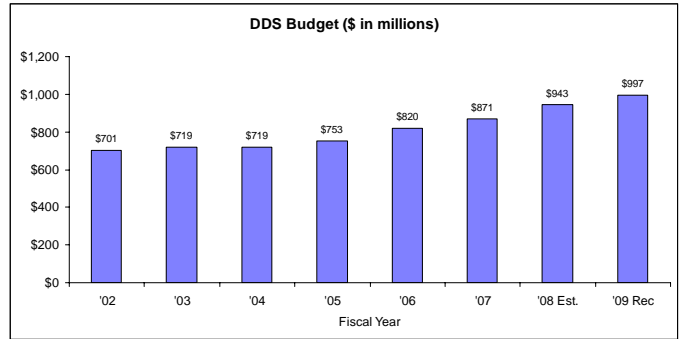
INTRODUCTION

July 1, 2008, and 9 individuals who will be requiring residential services during FY 2008–09. This new funding is in addition to the \$15.6 million for 137 new age-outs needing day and residential services and annualization of FY 2007–08 caseload costs already in the FY 2008–09 budget.

The recommended funding maintains the commitment begun in FY 2004–05 to fund 150 placements per year for persons on the waiting list by preserving the \$9.0 million already in the FY 2008–09 budget for new services and annualization of the FY 2007–08 placements.

Of the \$7.7 million recommended for discretionary caseload growth, \$5.079 million will annualize the cost of 90 children who entered the Department of Developmental Services' system in FY 2007–08 through the voluntary services program (a support system for children age eight and older referred each year by the Department of Children and Families for enhanced in-home or residential supports placements) that were not budgeted, and \$1.5 million is being recommended for an additional 60 referrals beyond those budgeted in FY 2008–09. This is in addition to the \$5.5 million already budgeted for 30 Voluntary Services placements and annualization of FY 2007–08 caseload costs.

Finally, the Governor is also recommending \$311,203 to support 6 new case management positions that will address caseload ratios for the anticipated 300 newly eligible individuals budgeted for services in FY 2008–09, and to maintain federally required case management ratios for the 548 individuals anticipated to transfer onto waiver services during FY 2008–09. These case managers are in addition to the 10 new positions provided for the agency in FY 2007–08.



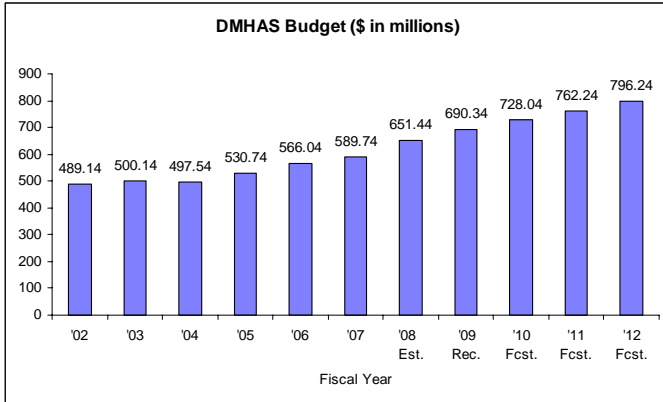
Governor Rell continues to make a significant investment in adult mental health services in FY 2008–09 by funding new programs that will permit diversion and provide wrap around support for many high utilizers of hospital emergency departments and inpatient care who often have criminal justice involvement. These initiatives are consistent with many of the recommendations that came out of the Governor's Hospital Task Force and the Governor's Sentencing and Parole Review Task Force. In total, the Governor is recommending \$24.5 million and 163 new positions in FY 2008–09 for DMHAS.

The Governor's recommended budget provides \$12.26 million and 126 positions in FY 2008–09 to improve services and maintain accreditation at Connecticut Valley Hospital.

The Governor is recommending \$2.6 million to partially annualize the costs of 45 young adults anticipated to be transferred from the Department of Children and Families (DCF) to the Department of Mental Health and Addiction Services (DMHAS) during FY 2008. Under the terms of an interagency agreement, DCF pays for the costs of these high needs youth in the transition year only, so the additional funds for DMHAS will assure that services continue in FY 2008–09. The FY 2008–09 budget maintains \$11 million in new funding over the biennium to expand the number of Young Adult Services programs from ten to twelve, and to

INTRODUCTION

develop two new specialized residential programs (one each year) to more appropriately serve the most high risk and difficult referrals.



In response to recommendations made by Governor Rell's Hospital Task Force, the Governor is recommending \$4 million (annualizing to \$5.7 million in FY 2009–10) to reduce the inappropriate use or extended lengths of stay for emergency department patients waiting to receive behavioral health services, and to increase the capacity to provide such services in the appropriate setting within identified "high-demand" areas. Specific recommendations include:

- \$2.0 million to purchase three 15-bed high intensity programs for individuals with co-occurring psychiatric and substance abuse disorders, targeted to high users of hospital emergency departments or inpatient beds who often have criminal justice involvement. These services are expected to address the needs of approximately 137 persons whose community stability is so fragile that they spend more than 120 days in inpatient beds per year;
- \$1.5 million to purchase eight beds in private psychiatric hospitals to facilitate transfers out of hospital emergency departments;
- \$500,000 to support the development of effective and feasible models of care for psychiatric emergency assessment or crisis

response centers in order to expand access to behavioral health crisis services for adults; and

- Continues \$1.2 million already in the FY 2007–08 budget to facilitate the discharge of difficult-to-place hospitalized individuals into appropriate community-based settings and prevent unnecessary hospitalization through the development of wrap around services tailored to the needs of individual clients.

In accordance with the Governor's Sentencing and Parole Review Task Force, Governor Rell is recommending \$2.0 million and 24 new positions to augment services for individuals with mental health needs who are involved with the criminal justice system. These services will provide supports which will reduce recidivism and thereby keep our communities safer. Specific recommendations include:

- \$566,000 and 5 positions will expand the very successful Connecticut Offender Re-Entry Program (CORP) to 5 additional sites: Waterbury, New Britain, Stamford, Bridgeport and Norwich/New London, allowing services to be provided up to 12 months prior to discharge from prison for an additional 180 individuals per year (expanding the program from the 100 who currently receive services) and will augment services post-release for an additional 58 individuals per year;
- 18 positions and \$1.3 million to develop 10 medium security step down beds to address severe overcrowding at DMHAS's Whiting Forensic Division;
- One position and \$50,000 to provide administrative support to the Department of Social Services to assist with a new initiative to provide expedited eligibility for State Administered General Assistance for individuals leaving prison, permitting immediate access to medications through the DSS pharmacy and

INTRODUCTION

medical network and to DMHAS's mental health and substance abuse treatment services. Over the long term, budgetary savings could result from eliminating waste in medications and needless recidivism. A workgroup composed of representatives from the Department of Social Services, the Judicial Department, the Department of Correction, and the Office of Policy and Management will also identify gaps in services and explore primary care services and other programs available to serve persons recently released from prisons so that they are not inappropriately directed to hospital emergency departments, and can be more appropriately served in the community;

- \$6.3 million in new initiatives already in the FY 2008–09 budget designed to provide additional community supports for individuals leaving prison;
- \$1.8 million funded in FY 2007–08 to pick up expiring federal Access to Recovery funds. This program, a joint initiative with the Departments of Children and Families, Correction, Social Services and the Judicial Branch, supports wrap around services such as transportation, vocational and employment opportunities, and peer to peer services that assist individuals early in recovery for substance abuse problems; and
- \$100,000 for a pilot program anticipated to begin in spring 2008 for frequent users of jail and shelters in Hartford, Bridgeport and New Haven. Support for the initiative will come from the Departments of Mental Health and Addiction Services, Correction, Social Services and the Judicial Department as well as the Corporation for Supportive Housing and the Connecticut Coalition to End Homelessness. The pilot will place 30 individuals (10 in each city) into permanent supportive housing in order to break the institutional cycle between jail, shelter,

emergency health and other public systems. The pilot will target individuals who have experienced four shelter stays and four jail or prison stays over the past five years.

CONTINUING TO MAKE GAINS IN CHILD PROTECTION AND CHILD WELFARE

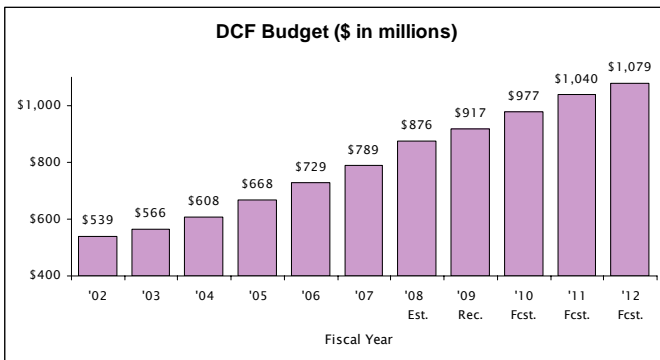
As part of her recommended budget adjustments for FY 2008–09, Governor Rell is proposing \$11.2 million in new resources for the Department of Children and Families (DCF) to continue to make gains in child protection and child welfare. These new resources will enable the department to continue its impressive progress toward meeting the outcome measures required under the Juan F. consent decree exit plan.

Targeted investments in Governor Rell's Budget are aimed at building on these gains:

- \$3.4 million is provided to fully fund the estimated 7,100 supported adoptions and subsidized guardianships anticipated to be finalized by the end of FY 2008–09. This is a net increase of 932 children finding supported permanent homes since the beginning of this biennial budget;
- \$1.2 million is provided to expand intensive family preservation and family reunification services to work with over 300 additional families annually in an effort to safely reunify them with their children;
- Additional funding of \$3.9 million is provided for enhancements to foster care programs providing additional support to children in foster care as well as additional training and support to foster families and service providers who agree to care for children with intensive behavioral or medical needs;
- Nearly \$1.0 million is provided to continue the enhancement and expansion of emergency

mobile psychiatric services (EMPS). EMPS is a community based program intended to provide youth and families with immediate access to in-person mental health assessment and brief intervention, linkage to appropriate community health resources, and prevention of unnecessary admissions to hospital emergency departments or placement in restrictive clinical settings. Expanding hours of operation as well as the number of teams operating during peak hours of demand will allow for increased mobile response and more effective diversion of children and youth from emergency room and hospital care; and

- \$110,000 is provided for DCF, with a like amount under the Judicial Department, to continue the Community Diversion Board in Waterbury. Children arrested for the first and second time on misdemeanor offenses are eligible to go before a community diversion board. Community diversion boards hold children accountable for their actions by requiring restitution to their victims as well as addressing the needs of children by providing mental health and/or substance abuse services. These boards have proven to be successful in diverting children from the judicial system.



IMPROVING THE QUALITY OF LIFE AND SAFETY OF CONNECTICUT'S RESIDENTS

In order to improve the quality of life and safety of Connecticut's residents, Governor Rell is recommending several important initiatives, including increased inspection staffing for both nursing homes and child day care centers, as well as increased financial oversight of nursing homes. These initiatives will help to ensure that our loved ones are served in safe, nurturing environments.

