INTRODUCTION

INTRODUCTION: BUILDING AN ECONOMIC REVIVAL

One year ago, Connecticut was at a crossroads. Years of reckless financial practices had saddled the state and its taxpayers with a $3.2 billion deficit projected in FY 2012, and $2.9 billion in FY 2013, among the largest per capita deficits in the nation. The state's long-term liabilities had also grown to crushing levels through short-sighted neglect. There was simply no way we could move forward on the type of bold initiatives necessary to turn the state around and grow jobs without first addressing our systemic and longstanding fiscal problems. In short, the bills had come due.

In response, Governor Malloy proposed a new kind of budget, one aimed at creating "a government for 21st century Connecticut that is efficient in structure, sustainable in cost, excellent in service and successful in job creation." Working with the General Assembly, the Governor developed a biennial budget for FY 2012 and FY 2013 that laid a new foundation for the economic revival that Connecticut needs. It paid down borrowing that had covered the deficit from FY 2009. It fully funded all of our required pension contributions for both state employees and teachers. It shrunk state government, while maintaining municipal aid. It preserved the state's healthcare and social services safety net.

Add to that a rigorous initiative to grow jobs, including a historic bipartisan special session, and the result is a state that is finally ready and able to compete in the global marketplace. Today, Connecticut can proudly say that it has added new jobs for the first time in three years – 9,000 new jobs were created in 2011 – and that our unemployment rate has dropped from 9.1 percent to 8.2 percent, and continues to head downward.

Still, Connecticut faces serious challenges. While the balanced approach of shared sacrifice has proven to be more sustainable than the slash-and-burn tactics of neighboring states, a turbulent global economy and the challenge of restructuring our relationship with state employees have prompted adjustments along the way. We adapted, but remain steadfastly committed to living within our means. Connecticut residents can feel secure that at the end of this fiscal year and beyond, our books will remain in balance based on Generally Accepted Accounting Principles (GAAP).

Working with the General Assembly, the Governor has established honest budgeting as a cornerstone for Connecticut's future. The question is, how do we build on this new foundation? The Governor's proposed midterm budget for FY 2013 answers that question in three ways.

First, Connecticut must **maintain the fiscal responsibility and discipline** set forth in the biennial budget by working to keep its books balanced on a GAAP basis. These budget adjustments meet that goal without tax increases. Spending increases in the areas of education and pension contributions are offset in part by new savings in agency budgets, including several progressive policy changes to Medicaid.

Second, we need to **continue our efforts to grow jobs**. That means pushing aggressively to implement the far reaching provisions of the jobs bill passed a few months

FY 2013 BUDGET ADJUSTMENTS
SIGNIFICANT INITIATIVES
ALL FUNDS
($ in millions)

Education	$	128
Pension Reform *		98
Safety Net and Other Adjustments (NET)		103
TOTAL	$	329

* Total is $123 million, including $25 million from other funds e.g., federal, insurance, non-appropriated

ago. By doing so, we will be supporting industries that have made Connecticut great: insurance, manufacturing, a vibrant network of small businesses, and more. It also means aggressively pursuing new opportunities, be they in bioscience, finance, insurance, or sports entertainment.

Third, we must **reform education in Connecticut**. Not only is a quality education a moral obligation the state has to every child, it is the smartest and soundest financial investment we can make for our future and our revival. This budget proposes $128 million in new school spending, with much of it targeted to our lowest performing schools – again, without any tax increases.

These ideas are about more than simply recovering from our problems. Taken together they are the building blocks of an **economic revival** – a Connecticut where there are thousands of new, good jobs, where we're educating the next generation of workers to stay and fill those jobs, where state government is a better partner for families and businesses.

Fiscal responsibility, growing jobs and an educated workforce make Connecticut a better place today, and a stronger global competitor in the future.

This midterm budget will look back on how the state has improved management of its finances over the past calendar year and lay out the Governor's proposed adjustments for the remainder of the biennium.

SUMMARY OF APPROPRIATION CHANGES

(In Millions)

	Enacted Appropriation FY 2013	Net Adjustments FY 2013	Recommended Appropriation FY 2013	% Growth Over Enacted
General Fund	$ 18,952.5	$ 313.9	$ 19,266.4	1.7%
Special Transportation Fund	1,277.8	15.7	1,293.5	1.2%
Mashantucket Pequot & Mohegan Fund	61.8	-	61.8	0.0%
All Other Funds	107.9	(0.6)	107.2	-0.6%
Total	$ 20,400.0	$ 329.0	$ 20,729.0	1.6%

SUMMARY OF EXPENDITURE GROWTH

(In Millions)

	Estimated Expenditures FY 2012	Net Adjustments FY 2013	Recommended Appropriation FY 2013	% Growth Over FY 2012
General Fund	$ 18,692.5	$ 573.9	$ 19,266.4	3.1%
Special Transportation Fund	1,226.1	67.4	1,293.5	5.5%
Mashantucket Pequot & Mohegan Fund	61.8	-	61.8	0.0%
All Other Funds	109.7	(2.4)	107.2	-2.2%
Total	$ 20,090.1	$ 638.9	$ 20,729.0	3.2%

PART 1: 2011 IN REVIEW

STABILIZING OUR FINANCES

In passing the budget for FY 2012 and FY 2013, the Governor and the Legislature made clear that they were committed to finally ending budgeting gimmicks that had, unfortunately, become the norm. For years state leadership found ways to ignore structural problems and push off our obligations, preferring to place the burden on our children rather than face these challenges head on.

The first step in changing that approach was **moving to Generally Accepted Accounting Principles (GAAP)**, which Governor Malloy did with Executive Order 1 on his first day in office. In addition to reserving $75 million in FY 2012 and $50 million in FY 2013 to ensure a balanced budget on a GAAP basis, the Office of Policy and Management has been working with state agencies during the past year to implement GAAP in our day-to-day business, including planning for Core-CT updates and implementing new training and procedures necessary to operate under GAAP. The state remains on target to meet its July 1, 2013 goal for these steps.

Connecticut also took a renewed approach to meeting its debt obligations. The state fully funded required pension contributions for both state employees and teachers – meaning no pension holidays or reduced contributions, as was done in FY 2009, FY 2010 and FY 2011. As part of this year's budget, the Governor proposes taking that approach one step further by restructuring how we pay down our long-term pension liability to **save nearly $6 billion over the next 20 years**.

When it comes to ending years of deferring tough decisions, there is no quick fix. However, the practices that have been put in place are a new blueprint for how Connecticut can and will manage its finances in the years ahead. They force us to take an honest, forthright approach to budgeting, and in doing so put us on firmer fiscal footing.