Increase Inspection Staffing to Assure Quality Care in Nursing Homes

In order to enhance the safety of residents in nursing homes, Governor Rell is recommending five additional staff for the Department of Public Health. These new resources will allow the Department of Public Health to conduct more frequent inspections of facilities, thereby improving the oversight of nursing homes and ultimately enhancing the environment of care for the residents of those homes.

Increased Financial Oversight of Nursing Homes

In addition to the increased inspection of care provided in nursing homes, Governor Rell is recommending stiffer financial oversight of the nursing home industry with five additional staff in the Department of Social Services. The Governor's plan includes ongoing financial monitoring and reviews of nursing homes, including planned changes in ownership or control, and reviews of indebtedness, and financial reporting requirements. Nursing homes are and will continue to be an important component of the continuum of care for Connecticut residents. With this initiative, the Governor is taking proactive steps to improve nursing home financial accountability, which is an essential element to maintaining quality care.

Increase Inspection Staffing to Assure Quality Care in Day Care Settings

In her continuing efforts to address the concerns of working families, and recognizing that child care

INTRODUCTION

facility safety is a high priority, Governor Rell is providing the Department of Public Health with five additional staff to increase both the number and frequency of inspections of child care facilities, thereby enhancing the quality and safety of child day care.

Implementing a Medicaid Hospice Benefit

To address the growing needs of our most vulnerable citizens, Governor Rell is directing DSS to implement a Medicaid hospice benefit no later than February 1, 2009. With this change, Connecticut will be one of the last states in the nation to cover hospice services under the Medicaid program. The hospice benefit provides coverage for an individual's terminal illness. In general, the services must be related to the management of the patient's terminal illness, symptom control, or to enable the individual to maintain activities of daily living and basic functional skills. Any additional costs of providing hospice services in home and community settings are expected to be offset by reductions in end-of-life inpatient and other institutional care.

Keeping the Public Safe from Drug-Resistant Infections

To ensure public safety and position the State to deal with outbreaks of Methicillin Resistant Staphylococcus Aureus (otherwise referred to as MRSA), Governor Rell is recommending \$101,000 on an annualized basis for the Department of Public Health to continue efforts begun in 2007 to rapidly identify incidents of MRSA infection. With these resources, DPH will provide DNA "fingerprinting" of MRSA isolates to all Connecticut hospitals and clinics to assist them in infection control. Through a relatively modest investment, the Governor's initiative will pay significant dividends in public safety.

Increase Funding for Childhood Immunizations

To address the health needs of children, the Governor is recommending \$4.9 million in additional funding for the Department of Public Health for immunizations. The State resources are part of the Vaccines for Children Program, which is a joint effort between Connecticut and the federal government. Connecticut has consistently been among the leaders in the nation in terms of the numbers of children that receive age-appropriate and recommended immunizations and vaccines. The additional funds will assure the provision of the pneumococcal conjugate and hepatitis A vaccines for infants.

Expanded Support for Breast and Cervical Cancer Treatment

The Governor's recommended budget seeks to increase the number of women who could eventually become eligible for Medicaid coverage of follow-up treatment due to a positive screening of breast or cervical cancer. Currently, Medicaid coverage is available for any woman who has been screened at one of the 18 sites or approved satellite locations under the Centers for Disease Control and Prevention's National Breast and Cervical Cancer Early Detection Program and is found to need treatment for either breast or cervical cancer. A woman qualifies for this specific Medicaid coverage only if CDC funds were used to perform the screening tests and is eligible for Medicaid until her course of treatment is completed or until she no longer meets all eligibility requirements. This proposal allows the use of other funds, such as donations, to be treated as if they were CDC funds, thereby expanding the number of women who would qualify for screening and Medicaid coverage. Annually, it is expected that DSS will provide coverage to 300 additional individuals at cost of approximately \$3.6 million.

HONORING THE SACRIFICES OF CONNECTICUT'S VETERANS AND THEIR FAMILIES

Governor Rell continues to honor the men and women who have served in our armed forces. In recognition of the sacrifices of these brave men and women, the Governor continues to seek ways to expand benefits to surviving families of those who have made the ultimate sacrifice in service to our country since September 11, 2001. Governor Rell is proposing legislation that would provide tuition waivers to surviving spouses and dependent children of Connecticut's military service members killed in action in order that those family members may attend the University of Connecticut, the Connecticut State University system, or Connecticut's Community-Technical Colleges. This proposal demonstrates the Governor's continued commitment to honoring the sacrifices of our veterans and enhancing the benefits available to their loved ones.

Governor Rell is also proposing \$250,000 in additional funding for the Department of Veterans' Affairs to support programs for returning veterans and their families.

The tuition waiver proposal and the additional funding for services continues Governor Rell's record of improving support for veterans, including enhanced burial benefits, survivor death benefits, a Connecticut National Guard bonus program, retirement pay tax exemption, and a new veterans' health care facility.

Under Governor Rell's leadership, during the 2007 legislative session an increase was implemented in the burial benefit for veterans in need, and increased funding was provided for the installation of headstones for eligible veterans buried in any

private or State owned cemetery located in Connecticut. Increasing these benefits helps to fulfill the Governor's commitment to ensuring that Connecticut's veterans receive the honorable burials they deserve.

Also under Governor Rell's administration, the State now provides death benefits to surviving dependents of Connecticut armed forces members and reservists who were killed while serving in Southwest Asia. The Governor has also worked to implement a program which grants a \$50 per month bonus to Connecticut National Guard members called to active service on or after September 11, 2001. In order to ease the transition of Connecticut's veterans who are returning to the workforce, Governor Rell implemented legislation to facilitate the renewal process for professional licenses or certifications that would otherwise become void while the holders are on active duty in the armed forces.

This year, retired veterans will benefit from the new law which exempts fifty percent of federally taxable military retirement pay from the State income tax. This exemption applies to federal retirement pay to retired members of the armed forces and is another way for the State of Connecticut to express gratitude to veterans for their service to our country.

In addition, the new \$33.8 million state-of-the-art health care facility will be completed this spring for Connecticut's veterans at the Veterans' Home in Rocky Hill. The Governor's budget provides funding for staff and operational resources for the new health care facility and the existing residential facility and continues the commitment to providing exceptional service and assistance to Connecticut's veterans.

INTRODUCTION

The Gold Star Family number plate memorializes residents of the State who were killed in action while performing active military duty with the armed forces. For all members of the immediate family who choose these plates, the Governor is proposing to waive the \$10 fee.

MAINTAINING OUR INVESTMENT IN SUPPORTIVE HOUSING

In 2006, Connecticut received a national award for its innovative and cost-effective approach to chronic homelessness through supportive housing.

The Governor is proposing to annualize \$3 million for supportive housing debt service in order to provide 150 new units of supportive housing through \$35 million in bonds.

Although no new funding is needed during the biennium for this initiative, Governor Rell's legislative package includes a proposal to provide the Connecticut Housing Finance Authority (CHFA) with the statutory authority to issue the additional \$35 million in bonds and to entrust the State to pay the debt service on these bonds over the next twenty years. This investment will be sufficient to provide 150 new units of supportive housing across the State. In addition to amending the statutory cap on the amount of CHFA bonds on which the State will pay debt service, the Governor's bill also increases the overall number of supportive housing units which may be developed under this initiative.

INCREASING ANTI-TOBACCO EFFORTS

The State of Connecticut has been lauded by national organizations for preventing youth access to tobacco, for our taxation policies which deter smoking, and for our smoke-free air laws.

However, Governor Rell is recommending further enhancements to the State's anti-tobacco efforts by increasing the amount of funding the State makes available for tobacco prevention and control.

Since the inception of the fund, the Tobacco and Health Trust Fund has made considerable investments in counter-marketing campaigns, anti-tobacco websites, the Connecticut QuitLine, and – most substantially – smoking cessation programs for individuals who are ready to quit using tobacco. But the Board is limited by statute to spending only the earnings on principal invested in the fund. It is expected that the Board will disburse \$800,000 in FY 2007–08 and \$1.1 million in FY 2008–09. While this is a significant amount of funding, Connecticut could improve its progress toward achieving long-term reductions in tobacco use and tobacco-related illness and death with additional resources dedicated to these programs.

Governor Rell is proposing a substantial increase in the amount of tobacco prevention and control expenditures in Connecticut each year by allowing the Tobacco and Health Trust Fund to disburse up to half of the annual deposit into the trust fund to a maximum of \$6 million annually, in addition to the earnings of the fund. This provides a significant addition to smoking cessation efforts while ensuring that the principal balance of the fund continues to grow.

This significant increase in the amount of funding available for anti-tobacco related efforts will bring Connecticut closer to meeting the Centers for Disease Control recommended funding range for anti-tobacco efforts and joining the six states that already meet this goal.

ENHANCING ENERGY ASSISTANCE PROGRAMS

INTRODUCTION

Governor Rell is proposing \$350,000 to allow households to apply for Connecticut Energy Assistance Program (CEAP) benefits at community sites across the State beginning in mid-August. With almost 97,800 applications processed at intake sites across the State last year, early intake provides for a more even processing of applications without large backlogs of cases and appointments and ensures the timelier issuance of benefits. Early intake also provides utility heated households the opportunity to have matching payments determined earlier for utility arrearage forgiveness programs.

In addition to funding for early intake, Governor Rell is proposing State funding for weatherization. Last year, 84,757 households were approved for CEAP benefits, an increase of over 11% from the prior year. It is no surprise that, faced with the cost of rising energy prices, more households are turning to the State for assistance. To protect the public's investment in winter heating assistance, it's more critical than ever to improve the energy efficiency of those homes we help to heat while also reducing our energy dependence and improving the environment. As a result, Governor Rell is including \$1.9 million in her budget to enhance the Weatherization Assistance Program for low-income households participating in CEAP.

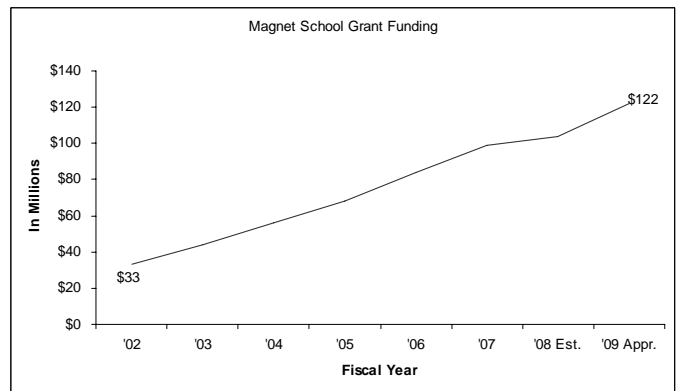
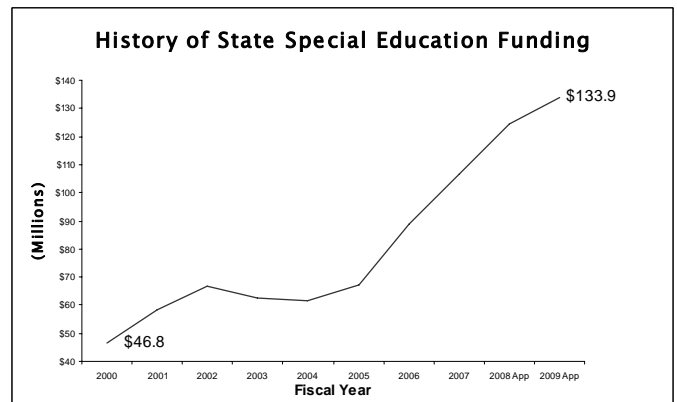
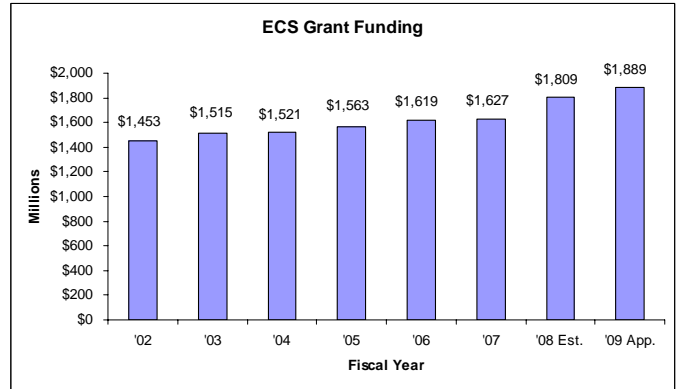
EDUCATION

The healthy development of all children benefits all of society by providing a solid foundation for economic productivity, responsible citizenship, strong communities and a secure nation
 Jack P. Shonkoff, M.D., *A Science-Based Framework for Early Childhood Policy*

At the Governor’s Early Childhood Summit: Investing in the First 1,000 Days, Governor M. Jodi Rell reaffirmed her unwavering support for the state’s education continuum, starting with its youngest learners. Speaking at the Summit, Governor Rell said, “Every child gets one chance ... we don’t want to squander that.” Last year, Governor Rell’s landmark Education Initiative was the centerpiece of the proposed FY 2007–09 Biennial budget.

With a noteworthy investment in education aid, Governor Rell’s first step in creating her Education Initiative was to ensure that school districts had additional resources to provide quality educational programming. In FY 2003–04, total education formula grants totaled \$1.8 billion. By FY 2008–09, formula education grants–to–towns will have grown to \$2.4 billion, a \$568 million, or 31%, increase. For the Biennial FY 2007–09 budget, the majority of this additional education aid is for four major programs:

- \$366 million–Education Cost Sharing (ECS) grant;
- \$72 million–Special Education;
- \$67 million–Magnet Schools; and
- \$53 million–Miscellaneous grants, including School Readiness.



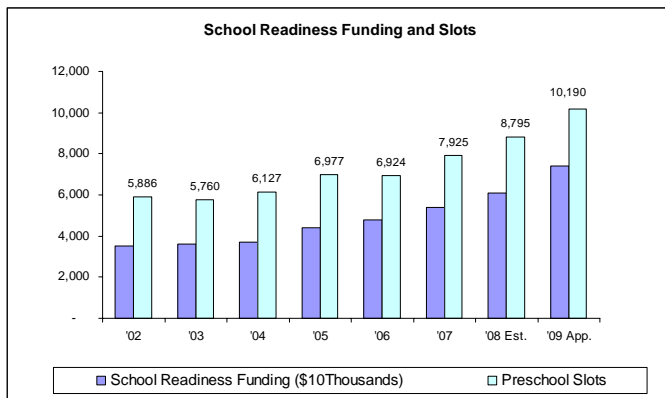
In tandem with the recasting of ECS, Governor Rell and the General Assembly agreed to strict new education accountability requirements. With all this new money invested in education, Governor Rell wanted to see positive returns on the state’s investments. She wanted to make sure all students do well in school. Funding was included in the State Department of Education (SDE) budget to provide

INTRODUCTION

more on-site, state-directed remedies for low-achieving districts. Additionally, the new accountability requirements ensure that if communities cannot improve educationally, a series of increasing state interventions would occur.

As a continuing part of the accountability component of this initiative, for the mid-term budget, Governor Rell is proposing \$500,000 to allow SDE to develop a curriculum for secondary math and a formative assessment tool to assist teachers as they evaluate students during the school year.

A key component of the Education Initiative is Governor Rell's groundbreaking investment in the state's youngest and possibly most vulnerable students, its preschool population. With the critical assistance of the Governor's Early Childhood Education Cabinet, Governor Rell created a roadmap for providing universal preschool for the state's poorest students. For the first ten years of the State's preschool program (School Readiness), the program reached only about 6,000 youngsters each year. By the end of fiscal year 2009, it is expected that about 10,000 of the state's most needy students will have access to a quality preschool experience. That is a 66% increase in just a few years—after a decade of little progress.

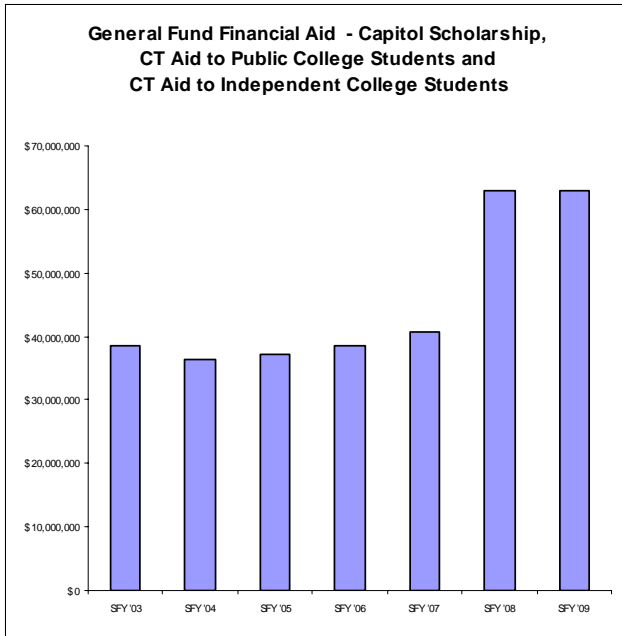


Governor Rell's pledge to reinvent education did not stop with the pre K-12 system; it continued through to the State's higher education units, with strategic investments designed to make college more affordable, improve the quality of the public college experience and link college programming with the state's economic development needs. The increased funding in state financial aid is unprecedented in scope.

The FY 2007-09 biennial budget includes over \$13.7 million more, an 83% increase over than in FY 2006-07, in financial aid for students attending public colleges in Connecticut. This additional funding means almost 8,800 more students will have access to average grants of \$1,500 to attend a community college, one of the Connecticut State Universities or the University of Connecticut. In total, over 20,000 students will benefit from this program.

Additionally, the Budget includes an increase of \$8.1 million more, a 51% increase over FY 2006-07, in financial aid for Connecticut students attending private college in the state. With this increased funding, an additional 1,800 students will receive average awards of \$3,600. With 6,600 students reaping the benefits of this program, and 20,000 in the public college program, almost 27,000 students receive aid from the state's two major financial aid programs.

INTRODUCTION



To assist families who do not qualify for need-based loans but who still need to borrow for college, Governor Rell is recommending a modification to the Connecticut Higher Education Supplemental Loan Authority (CHESLA) statutes. CHESLA serves as an alternative source of loan funds for students who do not qualify for need-based loans or who need to borrow more than the maximum amounts provided by other loan programs. CHESLA issues tax-exempt bonds, with the backing of the State of Connecticut, to provide student loans at favorable interest rates. The State provides the backing by a mechanism called a Special Capital Reserve Fund. The amount of bonds that the State backs is limited by statute and CHESLA has reached the limit that was set more than 10 years ago. Given the ever-rising cost of higher education, Governor Rell is recommending that the limit for the Special Capital Reserve Fund be increased from \$170 million to \$300 million to insure the availability of this important source of higher education funding.

Three human capital areas are of particular concern to Governor Rell: early childhood, nursing and engineering. Personnel shortages, combined with high turnover, have focused attention on these three professions. Connecticut's economy will need quality early childhood workers, skilled nurses and engineers to fill its current and future labor needs.

As part of the Education Initiative, individuals who work in state subsidized preschools will need more credentials. Having highly credentialed workers in preschools will increase the quality of the preschool experience for the state's most disadvantaged students. To create an educational path for those who want an early childhood education credential, \$500,000 has been included in both FY 2007-08 and FY 2008-09 to provide a mostly on-line Alternative Route to Certification. In its initial Spring 2008 rollout, 20 new students will be in the program, with potential employment as early as Fall 2008.

The existing and proposed budgets include initiatives to increase the numbers of skilled nurses. At UCONN, in FY 2007-08, an additional \$200,000 was appropriated to expand the Masters Entry into Nursing Program (MbEIN) in Waterbury ultimately enabling 32 graduates. This is an accelerated 11 month program for those holding a bachelor's degree and desiring to become a Registered Nurse.

At Connecticut State University, an additional \$295,000 will increase the number of nursing graduates in the state by the end of FY 2008-09 by 22, 13 full-time and 9 part-time students. This increase includes three faculty positions at a cost of \$195,000 with one position provided to Western and two to Southern. Additionally, \$100,000 is provided in support of MSN - Accelerated Career Entry scholarships and stipends at Southern.

INTRODUCTION

At the Community-Technical Colleges, an additional \$140,000 in operating funds and \$520,000 in one-time surplus funds will expand support staff and equipment leading to an additional 64 students by FY 2009-10.

Engineering continues to be a shortage area; the Department of Higher Education estimated there are over 750 annual engineering openings in the State. The number of graduating engineers has hovered in the 500-550 range creating an annual personnel deficit. To provide an incentive for students to choose engineering (and then to stay in the State to work), Governor Rell's budget recommends \$300,000 for an engineering loan reimbursement program. The program will offer reimbursements of outstanding student loans to Connecticut engineers who work in the State.

ECONOMIC DEVELOPMENT INITIATIVES

We who live in free market societies believe that growth, prosperity and ultimately human fulfillment, are created from the bottom up, not from the government down. Only when the human spirit is allowed to invent and create, only when individuals are given a personal stake in deciding economic policies and benefiting from their success—only then can societies remain economically alive, dynamic, progressive and free. Trust the people. – President Ronald Reagan

OFFICE OF WORKFORCE COMPETITIVENESS (OWC) – NANOTECHNOLOGY

In the proposed midterm budget, Governor Rell is recommending the addition of \$500,000 in operating funds and \$5 million in capital funding to support the field of nanotechnology. Nanotechnology, which is a multi-disciplinary field, draws upon Connecticut's strengths in the fields of material sciences, biology and chemistry, and its economic drivers in the manufacturing and biotechnology fields.

With the operating funding, OWC will provide grants for:

- Collaborative research between State universities and industry in nanotechnology;
- Additional curriculum supporting nanotechnology; and
- Other programmatic (as opposed to equipment-focused) strategies supporting CT's competitiveness in nanotechnology.