RESTRUCTURING OUR RELATIONSHIP WITH STATE EMPLOYEES

None of the various reforms to state government would amount to real change were it not for the historic agreement reached between the state and its employees, an agreement that will **save Connecticut taxpayers billions of dollars in the coming years** through lower healthcare costs, foregone salary increases, and less generous pensions.

This restructured relationship puts state government on a sustainable course. Perhaps most importantly, it was done without using gimmicks such as furlough days, shortened work weeks, or retirement incentives.

MAKING GOVERNMENT SMALLER AND MORE EFFECTIVE

Changing how Connecticut does business began with a critical look at how the state delivers services. The simple truth is that for years, Connecticut state government was neglected, and in too many areas the inattention showed in poor outcomes, high costs, and a lack of dynamism and flexibility.

In the adopted budget, the state took meaningful steps forward to rectify that problem, starting with a drastic reduction in the number of state agencies, going **from 81 separate line-item state agencies down to 59**. As part of this year's proposed adjustments, **that number would shrink further, to 52**. These consolidations allow the state to operate more efficiently and more effectively, with less redundancy and fewer barriers between state services and the Connecticut residents who need them.

But consolidating state agencies isn't enough. Today, **there are 2,700 fewer state employees** than there were a year ago. These reductions have come through attrition, without resorting to expensive early retirement packages as in the past, and without layoffs adding thousands to the ranks of Connecticut's unemployed.

In the remainder of the biennium, the administration will continue to find ways to make state government more efficient and more cost effective. In trying times, Connecticut families and businesses know that they simply have to find ways to do more with less. Their state government should be no different.

GROWING JOBS IN THE PRIVATE SECTOR

Last year, as the General Assembly, the Executive Branch, and members of the public weighed in on the budget process, there was at least one thing that everyone could agree on: Connecticut desperately needed to grow jobs. To that end the enacted budget, as well as subsequent actions prioritized job growth and economic development.

The first critical piece of the equation was the Governor's "First Five" initiative, designed to provide extraordinary incentives to entice new business and grow jobs. First Five allowed the commissioner of the Department of Economic and Community Development (DECD), with the consent of the Governor, to combine existing incentives and tax credit programs to attract new business development that would commit to creating new jobs and invest in Connecticut. The program has already shown great success, with four companies – CIGNA, ESPN, Ticket Network, and NBC Sports – signed on and committed to bringing hundreds of new jobs to the state.

Building on that work, state leadership came together in October for an unprecedented bipartisan special session aimed at creating new jobs, spurring innovation and making Connecticut more competitive. Among other initiatives, the final jobs package built new job creation incentives for small business, reduced burdensome regulations, created a new e-business portal to make it easier for companies to access programs and services, and set aside $25 million for startup company loans and another $20 million for manufacturing technology programs.

During that same special session, Connecticut sent a message to the country and around the world that it would be a major player in the bioscience industry for years to come. Building on the bioscience plan for UConn Health Center launched earlier in 2011, the Governor announced that Jackson Laboratories was coming to Connecticut. The collaborative effort between Jackson Labs, the State of Connecticut, the University of Connecticut and Yale University will create 6,800 permanent jobs associated with the facility over 20 years, including 300 direct jobs within 10 years and 600 direct jobs within 20 years.

After a year of refocused effort on job creation, and despite a challenging environment, the state has been able to compete in a way that seemed impossible just one year ago. Connecticut is already richer by 9,000 new jobs, with more in the pipeline, and momentum building.

STAYING IN THE BLACK

While the FY 2012 and FY 2013 biennial budget took an honest and sober approach to balancing the budget, it's no secret that the national and global economies have been tumultuous. As the state began 2012, new consensus revenue estimates showed slow growth in income tax revenues – particularly among higher income taxpayers – affecting the state's projections. A similar trend has also been seen in New York, New Jersey, Massachusetts and elsewhere.

In order to achieve the savings necessary to ensure the year ends in balance and without asking for further sacrifice from Connecticut taxpayers, the Governor requested that the Office of Policy and Management immediately develop a rescission plan. In January, the state did exactly that – cutting $34.3 million in program expenses, while tightening our hiring processes to save even more. The rescissions amounted to less than two tenths of one percent of the General Fund budget.

None of the rescissions are easy, but all are necessary to maintain a balanced budget. Instead of having a structural multi-billion dollar deficit, and despite slow national recovery and uncertain revenues, Connecticut expects to close the current fiscal year in the black.

PART 2: LOOKING AHEAD

We've come through the challenges of 2011 together. Fiscal discipline and a focus on jobs have gotten us this far – a stabilized budget and real progress on reducing unemployment. Connecticut can now build on that foundation.

This budget proposal seeks a spending increase of $329 million across all funds, or about 1.6 percent more than the enacted budget for FY 2013. Of that total, $98 million supports increases in pension payments, $128 million goes toward new funding for public education, and the remaining $103 million will help maintain the safety net and other critical public services relied on by so many Connecticut residents. *These changes are proposed without any tax increases.*

Average Annual Growth Rates

Fiscal Years	Number of Fiscal Years	Total All Funds
FY '96- FY '05	10	4.8%
FY '06 - FY '11	6	4.5%
FY '12 - FY '13 (proj.)	2	3.8%

These initiatives, and others, are described in greater detail in the sections that follow.

EDUCATION REFORM

In order to grow the next generation of highly skilled workers and to meet our moral obligation to our children, Connecticut must eliminate its worst-in-the-nation achievement gap and better prepare students for college and good careers. In order to do this, we need to undertake major education reform – from early childhood through college. Some of this can be accomplished with new policies and practices, but more money will also, by necessity, be part of the solution.

Total New Funding for Education FY 2013
(in millions)

ECS	$ 68.6
Commissioner's Network	$ 22.9
Early Childhood	$ 7.0
Talent Development	$ 12.0
CTHSS Trade Supplies	$ 0.5
Other Initiatives to Reform Education	$ 17.0
Total New Funding for Education	**$ 128.0**

ELEMENTARY AND SECONDARY EDUCATION

The unfortunate truth is that since FY 2009 the Education Cost Sharing (ECS) Grant has been flat funded, making efforts to turn around student achievement difficult at best. Governor Malloy's budget infuses much-needed funding into the ECS formula to directly support and improve student achievement.

For the FY 2013 Midterm Budget, Governor Malloy has outlined six priorities for education reform which will help the state narrow the achievement gap and restore Connecticut as a model for academic excellence.