Following the Council of Nanotechnology's recommendations (chaired by OWC), the \$5 million in capital funding (administered by DECD) will establish Centers of Nanoscience at two leading research universities, Yale and UConn. These Centers would be established as follows:

- They will both be shared-use facilities accessible by industry, faculty and students outside each institution based on a fee; making state-of-the-art equipment and talent that would be too expensive for them to afford on their own available to State researchers and nanotechnology companies;
- The Yale Center will be oriented towards the application of nanotechnology to bioscience while the UConn Center will be focused on material science thereby emphasizing and leveraging the core competencies of each institution and matching up with key economic drivers in the state;
- Each institution will make an investment in their respective center of \$2.5 million dollars with the state matching this investment through of bond funds in the one-time amount of \$2.5 million each. The \$5 million in state bond funds will be used towards the purchase of specialized equipment critical to moving the science of nanotechnology forward, reviewed and approved in partnership between the state and each institution to eliminate duplication and maximize impact; and
- Yale, UConn and the State will seek to leverage additional funding from the federal government, using the cumulative investment of \$10 million (\$5 million from the institutions and \$5 million from the state) as seed funding.

CONNECTICUT COMMISSION ON CULTURE AND TOURISM (CCT)

According to a study by the Connecticut Center for Economic Analysis, the arts, film, history and tourism industries generate "more than \$14 billion in economic activity and more than 170,000 jobs – 10 percent of the state's labor force – annually in the state." In her proposed Mid-term Budget, Governor Rell provides a boost of \$3.6 million in

INTRODUCTION

additional funding for these industries as an economic development incentive.

Combining the resources of the \$4 million Culture, Tourism and Arts program with \$2.4 million from the Basic Cultural Resources grants, along with the new \$3.6 million; Governor Rell has created a Cultural Treasures program, a \$10 million grant program that will provide the arts, culture and tourism programs in Connecticut with unprecedented resources. One important proviso of the program is that not less than 25% of the program's resources must be spent on smaller programs which play such important roles in our State.

Overall, this program will be used to provide grants to create, preserve, promote, and expand nonprofit arts and cultural activities in the State. In the awarding of these grants, the CCT will consider certain criteria: cultural merit, financial strength, management accountability; community involvement, visitors per year, number of students served; historic value, and the percentage of available state funds compared to nongovernmental funds.

In addition, the Governor proposes the creation of the Cultural Treasures Capital Program which will provide \$20 million in bond funds for one-time capital improvements to arts, tourism, cultural and historic venues. Under the proposal, the state's commitment would be limited to 20% of the cost of the project thereby leveraging private or other funds on a 1 to 4 basis.

RESPONSIBLE GROWTH

In this year's legislative package and budget proposal, Governor Rell continues the work started by her Executive Order #15 concerning Responsible Growth.

First, the Governor proposes to define Responsible Growth in simple, succinct and utilitarian terms. Responsible Growth is economic, social and environmental development that uses land and resources in ways that enhance the long-term quality of life for Connecticut's current and future generations and maximizes previous investments in existing infrastructure while preserving distinctive landscapes, historic structures, landmarks and villages.

This statutory definition not only adds clarity to the vision but will also provide the basis to coordinate other processes of legislation and appropriations with the Responsible Growth planning principles. Accordingly, the Governor proposes that any projects which meet the statutory Responsible Growth principles may be eligible for the Responsible Growth Incentive Fund created in last year's bond act.

Governor Rell proposes the creation of a State Responsible Growth Cabinet (RGC) consisting of Office of Policy and Management (OPM), Department of Transportation (DOT), Department of Environmental Protection (DEP), Department of Economic and Community Development (DECD), Department of Public Health (DPH), Department of Agriculture (DoAG), Connecticut Housing Finance Authority (CHFA), Connecticut Development Authority (CDA) Connecticut Innovations Inc. (CII), Office of Workforce Competitiveness (OWC) and Commission on Culture and Tourism (CCT) to

provide a coordinated, interagency and customer friendly approach to State permitting and State assistance for Developments of Regional Significance (DRS) that seek State financial assistance or require State permit. A Development of Regional Significance is a large project such as a regional mall, major office complex, and major municipal redevelopment project such as Blue Back Square in West Hartford. Upon receipt of an application for a permit for a DRS or earlier when appropriate, a proposed developer or agency shall be referred to the RGC. The developer shall be invited to make a presentation so that each agency and the developer can have a coordinated approach in which all agencies express and hear the concerns of the others. This is intended to accomplish two functions. First, it will require each agency to take into account the concerns of the other. (e.g. DOT will need to address the concerns of DEP and vice versa). Second, it provides the applicant, be it a private or public entity, an opportunity to work out occasionally conflicting demands of the departments and get feedback in a "one-stop shopping" format.

The RGC will also advise the Governor on policies and initiatives that: (1) address issues raised by economic growth and real estate development; (2) support and encourage sound land use; (3) protect open space, farmlands and historic sites; (4) clean up and reuse valuable properties located in urban areas; (5) steer growth and real estate development to appropriate areas of our State and (6) revitalize cities, preserve the unique charm of our State and build livable, economically strong communities while protecting our natural resources for the enjoyment of future generations.

Governor Rell also proposes a "Walk the Walk" Program. Under this legislation, any development that utilizes state financial assistance shall be

INTRODUCTION

required to expend not less than 2% of the total project cost on rendering the development more suitable for pedestrian or other non-motorized transit. This requirement may be waived, in whole or in part, by the Secretary of OPM upon a finding that the nature, scope and/or location does not lend itself to the requirement.

On a local level, Governor Rell proposes to correct an anomaly in State land use law. Currently, local municipalities are required to adopt local plans of conservation and development (C&D), however once these detailed plans are adopted by the local community after extensive public hearings and input by interested members of the community, its zoning commission is free to ignore the plan in making its decisions on a development-by-development basis. Governor Rell proposes to require the decisions of local zoning commissions to be consistent with the local plan of C&D adopted after extensive public participation. The legislative body of the municipality may choose to exempt itself from this requirement.

Many municipalities would like to utilize the principles of Responsible Growth but lack the resources and expertise to do so. By way of assistance for these municipalities, Governor Rell's budget includes \$100,000 for the drafting of a model Connecticut Responsible Growth zoning code which local municipalities may, at their option, adopt in whole or in part.

Governor Rell proposes to provide statutory authority to municipalities to enter into voluntary community benefit agreements with developers authorized in many other states. Developers and municipalities can enter into agreements by which developers are bound to either create or contribute to enhance off-site public improvements that are warranted by the development.

Finally, Governor Rell proposes improvements to the existing Regional Performance Incentive Program to allow more communities to obtain state assistance for pilot cooperative programs amongst and between municipalities to provide for more efficient delivery of municipal services and the savings of taxpayer dollars.

GOVERNOR'S PROPERTY TAX REFORM PACKAGE

Nationally, the issue of rising property taxes has been pushed to the forefront by citizens and lawmakers looking for solutions. As recently as this past November, the Governor of Washington called the legislature into special session to reinstate a property tax cap that had been struck down by the state's supreme court. Governor Spitzer of New York is calling for a commission to study a property tax cap. Rhode Island, New Jersey and Maine have recently enacted property tax caps. Massachusetts has had a cap in place since 1982.

Connecticut is now one of only seven states that do not have a tax or expenditure cap at the local level. There has been talk of property tax reform at the State Capitol for years. The time for Connecticut to act on this issue is now.

Governor Rell knows that a property tax cap, while a critical tool in controlling property tax growth, by itself is not a solution. Thus, she is proposing a multi-pronged system of reforms to address the problem of ever rising property taxes. These reforms will work together to provide relief to our local taxpayers.

MANDATE RELIEF

Addressing the issue of costly mandates on cities and towns is a critical component of this property tax relief proposal. The state cannot expect our municipalities to live within a cap if it continues to force unfunded mandates on them. First and foremost, we must stop that practice. Thus, the Governor proposes a statutory prohibition against

new costly unfunded mandates on cities and towns unless such mandates are enacted by a 2/3rds vote of the General Assembly.

The Governor is also proposing immediate relief from some current unfunded mandates. Specifically, her proposal would:

- Increase the threshold covered by prevailing wage requirements to \$1,000,000 (from the current \$400,000) for new municipal construction projects and to \$500,000 (from the current \$100,000) for projects involving repairs or alterations. These increased threshold amounts would also be indexed to inflation to help keep them current;
- Amend the Teachers Negotiation ACT (TNA) to require fully stipulated awards be considered negotiated agreements and submitted to the local legislative body for review. Should the local legislative body reject the stipulated award, then the first panel arbitration process would begin anew. This recommendation was contained in a report issued by Program Review and Investigations Committee in regard to binding arbitration for municipal and school employees;
- Eliminate the requirement that municipalities remove and store the personal property belonging to evicted residential tenants; and
- Allow a municipality that maintains a website to post certain notices on the municipality's site in lieu of publishing them in the newspaper. This would be in addition to the required posting in designated public locations.

The Governor is committed to working with state legislators, mayors and First Selectman to identify and eliminate other costly mandates.

INTRODUCTION

MUNICIPAL AID

The Governor understands that property tax relief cannot happen without a commitment from the state. As such, last year she proposed a historic increase in the state's Educational Cost Sharing (ECS) grant – a five year program of over \$1 billion. While the legislature did not enact a budget with an increase in municipal aid that matched her proposal, at her insistence the 2007–2009 biennial budget included the largest increase in municipal aid in recent years. For FY 2007–08, municipal aid increased almost \$230 million over FY 2006–07. Even greater increases are possible in the current fiscal year, since there is no longer a cap on the special education grant.

Municipal aid will increase at least another \$126 million from FY 2007–08 to FY 2008–09.

An important component of this increase is the set-aside for non-education aid, including property tax relief. In FY 2007–08, of the \$181 million in new ECS funding, approximately \$78 million, or 43%, can be used by communities for property tax relief.

Under Governor Rell's leadership, total formula grants to municipalities will have increased by almost \$700 million since she took office in FY 2003–04. Most of this increase, \$568 million, was dedicated to education grants.