1. Enhance families' access to high-quality early childhood education opportunities

In order to affect meaningful change, reform must start at the preschool level. To that end, additional funding is budgeted for the development of a Tiered Quality Rating and Information System (TQRIS) as well as for increased access to quality preschool programming. In an effort to continue the good work of the proposed early childhood plan outlined in the state's "Race to the Top – Early Learning Challenge" and as called for in Public Act 11-181, the Governor is recommending this funding for TQRIS and the reallocation of Connecticut Charts-a-Course funding from the Department of Social Services (DSS) to the State Department of Education (SDE) as another step to build a coordinated early childhood system.

To increase access to quality school readiness programs, the Governor's budget includes:

- $4 million in funding for an additional five hundred school readiness slots;
- $5 million in bond funds to develop the Tiered Quality Rating and Information System (TQRIS) for Early Childhood; and
- $3 million in professional development and incentives for using the new system.

2. Authorize the intensive interventions and enable the supports necessary to turn around Connecticut's lowest-performing schools and districts

The recommended budget includes $22.9 million in funding to create a "Commissioner's Network." Comprised of the lowest performing schools, the network would give SDE significant latitude to intervene in low performing schools and provide new school management. Teachers and school leaders in network schools would be eligible for significant compensation and other incentives to work – and remain – in turnaround schools. These incentives could include signing bonuses and pay increments in return for minimum length of service.

3. Expand the availability of high-quality school models, including traditional schools, magnets, charters, and others

The Governor's budget includes additional funding to expand and replicate high quality school models, including charter, magnet and CommPACT schools. The charter school formula will be integrated into the ECS appropriation to ensure financial security for these schools. The recommended budget includes:

- Additional funding for charter schools to increase the state per-pupil grant from the current $9,400 to $11,000 per-pupil as well as expand the number of slots for charter schools. There is also established a municipal share of $1,000 per student that a sending district would pay to charter schools that its resident students choose to attend;

- $5 million to fund an increase in the per pupil grants for non-Sheff magnet schools in order to phase in parity for those magnet schools with the Sheff magnet schools;
- $750,000 for the Vocational Agriculture Program and a new competitive grant that aims to increase the number of students coming from Priority School Districts (PSDs) while also increasing overall enrollment; and
- Increased funding of $7 million for compliance with the Sheff settlement through the reallocation of $5 million from the Interdistrict Cooperation grant, plus $2 million in additional state funding in order to reach the FY 2013 desegregation requirement of 80 percent of Hartford students' demand for an education in a reduced isolation setting, or 41 percent of Hartford minority students in a reduced isolation setting.

The Connecticut Technical High School System (CTHSS) Task Force has made several additional recommendations, including:

- Enhancing planning and development through the collaboration of various state and private entities;
- Improving the governance structure by creating a new board with eight members, four of whom are appointed by the State Board of Education and four of whom are recommended by Regional Chambers of Commerce;
- Making the system more efficient and fiscally accountable; and
- Providing additional trade supply funding in order to support hands-on training opportunities for students – $500,000 to increase the amount of trade supplies to $1.33 per student, per day – an increase of 55 cents.

The CTHSS is an important resource for the educational needs and economic prosperity of Connecticut. The task force's goals align well with Governor Malloy's initiative to make education a priority and focus on workforce training initiatives and recommendations that came out of the October 2011 special session on jobs.

4. Unleash innovation by removing red tape and other barriers to success, especially in high-performing schools and districts

Teacher certification is the largest bureaucratic concern for districts. The Governor is recommending an overhaul of the certification process, including:

- Eliminating the continuing education requirements and the Master's degree requirement for attaining a professional certificate; and
- Expanding reciprocity with educators who are certified in out-of-state institutions of higher education and Alternative Route to Certification programs through a Commissioner's waiver.

5. Ensure that schools are home to the very best teachers and principals – working within a fair system that values skill and effectiveness over seniority and tenure

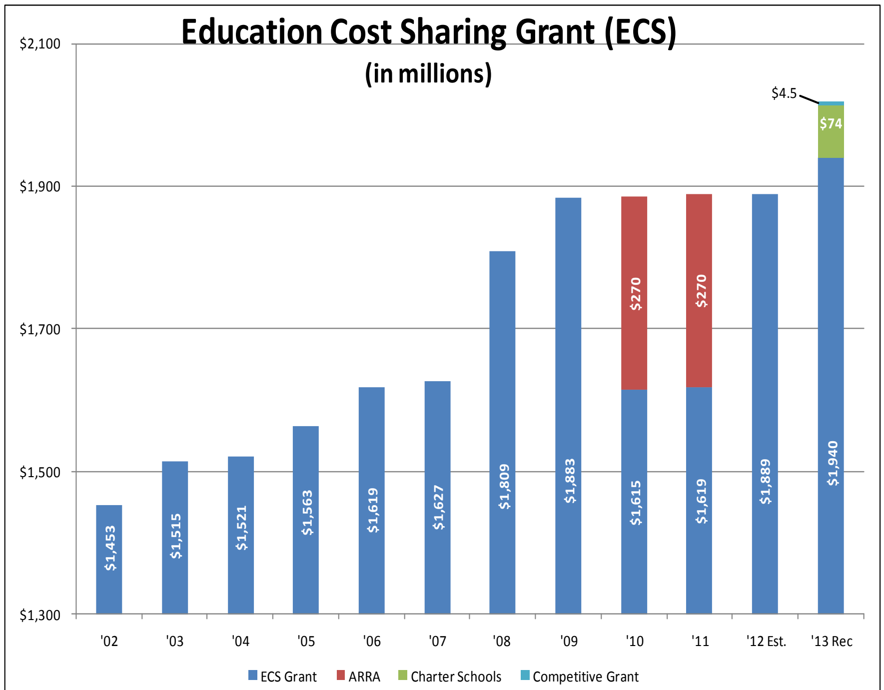
The Governor's recommended budget includes funding in the Office of Financial and Academic Affairs for Higher Education to attract the best teachers by awarding loan forgiveness funding to new teachers who graduated from top education-preparation schools and choose to teach in Connecticut's lowest performing schools. The budget also includes $12 million in funding for:

- Recruiting and developing the best education professionals;
- A new performance-based system for tenure, in which teachers will have to demonstrate proficiency;
- Training for teachers and evaluators, as well as school and district leaders on a new teacher-evaluation system; and
- New ways to develop talented teachers and strengthen recruitment of quality teachers and leaders.

6. Deliver more resources, targeted to districts with the greatest need – provided that they enact key reforms that position our students for success

The Governor is recommending $50 million in additional general Education Cost Sharing (ECS) funding. $39.5 million of this new money will go to the lowest performing districts, based on their ability to achieve reforms, such as:

- Increased school learning time, recruitment and compensation of the most effective teachers and leaders;
- Cooperation with at least one district to achieve one percent savings; and
- Training of school leaders and evaluators in the new teacher-evaluation model.



The Education Cost sharing Grant (ECS) is the state's major education grant, designed to equalize the ability of towns to finance local education costs.

The budget for FY2010 and FY2011 included federal ARRA SFSF funding of $269 million (14% of the grant).

Districts could also coordinate support services, coordinate with early education providers, develop an interim assessment system or provide reading support for all grade eight students reading below grade level.

The budget also includes charter school funding, as noted above, and $4.5 million for a competitive grant program that would provide two to three districts with one-time funding for their education reform initiatives.

HIGHER EDUCATION

Additional Faculty Support

Higher education creates research and technology jobs, generates revenue, and keeps Connecticut's talented young people here in the state. The recommended budget adjustments include funding to support additional faculty at the University of Connecticut to help it remain competitive with the nation's top 20 public institutions of higher education, and to ensure its continued affordability for students. By investing more than $1 million this year for additional faculty, the university will embark on a four-year plan to lower the student-to-faculty ratio from 18:1 to 15:1. Without this General Fund support, the university anticipates that student tuition would increase an additional 0.5 percent per year.

Support for Elementary and Secondary Teachers

Collaboration among early childhood, K-12 education, higher education and workforce training is critical to creating an effective education-to-career pathway that maximizes the number of Connecticut residents with a postsecondary degree or other skills and credentials. The Governor recognizes the need for placing high quality teachers in the most troubled school districts by proposing to establish the "Attract the Best" program. By reallocating funds from the Connecticut Independent Colleges Student Grant program, $1.0 million is available in FY 2013 to provide financial incentives to the top graduates from the state's teaching programs to teach in the districts with the greatest need.

PENSION REFORM

Restoring Connecticut to sound fiscal footing has been a priority for Governor Malloy over the past year. One of the most significant unfunded liabilities facing Connecticut relates to the state's pension fund more than $11.7 billion as of the June 30, 2010 valuation date. Unfortunately, decisions made by past administrations have taken short-term savings at the expense of pushing out liabilities—and payments—many years into the future. If left unchanged, the state's contributions to the retirement fund would reach unsustainable levels—levels that the Governor believes no administration will be able to honor. The state must make sound investments now that will both improve the level of funding in the near term as well as save the taxpayers of Connecticut money over the long term.

Connecticut's State Employee Retirement System (SERS) is funded today at less than 48 percent. The current payment schedule projects reaching one hundred percent funding in 2032, but defers so much of the contributions that to fully fund the system, the payment in the final year would have to be nearly $4.5 billion – more than four times our current payment. These unmanageable balloon payments in the future would be necessary because the state is losing the opportunity to invest pension funds and enjoy the long-term investment earnings. This is a failed approach and we need to change it.

Accordingly, Governor Malloy proposes a change to the pension funding schedule that will prevent a dramatic spike in the state's required contributions and avoid a potential fiscal crisis. As noted above, under the current contribution schedule, in order to reach full funding the state's contributions will grow each year until they reach $4.5 billion in FY 2032. A payment of that magnitude would either decimate funding for schools and other critically important programs or force the state to raise taxes. These choices are simply unacceptable. Under the Governor's proposal, restructuring the payment schedule will save the state $5.8 billion over the next twenty years, allowing the fund to reach one hundred percent funding in FY 2032, putting the pension system on the road to long-term sustainability.

How? The Governor's proposal consists of three interrelated steps:

1. Eliminating the SEBAC IV and V provisions related to pension funding. These agreements were adopted in 1995 and 1997 in order to reduce pension contributions and pushed our payments out well into the future. Eliminating these provisions will increase the state's annually required contribution to the fund by about $123 million in FY 2013, with declining additional contributions

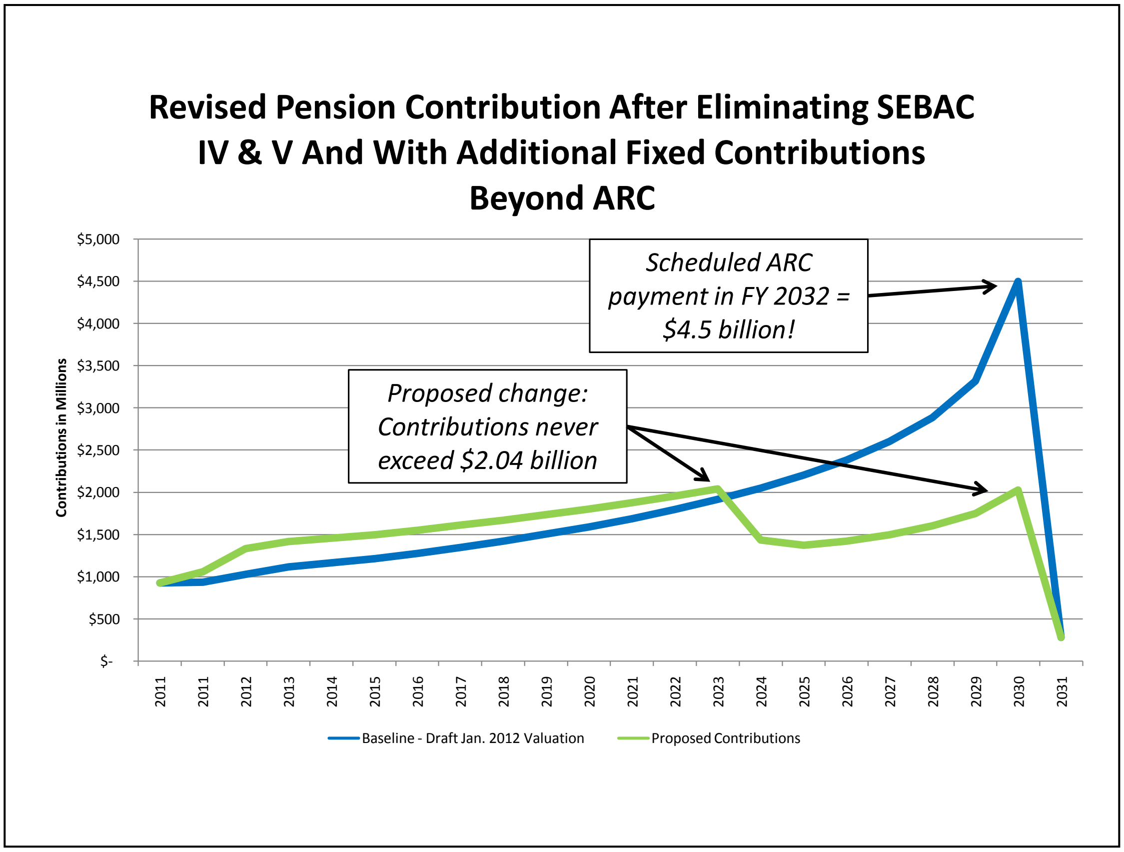
through 2023. Ultimately tax payers will save more than $2 billion over the next two decades. Governor Malloy has begun the process of actively seeking the approval of the Retirement Commission and the State Employees Bargaining Agent Coalition for this change.