	Actual FY 2003–04	Actual FY 2006–07	Estimated FY 2007–08	Recommended FY 2008–09	Change FY 2003–04 to FY 2008–09
Grant					
State-Owned PILOT	\$ 67.1	\$ 81.2	\$ 82.9	\$ 82.9	\$ 15.8
College & Hospital PILOT	100.9	120.7	122.4	122.4	21.5
Pequot Grant	85.0	91.1	93.0	93.0	8.0
Town Aid Road Grant	12.5	30.0	30.0	30.0	17.5
LoCIP	30.0	30.0	30.0	30.0	–
Miscellaneous General	19.1	20.0	20.9	21.6	2.5
Machinery & Equipment	50.7	50.2	53.4	80.0	29.3
Sub-total – General Government	\$ 365.3	\$ 423.2	\$ 432.6	\$ 459.9	\$ 94.6
Public School Transportation	\$ 43.1	\$ 48.0	\$ 48.0	\$ 48.0	\$ 4.9
Non-Public School Transportation	3.3	4.0	4.0	4.0	0.7
Adult Education	16.9	18.6	20.6	20.6	3.7
Education Cost Sharing	1,522.7	1,626.9	1,809.2	1,889.2	366.5
Magnet Schools	54.3	98.6	103.8	121.5	67.2
Special Education	61.5	106.6	124.6	133.9	72.4
Miscellaneous Education Grants	100.8	148.6	161.5	154.0	53.2
Sub-total – Education	\$ 1,802.6	\$ 2,051.3	\$ 2,271.7	\$ 2,371.2	\$ 568.6
Total – Formula Grants	\$ 2,167.9	\$ 2,474.5	\$ 2,704.3	\$ 2,831.1	\$ 663.2

SCHOOL CONSTRUCTION

During the most recent legislative session, the delay in the passage of the FY 2007–09 biennial capital budget put municipalities in a difficult position of having to wait for local school construction payments that were due to be received from the State. School Construction progress payments of \$143.9 million to sixty school districts

were delayed by as much as three months and interest payments of \$4.5 million were delayed by as much as two months to ninety school districts. The State witnessed the repercussions of the delay, with municipalities being forced to borrow money on a short-term basis, incurring additional expenses.

To ensure the timely flow of school construction money to the towns in the future, the Governor is recommending multi-year authorizations for the local school construction program. These authorizations, \$603.5 million in FY 2009–10 and \$536.2 million in FY 2010–11, protect Connecticut municipalities and ensure that local school construction payments, which are owed to localities, are paid in a timely manner.

PROPERTY TAX LIMIT

Increases in municipal aid and mandate relief are only part of the equation. As stated above, Connecticut is one of only seven states without a local tax or expenditure limit. While special interest groups will be always be critical of a tax cap, the simple fact is that when done right, a tax cap works. Services are not decimated and there is no discernable affect on school systems.

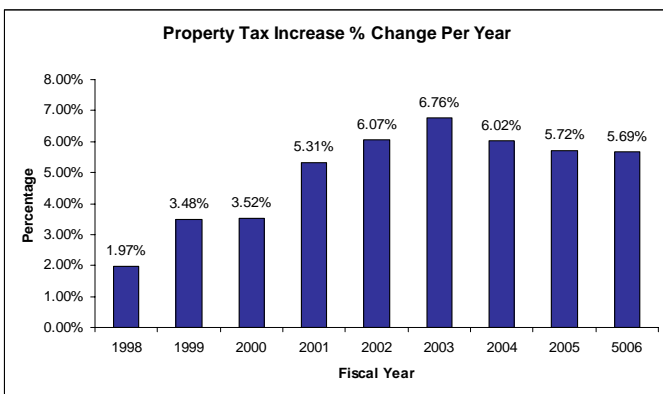
Massachusetts instituted a cap in 1982. Since then, its per capita property tax burden dropped from number one in the nation to eighth. Its schools are consistently rated among the best in the country, so the cap has not negatively affected the quality of local education. Moreover, the ratio of public safety personnel per capita in Massachusetts exceeds that in Connecticut. Clearly, the cap there is working as opposed to California’s Proposition 13, which threw that state’s local tax system into disarray.

The Governor, in observing these and other real life experiences throughout the country, has built her proposal based upon the best practices in other states while tailoring it to the specific needs of Connecticut. The result is a proposal that can work here, providing relief to taxpayers while giving local leaders the flexibility they need to run their towns.

Effective July 1, 2009, a municipality’s property tax levy would be limited to no more than 4% above what the municipality levied in the prior year. For the fiscal year commencing July 1, 2010, the property tax levy would be limited to no more than 3.5% above what the municipality could have levied in the prior year, with the limit for fiscal years commencing on and after July 1, 2011 being 3 % above what the municipality could have levied in the prior year. Understanding that there are fiscal pressures on municipalities that are outside local leaders’ control and cannot be absorbed in a single year, the proposal provides several exemptions to address specific circumstances. For example, there is an automatic exemption for regional school district increases above the 4%, 3.5% and 3% amounts described above, plus any new ECS aid over the prior year.

With the approval of the local legislative body, exemptions would be available for:

- Employee health insurance increases of more than 8% over the prior year for the same or similar benefits;
- Utility costs increases of more than 8% over the prior year;
- Increases of more than 8% needed to fund actuarially recommended contributions to pension or other post retirement benefit (OPEB) costs for the same or similar benefits;
- The amount by which certain State formula aid decreased over the prior year;



INTRODUCTION

- Debt service increases for capital projects over the FY 2008–09 level;
- Expenses related to an emergency, such as a fire, flood, a declared health emergency or natural disaster (which would not be built into levy base);
- One-time costs associated with regional service initiatives (which would not be built into the levy base); and
- General overrides, which would require 2/3rds approval of the local legislative body with voters able to reverse any legislative action to override the limit.

The property tax cap, with these relief valves in place, will ensure that the growth in property tax rates is manageable, while allowing municipalities to continue providing services their citizens need.

Increases in health care costs for employees have been a perennial problem for employers, and cities and towns are no exception. To assist them in addressing these costs, the Governor's proposal makes funds available for the adoption of five-year health cost containment plans, to be developed in consultation with their employee collective bargaining units. As an example, funding would be available for an analysis of the costs and benefits to a city or town of various methods of purchasing employee health insurance coverage. In addition, under the Governor's proposed expansion of the Regional Performance Incentive Program, \$5,000,000 would be available for groups of cities and towns seeking to voluntarily join together for the purchase of employee health, dental and/or prescription drug coverage.

Utility costs have been another area of significant increases in recent years. The State, under the auspices of the Energy Division of the Office of

Policy and Management, has made some significant strides in the areas of purchasing and conservation. To convey this knowledge and experience to our municipalities, the Office of Policy and Management will issue best practices guidelines to assist towns in developing a five-year energy conservation and procurement plan.

Property tax caps cannot work if municipal leaders are not empowered with the necessary tools to control expenditures. Personnel costs consistently make up the largest portion of municipal budgets. The Governor's proposal acknowledges this reality by making targeted changes to the binding arbitration statutes. Specifically, in assessing the financial capability of local governments in cases involving employee collective bargaining agreements, the Governor's proposal requires arbitrators to give an irrebuttable presumption that a municipality or district can not exceed the tax cap, notwithstanding the municipality's ability to seek approval for certain exceptions to the limit. To help our municipalities save for the possible economic downturns, arbitrators must also presume that a budget reserve of 10% or less is not available to pay for any award.

The Governor recognizes a common approach may not accommodate the diversity of municipalities in our State. Her proposal allows municipalities to opt out of the cap for two-year periods. In order to opt out for FY 2009–10, a 2/3rds vote of a municipality's legislative body would be required not later than September 30, 2008, together with approval of a simple majority of a municipality's voters in November. Not later than the last day of September of every even-numbered year that follows, a municipality's legislative body could vote to opt out of the cap again, subject to approval by its voters in that November's statewide or national elections.

EXTEND THE REGIONAL PERFORMANCE INCENTIVE PROGRAM

Governor Rell is proposing to increase funding for the Regional Performance Incentive Program, created to promote regional cooperation initiatives, by an additional \$5 million in FY 2008–09. The Governor also proposes to improve this program by enacting the following modifications:

- Extending the time period for submitting grant proposals;
- Allowing proposals for the joint provision of any service, not just a service that a municipality currently provides;
- Allowing proposals for planning studies;
- Requiring the same type of consideration for all proposals regardless of the type of regional planning organizations that submit them; and
- Modifying certain municipal certification and resolution requirements.

Building upon the success of the program in FY 2007–08, the additional funding and grant program enhancements that the Governor is proposing will help municipalities control their costs by turning to creative regional programs that ensure quality service delivery in an efficient manner.

OPERATIONAL AND EFFICIENCY AUDITS, INCLUDING REGIONAL SERVICE CONSOLIDATION

Municipalities often benefit from taking a good look at their operations. Unfortunately, these efforts require resources that are frequently unavailable after other necessities are funded. The Governor’s proposal includes two provisions to promote and enhance operational efficiency.

One of these is the proposed Municipal Operational Efficiency Study grant. The Governor’s proposed

budget provides funding of \$500,000 in FY 2008–09 for this grant program, which the Office of Policy and Management would administer. OPM would enter into assistance agreements with municipalities that apply and are selected to jointly undertake, with OPM, operational efficiency studies and audits of specified municipal operations, including the five-year health care cost containment plans described earlier. Outside experts having demonstrated knowledge and experience in the operations being reviewed may participate. The State will cover up to 75% of the outside costs of these studies. Eligible applications would include those from two or more municipalities interested in regional service consolidation.

The Governor also envisions an expanded role for the Auditors of Public Accounts. Upon request of the Secretary of OPM, the Auditors of Public Accounts would review the budget and financial condition of any municipality in which total State grants-in-aid in a fiscal year exceed 35% of the municipality’s operating budget. The Auditors would submit a report to the Governor and to the committees of cognizance of the General Assembly concerning this review, together with any recommendations for programmatic savings, efficiencies, financial improvements and reforms in the municipality. The proposed budget dedicates \$500,000 to the Auditors in FY 2008–09 for this purpose.

EXPANDING ACCESS TO SENIOR CITIZEN VOLUNTEERS

Our seniors are one of our state’s most valuable assets. They have tremendous knowledge and talent which can be used effectively to make our communities a better place to live. To encourage even more senior citizens to volunteer in their

INTRODUCTION

communities, the Governor's proposal would allow municipalities to provide property tax credits to volunteers sixty-five years of age or older up to \$750. Municipalities would determine credit amounts and would sponsor or approve volunteer activities, examples of which could include mentoring children in schools, providing assistance to meals-on-wheels or helping local libraries. This win-win program would allow seniors to reduce their property tax burdens while giving back to their towns.

FINANCIAL REPORTING, ACCOUNTABILITY AND TRANSPARENCY

As recommended in the report of the 2003 Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives, measures should be enacted to promote increased accountability and transparency in financial reporting.

The measures being recommended in this regard include:

- Enabling the Municipal Finance Advisory Commission and OPM, in consultation with professional groups, to provide technical assistance to municipalities and to issue best practice guidelines relative to financial reporting and management issues;
- Making improvements to the Municipal Auditing Act in order to further improve the quality and timeliness of annual municipal audits; and
- Clarifying and strengthening the requirements applicable to municipalities that have cumulative general fund balance deficits, in order to prevent or mitigate instances of severe municipal fiscal distress.

Citizens of our state know that their property taxes are among the highest in the nation. Connecticut ranks second highest in terms of property taxes per

capita and seventh highest in property taxes per capita as a percentage of income.

Enough time and discussion has been devoted to the issue of property tax reform. Connecticut's property taxpayers can wait no longer – we must take steps to provide them with tax relief now. Moreover, policy makers must ensure that they don't further increase taxpayers' burdens in the name of relieving them.