2. Appropriating additional funds over and above the Annually Required Contribution, beginning in FY 2014, in order to achieve 80 percent funding in FY 2025. These additional payments have been estimated by the state's pension actuary at approximately $177.4 million annually.

3. Amending the spending cap to exclude pension contributions in excess of the Annually Required Contribution. There should be no limits on our ability to be responsible with the public's money.

The result of these actions will be an aggregate savings of $5.8 billion between now and 2032, according to the state's pension actuary.

($ in thousands)	**January 2012 draft valuation - Baseline**		**Proposed Changes**		
Valuation year	ARC	Funded ratio	Total Contribution	Cumulative Alternative vs. Baseline	Funded ratio
2011	$ 926,372	47.9%	$ 926,372		47.9%
2011	936,259	47.6%	1,059,652	$ 123,393	47.6%
2012	1,027,068	45.5%	1,332,776	429,101	45.5%
2013	1,117,719	44.0%	1,418,339	729,721	44.6%
2014	1,164,885	45.0%	1,458,498	1,023,334	47.0%
2015	1,212,660	46.2%	1,497,812	1,308,486	49.7%
2016	1,278,280	46.8%	1,553,349	1,583,555	51.7%
2017	1,348,789	47.5%	1,611,889	1,846,655	53.9%
2018	1,423,758	48.4%	1,672,673	2,095,570	56.3%
2019	1,504,520	49.4%	1,736,621	2,327,671	58.8%
2020	1,592,131	50.6%	1,804,264	2,539,804	61.6%
2021	1,689,498	52.1%	1,877,825	2,728,131	64.6%
2022	1,796,992	53.8%	1,956,759	2,887,898	67.9%
2023	1,917,250	55.8%	2,042,435	3,013,083	71.5%
2024	2,051,206	58.2%	1,435,817	2,397,694	75.5%
2025	2,204,265	61.1%	1,376,015	1,569,444	80.0%
2026	2,383,154	64.5%	1,422,061	608,351	82.5%
2027	2,601,547	68.5%	1,500,358	(492,838)	84.9%
2028	2,887,435	73.4%	1,603,288	(1,776,985)	87.6%
2029	3,318,167	79.3%	1,749,678	(3,345,474)	90.7%
2030	4,498,776	86.6%	2,030,851	(5,813,399)	94.4%
2031	282,094	100.0%	282,094	(5,813,399)	100.0%



TEACHERS' RETIREMENT HEALTH FUNDING

The Teachers' Retirement Board (TRB) administers a health insurance premium account, which is used for the payment of premiums on behalf of members participating in the health plans offered by TRB and for payments to local boards of education for retired teachers who receive their health coverage through their last employing board of education. The health fund receives funding from three primary sources: retirees, active teachers (who contribute 1.25 percent of their salary into the fund) and the state. The fund also receives reimbursements from the Medicare Part D prescription drug program.

Retired teachers who participate in Medicare Parts A and B may enroll in the TRB basic health plan, which provides medical and pharmacy coverage. The cost of premiums for the basic health plan is covered one-third by the retiree, one-third by the state and one-third by the health fund. Prior to FY 2006, the state's share was 25 percent. Since FY 2006, enrollment in the plan has risen dramatically, driving the state's cost up from $12.4 million in that year to more than $30.5 million next fiscal year.

The Governor's budget proposes that the responsibility for premium costs be revised by returning the state's share to twenty-five percent of the premium. The health fund's share will remain at 33 percent while retirees will pay 42 percent of the premium.

In addition to the basic health plan, TRB also pays a subsidy to local boards of education or municipalities on behalf of retired teachers who participate in a health insurance plan maintained by a board of education.

The state currently pays one-third of the subsidy and the TRB health fund pays the remaining two-thirds. As with the TRB-sponsored health plan, the Governor's budget proposes that the state's share be reduced from one-third of the cost of the subsidy to one-quarter, which was the case prior to FY 2006.

Finally, the reimbursements that TRB receives under the Medicare Part D prescription drug program are currently deposited into the health fund. The Governor's proposal includes using this reimbursement to offset the state's share of the premium for the TRB sponsored health plan in the same way that Part D reimbursements received for retired state employees offset the state's share of retired state employees' health costs.

These modest changes will ensure the long-term viability of these important programs without unduly shifting costs from local districts and retired teachers onto state taxpayers.