Governor Rell's proposed phase in of a property tax limit provides for a sufficient number of exemptions, as well as for general overrides. The Governor is proposing specific mandate relief for municipalities, as well as disincentives to enacting new costly municipal mandates. The Governor's proposed Municipal Operation Efficiency Study grant and enhancements to the Regional Performance Incentive Program should encourage even more sharing of services, which will benefit municipal taxpayers by reducing costs for local governments.

The Governor's comprehensive municipal property tax and mandate relief proposal, along with historic increases in state aid during the current biennium, provides reasonable and necessary tools to ensure that our state's residents obtain the property tax relief they both need and deserve.

A MORE ACCOUNTABLE STATE GOVERNMENT

In an effort to promote transparency in government, Governor Rell's budget provides funding for the creation of a centralized state agency regulation system to be available on the Department of Consumer Protection's website. Having all agency regulations, except for emergency regulations, available in one location will allow the public to easily review regulations online without having to visit multiple locations and websites.

Governor Rell is also requiring the Department of Consumer Protection to establish a Citizen's Forum on the agency's website. The forum will allow citizens to electronically submit suggestions to improve services in state government. These suggestions will be forwarded to the appropriate agency for further review. This forum will give Connecticut's citizens the ability to easily share their ideas or concerns in one central location.

The pursuit of best ethical practices in the State has not escaped the Governor's attention. Governor Rell has again decided to expand the list of persons who must be cognizant of and accountable for their actions so as to not compromise the integrity of their positions for unethical gain. This approach mandates that those filing statements of financial interest disclose the names of all business partners, investments, gifts received above certain value, and all state-wide elected officials and members of the General Assembly sponsored or promoted by said individual; refines the definition of a "gift"; provides a more stringent revolving door statute; and includes members of staff and family in the list of those that are subject to the state code of ethics.

Ethical awareness does not and should not end at the state level. Governor Rell proposes to have the same ethical awareness reach down to the municipal level. The Office of State Ethics will establish a model code of ethics for municipalities and assist the municipalities in meeting the requirements of the new code, which shall include establishing a procedure for investigating and deliberating allegations of violations, and creating a policy for disclosure of financial interests by their own officials and employees.

Governor Rell has proposed consolidating Core-CT functions within the two agencies that have constitutional and statutory responsibilities for the primary functions of Core-CT – the State Comptroller and the Department of Administrative Services (DAS). To support this consolidation, twenty-five positions will be transferred from the Department of Information Technology (DOIT) to the State Comptroller and four positions will be transferred from DOIT to DAS. In addition, two positions will be transferred from the State Comptroller to DAS.

The Governor's budget provides funding for a Core-CT upgrade for Enterprise Performance Management (EPM) Business Analytical Reporting as recommended by the Gartner Group study of Core-CT. This next generation reporting tool will protect the State's investment in Core-CT by maximizing reporting capabilities. Funding in the amount of \$1.6 million is provided for consultant, software and training costs along with a database administrator position in the State Comptroller's Office. Partial year funding in the amount of \$88,000 is provided for of an IT position and an accounting specialist in the Department of Administrative Services to support the reporting tool.

Finally, credit cards will be accepted as a positive way of doing business in most State agencies. This

INTRODUCTION

has been resisted in the past due to State created complications in accounting for the fees charged. Governor Rell has proposed legislation to resolve this self created issue so that citizens can use credit cards when dealing with the State as they do with virtually every other legitimate business in Connecticut.

CONSUMER PROTECTIONS

Many different incidents have occurred during the past year that have prompted Governor Rell to propose legislation to protect the citizens of Connecticut.

Governor Rell convened a sub prime mortgage task force to review the sub prime lending situation within Connecticut and is proposing legislation that will implement recommendations of the task force. The legislation will redefine loans in Connecticut that would fall into the sub prime category and provides for additional disclosures that will alert consumers to the economic risk associated with these loans. The legislation will also do away with any pre-payment penalty associated with sub prime loans.

As previously announced, the Connecticut Families program will provide \$50 million in bond funds for the Connecticut Housing Finance Authority to assist low and moderate income borrowers to refinance into a stable mortgage product.

Governor Rell is also submitting a legislative proposal that will help to prevent stores and manufacturers from distributing recalled products and toys. The Governor's proposal increases the criminal penalty for violating the Child Protection Safety Act from a Class B misdemeanor to a Class C felony and fines will increase the fines from \$3,000 to \$5,000.

In addition the Governor's legislative package includes recommendations from the Governor's Identification Theft Task Force. The proposal creates a new privacy protection statute that will help prevent the theft and misuse of personal identifying information including social security

numbers by businesses. Businesses will no longer be able to require social security numbers for discount card applications, employers will not be able to disclose an employee's social security number without the written consent of the individual, and banks will be required to safeguard identities by shredding all documents that have personal information when being disposed.

TRANSPORTATION

Over the last 3 years Governor Rell and the General Assembly have worked together to provide unprecedented funding for transportation enhancements throughout the State.

These initiatives include new railcars for Metro North and Shoreline East commuter lines as well as the development of the New Haven to Springfield Commuter Line and the Hartford–New Britain Busway. The initiatives also include numerous congestion mitigating projects along I-95 and the State’s other highways. Utilizing Responsible Growth principles, Governor Rell has supported new and renovated rail and intermodal stations so that these significant transit developments can leverage economic development in proximity to the public transportation systems.

What is becoming clear is that if the State is rethinking the nature of its transportation systems and expanding its support for transportation improvements while seeking coordination between transportation, economic development, and environmental protection then it must not be afraid to rethink the way it delivers transportation services.

Notwithstanding the continued commitment of thousands of dedicated State workers, the old Department of Transportation (DOT) as an institution has simply become too bureaucratic, too inefficient, and too single minded in its approach to problem solving.

Governor Rell believes that bold reforms are necessary if the citizens of the State are to obtain the level of service to which they are entitled and if

the State is to realize the intended results of the initiatives adopted in the past 3 years.

TRANSITION THE OLD DOT – CREATE TWO NEW FOCUSED AGENCIES

To that end, Governor Rell is calling for an end to the old DOT and the creation of two new and focused departments: the Department of Highways and the Department of Public Transportation, Aviation and Ports. Effective January 1, 2010, this reconfiguration of transportation services will:

- Allow each agency to focus on its mission and systems that promote its goals;
- Enhance the standing of public transportation and explore its ramifications for development and conservation;
- Provide for new and more efficient processes to accomplish the initiatives adopted; and
- Promote more specialized expertise and abilities within each agency.

Moreover with care in the selection of two new commissioners, this reconfiguration will give rise to a culture of change, opportunity and reform within these new agencies. No longer will the phrase “That’s how we’ve always done it” be justification for agency actions.

SHORT-TERM IMPROVEMENTS

While the separation of the DOT is being planned, Governor Rell, using some of the recommendations as set forth by the Governor’s Commission on the Reform of the Connecticut Department of Transportation, is proposing additional resources to improve the financial, planning and programmatic operations of the Department including:

- Creating a Chief Operating Officer position accountable to the commissioner for the day to

INTRODUCTION

day operations of the Department and the implementation of department-wide policies;

- Creating an Office of Strategic Planning and Evaluation reporting directly to the commissioner. This office will work closely with the Transportation Strategy Board and other agencies to provide a more long-term, comprehensive and strategic view of transportation initiatives which considers other developmental goals of the State when implementing transportation strategy;
- Adding financial positions to enhance agency operations and provide timely federal reporting and audit capacity;
- Separating the Bureau of Engineering and Highways to enable Engineering to operate as a shared service and to develop more engineering capability tailored to public transportation needs;
- Providing funding for talent assessment and training through contracted services;
- Providing funding for the development of a transition plan to prepare for the reorganization of the DOT effective January 1, 2010;
- Adding 42 inspectors and maintainers for bridge repair and maintenance to ensure that inspections are conducted every 2 years and to provide for repair of discovered needs;
- Implementing a “511” system to allow the public to telephonically retrieve timely, accurate and reliable travel information;
- Establishing of a Citizen Representative to receive day to day feedback from the public on transportation issues; and
- Adding an additional 50 engineers to the agencies for more in-house design and oversight of transportation projects.

BRADLEY INTERNATIONAL AIRPORT INDEPENDENCE

Moreover, with this budget, Governor Rell proposes a review of the operational capacity of Bradley International Airport to run as a separate authority apart from and independent of State agency control. If borne out by further study, this could provide Bradley with a more businesslike and consumer oriented approach. The public interest would continue to be protected by a Board of Directors appointed by the Governor and legislative leaders coupled with annual reporting and auditing requirements. \$100,000 is included in the Office of Policy and Management’s budget to perform this study.

HIGHWAY SAFETY

As outlined in the Public Safety section, the Governor is proposing several initiatives to improve highway safety. These include hiring 100 state troopers over 5 years to direct highway patrol and law enforcement, providing for a pilot program for electronic speed cameras aimed at catching and ticketing speeders, funding of \$700,000 for the addition of 10 Commercial Vehicle Safety Inspectors within the DMV in order to enhance inspection squad activity to cover all areas including school bus inspections, increasing the hours that the Greenwich weigh stations is open, and providing for new state of the art equipment.

ENERGY

ELECTRIC PROCUREMENT INITIATIVE

This initiative authorizes the Department of Public Utility Control (DPUC) and the electric distribution companies to employ an online reverse auction process to procure in whole or in part electric generation supply for Standard Service. The auction may be used in lieu of a traditional paper Request for Proposal (RFP) process, which occurs largely outside public view until final bids are accepted and may not always result in the lowest price available for consumers.

The online reverse auction process allowed the State to successfully procure electric supply for its own facilities at prices totaling approximately 19 percent less than anticipated. In addition, the State was able to purchase renewable supply (i.e. green energy) that exceeds the State’s Renewable Portfolio Standards (RPS) by 17% in each year of the contracts at essentially no price premium. If the State realized these savings and policy benefits, it stands to reason that Connecticut’s electric consumers also can benefit from the auction format.

The Governor’s proposal authorizes the DPUC and the utilities, in consultation with the Office of the Consumer Counsel, to engage a third party auction vendor to set up and administer auctions. Pre-qualified electric suppliers then bid against other suppliers in real time. The real time competitive market format results in lower prices because bidders must under bid the competition in order to get the contracts. The lowest bidder at the close of the auction wins the supply contract. The process is completely transparent as the public and bidders can see all of the offers as they are submitted.

Additionally, because the auctions and acceptance of offers are in real time, generation bids can be formulated without building in a risk factor for fluctuation in the natural gas or other raw material markets. Historically, because there may be a multi-month delay between the submission of paper bids and acceptance, the generations must build into their bids a factor to compensate for possible fluctuation in the natural gas markets. This risk pricing is then passed onto the consumer. Because there is no delay between bid and acceptance, the risk is limited resulting in a lower cost to the consumer.

<u>State</u>	<u>Utility</u>	<u>Average Estimated Savings</u>
New Jersey	Rockland Electric Company	20%
New York	Consolidated Edison Company	8%
Virginia	Delmarva Power & Light Company	14%
Texas	Austin Energy	4%
Michigan	Detroit Edison Company	17%

CLIMATE CHANGE INITIATIVES

Governor Rell is proposing several energy related initiatives to further the state’s commitment to reducing greenhouse gas emissions by allowing consumers – both business and residential – to participate in programs that invest in energy efficiency, conservation and alternative fuel technologies.

Green Buildings Tax Credit

The Governor is proposing a corporate income tax credit to businesses that make investments in offsetting greenhouse gas emissions they produce. Credits up to \$50,000 per business will be available for investments in things such as building systems and new technologies that go beyond what building code or other regulations may require.

INTRODUCTION

Anti-Idling for Buses

The Governor proposes legislation to require motor buses to limit unnecessarily idling to curb harmful air emissions from bus pollutant and increase fuel efficiency.

Residential Solar Panel Program

The Governor is recommending increased incentives to homeowners to install solar panel technologies (photovoltaic systems) through the Renewable Energy Investment Fund, which is administered by the Clean Energy Fund. The Governor is recommending that the maximum rebate under this program be increased from \$25,000 to \$40,000 to encourage new residential installations.

Promoting Energy Efficiency Through Sales Tax Relief

Last year the Governor signed into law a 3 month sales tax exemption for the purchase of energy star appliances. The goal of that program was to promote the purchase of energy saving equipment that would not only reduce consumers' electric bills through lower consumption, it would also benefit the environment by lowering the amount of greenhouse gas emissions from electric plants that generate such power.

This time however the Governor is proposing a full 12 month exemption in order to afford consumers ample time to make appropriate purchasing decisions. Unfortunately, given the short time frame of last year's exemption, the tax incentive expired before consumers either became aware of the program or had an opportunity to purchase such items. This program will be effective July 1, 2008 and run through June 30, 2009 and save consumers \$23 million.

Furnace Replacement Rebate Program

The Governor is recommending modifying the program enacted in last year's energy bill that provided rebates for new oil and gas furnace replacements that meet or exceed Energy Star standards. Last session's program called for the program to be funded with borrowed dollars. The Governor is recommending that the funding be changed from state borrowed dollars to natural gas and oil conservation dollars. The Governor also proposes removing the income test contained within last year's law to provide a \$500 rebate to any household meeting the program requirements.

Expansion of the Energy Conservation Loan Fund

The Governor is proposing an expansion of the Energy Conservation Loan Fund administered by the Department of Economic and Community Development and the Connecticut Housing Investment Fund to include climate change and energy efficiency technologies. Under the Governor's proposal, low interest loans will be available for homeowners making up to 200% of median area income (increased from 150%) for such energy improvements to their properties, up to a maximum loan amount of \$35,000 (increased from \$25,000).

Municipal Energy Procurement Information

The Governor is proposing expanding the responsibilities of the Office of Policy and Management to include a program which share its knowledge and expertise on energy procurement with the State's municipalities. OPM recently had great success purchasing electricity using an online auction format. Several Connecticut municipalities have also had similar success with the auction format. The Governor is directing OPM to assist more towns and cities with procurement to help keep increased costs associated with energy prices in check for local taxpayers.

State Agency Energy and Climate Change Action Plans

The Governor is directing all state agencies to adopt and submit energy conservation and climate change action plans to OPM and DEP biennially, beginning in 2009. The Governor believes that the State must lead by example in energy management and climate change. This initiative will help focus State agencies on meeting energy savings and greenhouse gas emissions reduction goals as outlined in the 2005 Climate Change Action Plan.

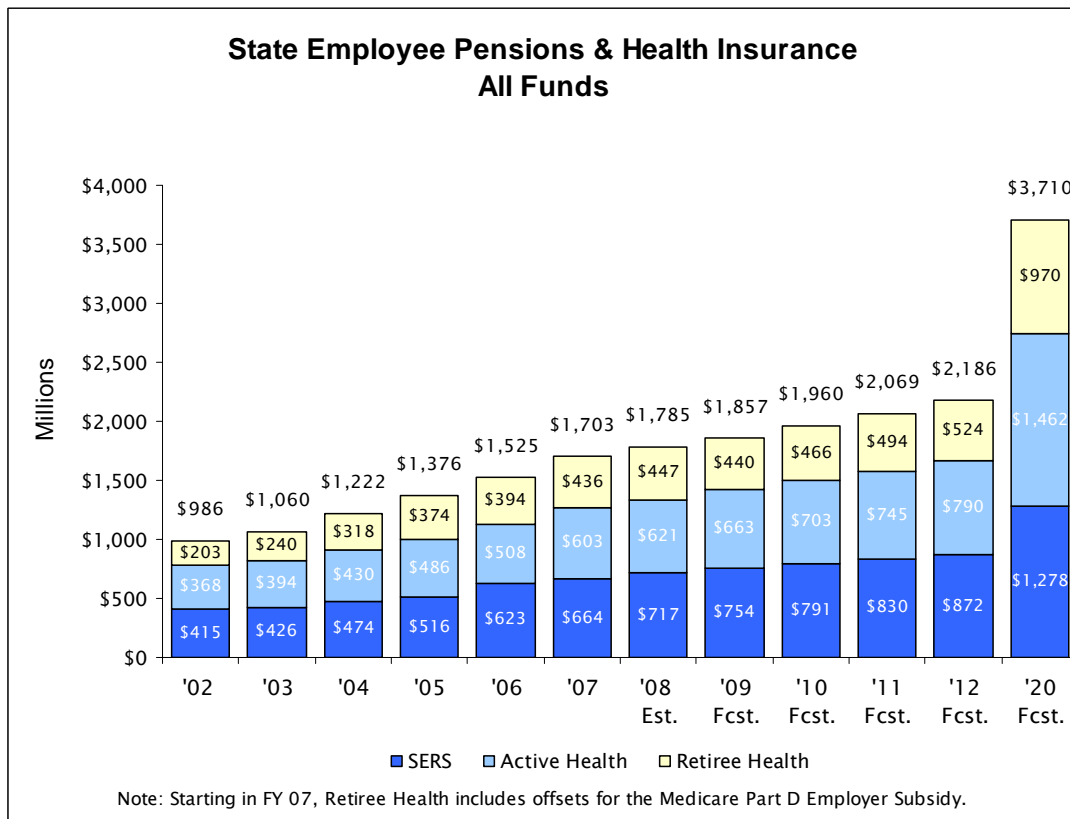
Green Collar Jobs Initiative

Skilled workers in the areas of efficiency, conservation, and renewable technologies will be critical to the State's energy future. Therefore, the Governor is calling for the establishment of a Green Collar Jobs program to be offered by the States Vocational Technical Schools. The program will train students in energy efficient building, construction, and retrofit work for residential and commercial facilities; in energy efficiency programs; renewable energy technologies and other sustainable climate change and environmental compliance strategies.

STATE EMPLOYEE AND RETIREE HEALTH INSURANCE COST SAVINGS

The Health Care Cost Containment Committee, which is a joint Union/Management venture set up through negotiations with the State Employees Bargaining Agent Coalition (SEBAC) and the Office of Policy and Management in conjunction with the Retirement and Benefits Division of the Office of the State Comptroller have been in negotiations with medical, dental

and pharmacy insurance carriers providing health care services for state employees and retirees. Based on these negotiations, substantial savings are expected with respect to the FY 2008–09 budgeted amounts and these savings will be expected to continue when the FY 2010–11 biennial budget I take effects. The current contracts expire June 30, 2008. The Governor’s Budget has been adjusted to reflect the revised estimates based on these negotiations of the costs of state employee and retiree health care insurance for FY 2008–09 with a savings of \$53,067,848 to the General Fund and \$2,150,000 to the Special Transportation Fund.



REVENUE

Given the economic conditions outlined in the Introduction, Governor Rell's budget provides modest, but important, changes to the State's revenue structure while conserving the State's resources should the challenges facing our neighboring states arrive at our doorstep. These changes had to not only provide a measure of tax relief, but also serve a dual role in promoting certain public policy initiatives. Within this framework, the Governor is proposing four initiatives that will provide tax relief, but also improve the quality of life for our state's citizens.

Governor Rell's Proposed Tax Cuts (In Millions)		
	Fiscal <u>2009</u>	Fiscal <u>2010</u>
<u>Proposed Cuts:</u>		
Eliminate sales tax on Energy Star Appliances	\$ (23.0)	\$ -
Eliminate the Business Entity Tax	(35.0)	(35.0)
Establish a Green Building Corporation Tax Credit	-	(2.0)
Exempt working farmland from the Estate Tax	<u>(0.3)</u>	<u>(1.2)</u>
Total Tax Cuts	\$ (58.3)	\$ (38.2)

PROMOTING ENERGY EFFICIENCY THROUGH SALES TAX RELIEF

As discussed in the Energy section, the Governor is proposing a full 12 month sales tax exemption for Energy Star appliances. This program will be effective July 1, 2008 and run through June 30, 2009 and save consumers \$23 million.

SAVING WORKING FARMS FROM THE DEATH TAX

According to the 2002 National Agricultural Statistics Service Survey, Connecticut lost 12.08% of its farmland between 1997 and 2002. This was the

largest percentage loss of any state in the United States. The report also cites the fact that Connecticut has only 357,000 acres of farmland remaining. Connecticut loses approximately 7,000 to 9,000 acres of farmland to development each year and at this pace, there will be no farmland left in the state by the year 2047! A survey of Connecticut residents issued in February 2000 found that 91% of Connecticut residents agree that preserving rural areas in Connecticut is important, while 90% agree that it is important to maintain farmland for future generations.

One way to ensure that this valuable asset remains farmland for future generations is to ensure that state tax laws are not driving current farmers to sell their land for development. Governor Rell is proposing to exempt working farmland from the estate tax so farmers do not have to sell their farms simply to pay the Connecticut death tax. Effective July 1, 2008, for an annualized cost of only \$1.2 million, the working farmland estate tax exemption promotes responsible growth and the preservation of open space, two of Governor Rell's top priorities for enhancing the quality of life in Connecticut.

There is an ironic conundrum in Connecticut's current policy on farmland. On the one hand, the state pays farmers significant sums of money to preserve working farms as farms and then imposes a burdensome death tax which has the effect of incentivizing heirs to sell off farmland in order to pay the tax. The proposal would end that inconsistency.

SAVING GREEN BY GOING GREEN

The United States is the largest source of global warming pollution, producing 25% of the world's carbon dioxide emissions with only 4% of the

INTRODUCTION

planet's population. With the recent surge in fossil fuel prices due to increased world-wide demand for energy, there is no better time than the present to look for ways to reduce our dependence on these damaging resources. To reduce global warming pollution, we must increase our reliance on renewable energy sources such as wind and sun and reduce greenhouse gas emissions from our buildings. There is a movement afoot to promote these ideals called "building green". Sustainable buildings, or "green buildings", use energy resources more efficiently and effectively and provide healthier environments for working, learning and living. By building green, businesses receive the benefit of reducing their on-going operation and maintenance costs while promoting global health.