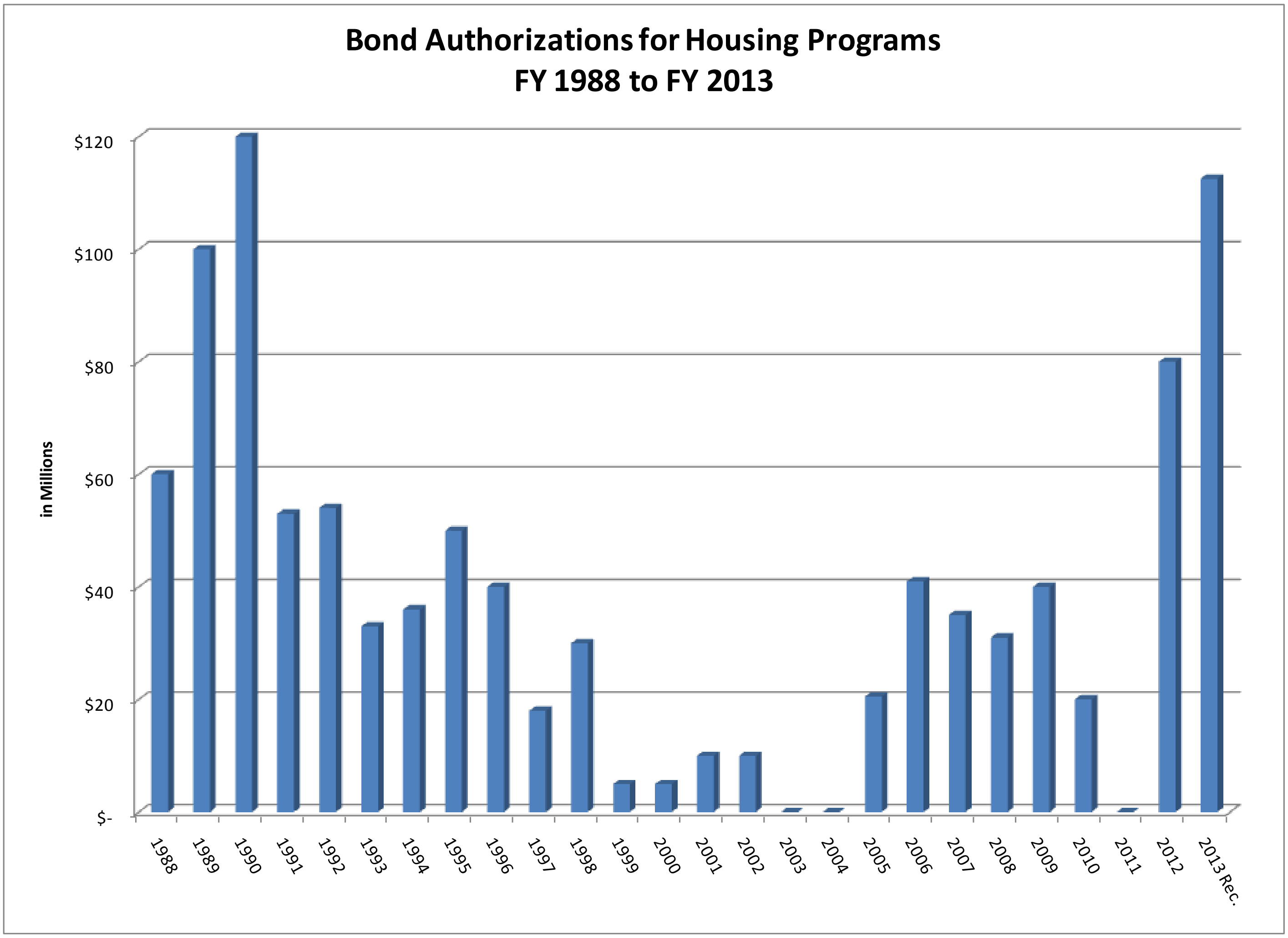
HOUSING AND ECONOMIC DEVELOPMENT

Last year, the Governor proposed, and the legislature enacted, $100 million in new capital funding for affordable housing ($50 million in FY 2012 and $50 million in FY 2013) and $30 million in capital funding to develop 150 new units of supportive housing units coupled with an annualized $2.6 million for operating and support services. This year, the Governor is significantly expanding his commitment to provide Connecticut residents with quality, affordable housing. The major components of Governor Malloy's FY 2013 housing initiative are:

PUBLIC HOUSING REVITALIZATION

The Governor's proposal will authorize $30 million in bonding to begin a ten year, $300 million commitment to preserve and upgrade deteriorated and vacant units among the 17,000 units of state sponsored public housing.

In addition to this significant commitment of new capital funding for public housing revitalization, both in FY 2013 and in the future, Governor Malloy recognizes the need to ensure viability of the state's housing portfolio over the long-term. The Governor is proposing an additional 150 project-based Rental Assistance Program (RAP) certificates beginning in January 2013, funded at an annualized $1.5 million, for the lowest-income residents of public housing. These ongoing subsidies will contribute to the financial stability of public housing in Connecticut and ensure that revitalized units are adequately supported and do not deteriorate.



To develop a sustainable preservation strategy for the state's housing portfolio, three other elements are essential in addition to the Governor's proposed capital and operating funds. First, the state needs to develop and maintain an inclusive process to identify and analyze preservation issues and to develop and promote preservation strategies. Second, the state needs to create a means to quantify the need for preservation and to monitor affordability. Third, the state needs to enhance the capacity of its housing authorities, municipal housing entities, not-for-profit housing agencies and resident organizations to preserve affordable housing.

To achieve these ends, the state will convene a committee of public and private agencies associated with affordable housing, mental health and social services, and asset management. The design of the "Preservation Committee" will mirror the successful model of Connecticut's Interagency Council on Supportive Housing and will work with the Office of Policy and Management (OPM), Connecticut Housing Finance Authority (CHFA) and the Department of Economic and Community Development (DECD) to develop a strategy to ensure the long-term viability of the state's public housing portfolio.

AFFORDABLE HOUSING

The Governor's budget adds $20 million to the $50 million already authorized in the biennial budget for new affordable housing - bringing the total available funding in FY 2013 to $70 million. In addition to the benefits to individuals and families, housing construction and rehabilitation have been shown to have a substantial positive impact on the state's economy, including the ability to help the state generate new revenues. Housing development creates jobs, particularly jobs in the construction and service industries.

Connecticut renters continue to struggle with high housing costs: 51 percent of renters pay more than 30 percent of their income on housing and 27 percent are severely burdened by their housing costs – spending over 50 percent of their income on housing. The Governor's proposal for an influx of new resources, on top of those already included in the enacted budget for FY 2013, will significantly increase Connecticut residents' access to quality, affordable housing.

CONGREGATE HOUSING

Governor Malloy proposes $12.5 million in capital funding for the development of approximately 50 new units of congregate housing for elderly persons in order to re-invigorate the state's congregate housing. The congregate housing program has been a successful way to allow elderly people to stay in their homes and prevent their premature institutionalization. This is the first new state funding for congregate facilities in Connecticut for eleven years.

In addition to the capital funding, the Governor proposes $405,000 in congregate operating subsidies for the new units to provide rental assistance to low income tenants and support for services such as: one main meal per day, housekeeping services, a twenty-four hour emergency service, a resident services coordinator, emergency transportation service, and a wellness program.

The Governor's proposal to expand the state's congregate living program will allow elderly residents to age comfortably in their apartments and prevent many of them from premature placement in a nursing home or other higher level of care facility. At the low average per month cost of assistance in congregate facilities of $675, the state will avoid the costs associated with providing the necessary care to these individuals in skilled nursing facilities, which are almost ten times greater at nearly $6,000 per month.