To promote the use of sustainable building practices in the state, Governor Rell is proposing a new Green Building Corporation Tax Credit. Beginning January 1, 2009, businesses that make investments in building systems that reduce greenhouse gas emissions will be eligible to receive a corporation tax credit in the amount of 25% of the cost of the investment, up to \$50,000 per business per year. This new credit is projected to cost approximately \$2.0 million annually beginning in FY 2009-10.

EXPENDITURE CAP PAYS DIVIDENDS FOR TAXPAYERS

In 1991, as part of the income tax compromise, the General Assembly adopted an expenditure cap to prevent the State from spending more than the economy's ability to provide resources. FY 2008-09 will be the seventeenth budget subject to that limit. Current revenue projections indicate that by remaining within the bounds set by the

Constitutional expenditure cap, Connecticut's citizens can expect a reduction in their taxes.

To that end, the Governor is proposing to eliminate the \$250 Business Entity Tax that was only enacted in 2002 and affects well over 100,000 business enterprises. As the economy has slowed there has been much discussion of the need for an economic stimulus package. The track record of small businesses being the primary generators of new hiring is unsurpassed. Governor Rell proposes to cultivate economic growth in Connecticut by no longer requiring that upstart businesses pay this tax as she is counting on them to lead our economy into the future.

MIND THE GAAP

In 1993 the General Assembly passed and the Governor signed into law an act requiring the State to more properly account for its revenues and expenditures by switching to Generally Accepted Accounting Principles (GAAP) beginning in FY 1995-96. To date, the only action the State has taken in regards to GAAP is to postpone its implementation. As part of this year's budget proposal, the Governor is recommending that the accrual period for the Corporation Tax be ended within the first month after the close of the fiscal year. Currently corporation tax revenue received through August 15th of the following fiscal year is counted, or accrued, to the prior fiscal year.

This change will result in a one-time revenue loss in FY 2007-08 of \$8 million but has three significant benefits. First, it will aid in the timely closing of the financial books of the State at year-end. Second, it will make the accrual period consistent with the other taxes which the State collects. Third, for this one item, it will move the State closer to the principles of GAAP accounting.

INTRODUCTION

Although GAAP accounting would eliminate the corporation tax accrual completely, and the Governor would welcome such efforts if resources permit, the Governor believes this is an important first step in a long journey toward financial integrity.

CAPITAL

Governor Rell's recommended midterm budget adjustments include an increase in General Obligation (GO) bond authorizations, in addition to those already enacted by the General Assembly, in the amount of \$81.8 million for FY 2008–09. The increase will bring the total amount of FY 2008–09 GO authorizations to \$1,471.7 million.

The Governor, with her midterm capital budget adjustments, is recommending bond authorizations which will better position the State of Connecticut with regards to the State's capital obligations and investments now and in the future.

SCHOOL CONSTRUCTION

As described in the Property Tax Reform Package section, the Governor is recommending multi-year authorizations for the local school construction program. These authorizations, \$603.5 million in FY 2009–10 and \$536.2 million in FY 2010–11, protect Connecticut municipalities and ensure that local school construction payments, which are owed to localities, are paid in a timely manner.

STATE PARKS AND FORESTS STEWARDSHIP PROGRAM

Within the State of Connecticut are one hundred and thirty eight State parks and forests – One hundred and thirty eight gems and treasures scattered through the State, open for enjoyment by Connecticut residents and visitors. Governor Rell appreciates these assets and recognizes how important it is to finance capital repairs at State parks and forests. As such, the Governor is announcing a new program, the State Parks and Forests Stewardship Program, which will provide for the proper preservation of State parks and forests.

The Governor is recommending an authorization of \$15 million for the State Parks and Forests Stewardship Program which will allow appropriate repair, maintenance or improvement to any State facility or structure which will provide or enhance public access to, or enjoyment of, the State parks and forests. This smart investment now will allow generations to continue to enjoy in the future.

CRIMINAL JUSTICE INFORMATION SYSTEMS

As described in the Criminal Justice Reform section, the Governor is recommending an \$8 million bond proposal to begin the implementation of systems to meet the need of the criminal justice community.

CULTURAL TREASURES CAPITAL PROGRAM

Connecticut has an abundance of impressive arts and cultural organizations, many of which rely on the State for some form of financial assistance when they make capital investments to their facilities. The Governor recognizes that these organizations enrich the lives of Connecticut citizens in a way that cannot be replaced. Therefore, the Governor is also recommending a \$20 million authorization for the Cultural Treasures Capital Program. This new program, to be administered by the Connecticut Commission of Culture and Tourism, will provide grant financing to assist with capital improvement projects for arts organizations, cultural organizations, tourist attractions, historic structures or museums. The grants would be for one-time projects and not exceed 20% of the cost of the project.

RECONFIGURATION OF THE CONNECTICUT JUVENILE TRAINING SCHOOL (CJTS)

Public Act 07–4 of the June Special Session removed 16 and 17 year old offenders from the adult courts and placed them, effective January 1, 2010, into the

INTRODUCTION

juvenile justice system and, under the care of the Department of Children and Families. The passage of this bill prompted the Governor to evaluate current and future facility needs of the Department of Children and Families with the anticipated increase in juvenile population.

The Governor is recommending an additional authorization of \$8 million under the Department of Children and Families to finance the reconfiguration of CJTS into the Connecticut Juvenile Services Complex (CJSC). The improvements to CJSC will include an extensive renovation and addition to Building 2 which will be physically and programmatically separate from the rest of the CJSC campus. This building will have 36 beds and will be used solely by the younger juveniles. In addition, Building 4 will be renovated to contain three units: the Reception and Diagnostic Unit, Respite Unit, and a Transitional Living Unit. The Reception and Diagnostic Unit will assess all newly committed juveniles age 16 and over. The Respite Unit will provide short-term intervention programs to juveniles in the community at risk of losing their community status while the Transitional Living Unit will prepare boys who are within 30 days of discharge from CJSC to lower levels of care.

In addition to the \$8 million for the CJSC renovation, the Governor is recommending a \$3 million authorization to finance an addition to Riverview Hospital. This 12 bed addition will accommodate any additional youth who are in need of psychiatric hospital care.

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL STUDENT LOAN AUTHORITY

As outlined in the Education section, Governor Rell is recommending that the limit for the Special

Capital Reserve Fund be increased from \$170 million to \$300 million to insure the availability of this important alternative source of loan funds for students who do not qualify for other financial aid.

SUPPORT FOR NANOTECHNOLOGY

Governor Rell is recommending \$5 million to fund equipment purchases to assist in the establishment of Centers of Nanoscience at Yale University and the University of Connecticut to provide research and development of applications for nanotechnology in support of the State's manufacturing and biotechnology industries.

The Yale Center will be oriented towards the application of nanotechnology to bioscience while the UConn Center will be focused on material science. Both centers will be accessible to academic researchers, students and industry and provide state-of-the-art equipment and talent in this multi-disciplinary field.

Under the program, each University will be required to match the State's \$2.5 million with \$2.5 million of the institution funds to better leverage the investment.

OTHER SIGNIFICANT MIDTERM CAPITAL ADJUSTMENTS

The Governor is recommending \$5 million for the Department of Public Works (DPW) to finance the design of renovations to the underutilized State-owned office building at 61 Woodland Street in Hartford. This building is the former home of Capital Community College and once renovated, the building will help the State reduce reliance on expensive leased space for State offices in the Hartford area.

INTRODUCTION

An additional \$1.7 million is recommended for DPW to finance preservation of buildings at the State-owned Seaside property in Waterford while reuse or disposition plans are finalized.

Finally, the Governor is recommending that \$4 million be included for the Military Department to leverage \$28 million in federal funds to construct a Regional Training Institute at Camp Rell in East Lyme.

CONCLUSION

The future is full of challenges and opportunities. While Connecticut has benefited from a robust economy in recent years, we must be prepared in the event that we experience an economic shift similar to what is being experienced by many of our neighboring states. We must address the major concerns of our citizens, we must provide for their safety and security. We must continue to address the most pressing needs of our most vulnerable citizens. We must plan for the future and position the State for economic growth. We must continue to honor our commitment to the education of our youth. We must also act as responsible stewards of all of Connecticut's assets including the parks and forests for they are among the key resources which we will be passing on to our future generations. This budget works toward all of these goals.

Governor Rell's budget is based upon fiscally responsible principles. The Governor's Midterm Budget honors the expenditure cap, lives within available resources, and plans for the deposit of the projected surplus to the Rainy Day Fund. Governor Rell is preparing the State to weather any cyclical change thereby avoiding any undue hardship to our citizens. She is ensuring the continuation of the sound practice of saving in good times to offset any future downturn, to do otherwise ignores the hard learned lessons of the past.

The Governor has taken great care in crafting a budget document which sets forth a workable plan to address areas which are necessary to enhance, including some very fundamental elements of our public safety/criminal justice network. Resources are provided to supplement efforts in our criminal

justice system ranging from adding to the number of State Police, Correction Officers, Parole and Probation staff, as well as ensuring the complete review of all records of inmates being considered for parole by providing a full-time Board of Pardons and Parole. Increased resources are proposed to provide additional systems to monitor parolees, when they are deemed appropriate for release to the community, and support systems are expanded to assist in successfully transitioning these former inmates back to the community. These enhancements as well as the inclusion of components designed to prevent and divert youth from entering our criminal justice system are all a part of the Governor's budget package.

Governor Rell's plan provides for the needs of low-income, disabled and vulnerable persons, building upon existing programs by providing additional services and supports for persons with developmental disabilities, behavioral health issues, and enhancing energy programs for low-income individuals. The budget provides for enhanced oversight of the care of our more vulnerable populations by providing additional inspections of daycare facilities and nursing homes. The Governor's plan also directs the Department of Social Services to implement a hospice service benefit under Medicaid.

Recognizing the ever increasing burden on our property taxpayers the Governor is proposing several initiatives that will reform the State's property tax system. These reforms will give municipal leaders greater opportunity to control their budgets while ensuring that taxpayers are not confronted with the dramatic increases in property taxes experienced over the last several years.

The Governor continues to recognize the importance of the transportation system in both

INTRODUCTION

the economic vitality of the State as well as maintaining and improving the quality of life in this State. Building upon the previous transportation initiatives including new railcars for Metro North and Shoreline East commuter lines, development of the New Haven to Springfield commuter line, and numerous congestion mitigation efforts on our highways, Governor Rell is proposing changes designed to make the delivery of our transportation services more responsive to the needs of our citizens. These changes include: 1) proposing a review of the operational capacity of Bradley International Airport to run as an independent authority; and 2) proposing the bifurcation of the existing Department of Transportation and the creation of two new and focused departments: the Department of Highways and the Department of Public Transportation, Aviation and Ports effective January 1, 2010.

The Governor has compiled a budget proposal which is both responsive to the immediate and long term needs of our State and is fiscally responsible in its construction.