SUPPORTIVE HOUSING

Governor Malloy's budget contains $750,000 (an annualized $1.5 million) to support an additional 150 RAP certificates for scattered site supportive housing effective January 2013. Supportive housing is a successful and cost-effective approach to addressing homelessness by creating permanent, affordable housing with services designed to support individuals and families who are at risk of homelessness and who often have multiple barriers to employment and housing stability. Residents of supportive housing become contributing members of their communities and their use of expensive emergency services is significantly reduced. Last year, the Governor's major supportive housing initiative provided over $30 million in funding for 150 units of project-based supportive housing. This year, the Governor is providing funding to support 150 new scattered site units.

Last month, a statewide proposal was submitted to the federal Center for Medicare and Medicaid Innovation for a three year, $30 million grant to improve the integration of housing and healthcare services. This state appropriation of $1.5 million on an annualized basis will provide necessary rental assistance certificates for 150 new units of supportive housing which will be matched with supportive services for tenants provided under the federal grant.

Finally, the Governor is proposing a reorganization of housing activities in a new office of housing within the Department of Economic and Community Development. This is described further in the sections that follow.

HOMEConnecticut

Governor Malloy is proposing legislative changes to the Incentive Housing Zones (IHZ) program which provides incentives to municipalities for creating IHZs in eligible locations, such as near transit facilities, areas of concentrated development. These changes will facilitate the Office of Policy and Management's ability to manage these limited funds and ensure that funding is targeted to municipalities that are taking steps to develop affordable housing for their residents.

HEALTH AND HUMAN SERVICES

The proposed budget maintains Governor Malloy's commitment to preserving the health and human services safety net.

PRIVATE PROVIDER COST OF LIVING ADJUSTMENT (COLA)

As a sign of his commitment to community providers, the Governor is proud to recommend the first cost of living increase for private provider agencies in five years. The budget includes $8.5 million to provide a one percent cost of living adjustment for private providers of health and human services, effective January 1, 2013. This proposal extends a COLA to human services providers funded through purchase of services contracts with state funds as well as under the federal Social Services and Substance Abuse Block Grants, and to rate-based providers and families paid by DCF and to providers of boarding homes for the Aged, Blind and Disabled.

CASELOAD INCREASES

Governor Malloy is recommending over $58.2 million in additional funds to reflect anticipated increases in utilization and caseload for various programs in the Departments of Social Services, Developmental Services and Mental Health and Addiction Services. The budget includes $5.1 million for the Department of Developmental Services (DDS) to support programming beyond what was included in the adopted budget. This funding will support day programs for (1) an additional 48 individuals who are graduating from high school or aging out of services provided by the Department of Children and Families or local education agencies, (2) six additional placements for individuals whose services are ordered by the courts, and (3) 40 placements for individuals leaving Southbury Training School (STS) for community living options.

In the Department of Mental Health and Addiction Services (DMHAS), $3 million in new funding is recommended to support additional community placements for individuals with acquired or traumatic brain injury who are discharged from Connecticut Valley Hospital and additional clients in CVH who no longer need a hospital-level care. In addition, more than $50 million is being added to the DSS and DMHAS budgets to support anticipated utilization and caseload growth in the Medicaid for Low-Income Adults (LIA) program.

While the Governor is committed to serving the state's neediest citizens, the budget includes several measures to ensure that the state's scarce resources are used effectively and efficiently. These include:

LOW INCOME ADULT (LIA) WAIVER

Combined savings of $22.5 million are taken in the Departments of Social Services (DSS) and Mental Health and Addiction Services to reflect a new federal waiver for the LIA program.

The Medicaid expansion for low-income adults has resulted in significantly higher costs than originally envisioned. Since federal approval of the expansion, the caseload for this program has increased 60 percent, from 46,156 in June 2010 to 74,073 in December 2011, in large part due to the elimination of the asset test. Although the enacted budget attempted to address the escalating costs, it did not assume that the December 2011 caseload of 74,073 would be reached until March 2013. In FY 2009, the year prior to the expansion, expenditures were $265.6 million between DSS and DMHAS. Last year, in FY 2011, the state spent $575.6 million.

Last session, the legislature approved language that authorized DSS to amend the Medicaid state plan to establish an alternative benefit package under LIA, which would impose limits on certain medical services. However, due to federal rules that require states to offer medically frail individuals the option of participating in an alternative benefit package, this initiative will not achieve the $10 million in FY 2013 savings that was assumed in the budget.

As a result, and with costs and caseloads continuing to increase, the Governor asked DSS to explore possible savings through a LIA waiver. Such a waiver would allow for the establishment of different eligibility rules and benefit limits than are permitted today under the Medicaid state plan. Specifically, the waiver will permit DSS to consider the applicant's household assets in determining eligibility. An asset limit of $25,000, excluding the applicant's primary residence and a single vehicle, is proposed. This is a significantly higher level than the $1,000 asset limit that was in place under State Administered General Assistance (SAGA). Applicants residing in households affected by this change will be afforded the opportunity to obtain coverage under the Charter Oak Health Plan, which currently provides comprehensive health insurance coverage for less than $5,500 per year.

The waiver will also consider the income and assets of the parents of applicants under age twenty-six, when the applicants reside with one or both parents or when the applicants are claimed by one or both parents as a tax dependent. The Governor believes that families who can cover dependent children through private insurance should do so. As of December 2011, LIA expenditures for those under the age of twenty-one have grown to 4.3 percent of total expenditures with costs in the first six months of this fiscal year totaling $12.5 million. The caseload for this age group has increased from 0.1 percent in June 2010 to 8.2 percent of the total caseload (or 6,114 cases) in December 2011 and is expected to continue to climb as more parents with college-age children become aware of the availability of LIA coverage.

The proposed waiver will also restructure benefits, establishing limits on coverage for certain services. Nursing facility stays will be reduced to 90 days per admission; home health, independent therapy and physician services will be subject to visit limits; and medical equipment, devices and supplies – other than wheelchairs – will be subject to a dollar limit. In the case of nursing facility and home health services, the coverage will remain at or above the coverage formerly available under SAGA. Some individuals with exceptional medical conditions may be exempt from certain benefit restrictions.

These changes will create a sustainable program and result in $30 million in annualized savings between DMHAS and DSS. Additional savings of $3.6 million have also been included in the budgets of the Department of Public Health ($666,800) and DMHAS ($2.9 million) to reflect a reduced need for uncompensated care grants since the inception of the LIA program.

EXPANDED CHILDHOOD IMMUNIZATION PROGRAM

The Governor is dedicating $11.7 million in new funding to expand the state's childhood vaccine purchase program in order to provide additional vaccines at significantly reduced cost. Three new vaccines will be available through this universal access program – pneumococcal conjugate, influenza, and hepatitis A. These three vaccines are required for day care enrollment, and both hepatitis A and influenza are required for pre-kindergarten enrollment. With the addition of these three vaccines, the state's childhood immunization program will cover fourteen of the sixteen vaccines currently recommended by the Centers for Disease Control and Prevention (CDC). The Governor is recommending further assessment of the implications associated with potential policy changes to the program, including: expanding the program to include the remaining two CDC-recommended vaccines and a mechanism to add other vaccines recommended by the CDC in the future; modifying the current assessment methodology to address equity issues among payer types; and establishing a healthcare provider mandate to require universal participation in the childhood vaccination program.

THE NEW HUSKY HEALTH PROGRAM

On January 1, 2012, the Department of Social Services launched the new HUSKY Health program, an innovative model of care management for all of the department's medical assistance recipients. Under this new model, DSS is contracting with a medical administrative services organization (ASO) to improve client care experiences, quality of service and overall cost-effectiveness. The ASO will authorize and manage the medical health services for all HUSKY A, HUSKY B, and Charter Oak Health Plan clients, whose services were previously administered by one of three managed care organizations, as well as the Medicaid Aged, Blind and Disabled (ABD) and Low-Income Adult (LIA) populations, which are now referred to as HUSKY C and HUSKY D, respectively.

REBALANCING THE STATE'S LONG-TERM CARE SYSTEM

Governor Malloy recognizes the need to move away from past practice of over-reliance on institutional long-term care settings and to create a system that better supports consumers' informed choice. By further aligning long-term services and supports with consumer choice and control, the state will not only improve the quality of life for Medicaid participants by providing options but will also reduce unnecessary expenses and institutionalization.

Under the Money Follows the Person (MFP) Rebalancing Demonstration, the federal government encourages states to reduce their reliance on institutional care for Medicaid recipients by moving individuals out of institutional settings and into community settings with appropriate supports. But, for the six month period ending December 2010, Connecticut accounted for 30 percent of the closed cases nationally that did not result in transitions to the community because care plan costs exceeded the individual's institutional costs under MFP. The cost of medication administration is not the only cost driver; but it is one of the primary cost drivers and one of the primary barriers to community placement.

Governor Malloy's budget includes four initiatives that will reduce the high cost of medication administration by $20.5 million in FY 2013 or $28.6 million when fully annualized: (1) reducing the reimbursement rate for medication administration, (2) permitting nurses at home health agencies to delegate administration of medication to home health aides, (3) allowing agency-based personal care assistants to administer medications in the home, and (4) allowing clients to gain a higher level of independence by utilizing assistive technology such as medication reminders and automatic pill dispensers when it is cost-effective.

The Governor's budget reflects the addition of *Adult Family Living* under the Connecticut Home Care Program for Elders and the Personal Care Assistance (PCA) waiver, providing a cost-effective alternative to clients in need of 24-hour supervision and assistance with activities of daily living. The budget also reflects the addition of *Independent Support Broker* to the menu of services available under the PCA waiver. By helping consumers design and direct their own supports, more persons under the age of 65 will have access to long-term services and supports in the community.

Funding of $300,000 has been proposed to create a standardized level of care assessment across long-term services and supports, which will include the development of an automated needs assessment tool, screening tool and care plan budget methodology. Needs assessments will be coordinated with the comprehensive assessments that are federally mandated for all nursing home residents. Greater standardization of long-term care assessments will promote administrative efficiencies and increased equity.

Governor Malloy recognizes the importance of housing in allowing individuals to go back to the community and in keeping individuals in the community in the first place. The Governor's budget includes $1.0 million in bond funds for modifications of existing housing. These funds, administered by DECD, will create additional accessible housing, allowing individuals who are institutionalized to return to their family homes or apartments.

In addition, Governor Malloy is recommending expanding the Private Pay Assisted Living Pilot. This program subsidizes the service costs for persons age 65 and older who reside in participating private assisted living communities and who are eligible for the Connecticut Home Care Program for Elders. Currently, the pilot can serve a total of 75 individuals who, after living in a private assisted living facility, have spent down their assets and now require help with their living expenses. The Governor is proposing to increase this pilot from 75 to 125. Also, as discussed under the section regarding housing initiatives, Governor Malloy is making significant investment in congregate housing to promote aging in place and prevent premature institutionalization of the state's growing elderly population.

Hospital discharges are also important in keeping individuals out of nursing facilities in the first place. In Connecticut, approximately half of the persons requiring long-term care after hospital admission are currently discharged to nursing homes and only a third of Medicaid participants who are discharged to a nursing home eventually return to the community. Governor Malloy's budget includes $250,000 to create a web-based information system. By providing information on the availability of home and community-based services, this system will facilitate the transition of care from the hospital to the community, promoting individualized person-centered planning.

SUPPORTING AN INDUSTRY IN TRANSITION

To ensure that the number of direct care workers is sufficient to meet the anticipated demand for services, the long-term care services and supports workforce needs to be sustainable, valued, and skilled. The Governor's budget includes $400,000 to (1) develop a marketing plan to increase awareness of the opportunities for direct care workers, (2) provide job assistance and re-training, (3) fund training programs at community colleges, and (4) create incentives tied with marketing to attract potential workers to direct care.

With the vast majority of people preferring to receive services in their homes and communities rather than in institutions, the demand for home and community-based services is expected to grow significantly over the next decade. Recognizing the shift away from institutional care, Governor Malloy's budget includes $10 million in bond funding and $3 million in general fund support to help nursing facilities "right-size" by diversifying, downsizing and/or modernizing. The new funding will help nursing facilities diversify their business model consistent with the state's strategic right-sizing plan.

NURSING HOME FOR HIGH NEED CLIENTS IN STATE CARE

Consistent with the Governor's goal to provide opportunities for diversification, the budget includes $2.6 million in partial-year funding to support the development of nursing home capacity for a population of state clients who are traditionally difficult to place. Many states are grappling with aging institutional populations, especially in their prisons. Connecticut has over 450 inmates age 55 to 59 and almost 400 more over age 60. Prison facilities were not designed to deal with the cost of aging and infirmed inmates. Massachusetts recently announced plans to build three new assisted living facilities to house inmates in need of nursing home and hospice care which will be run by their Department of Correction and California is paroling these individuals directly into community nursing homes. Neither of these alternatives is ideal for taxpayers who want to see care provided in a cost efficient and managed way. The Governor is providing an opportunity for a provider interested in reorganizing their business model to afford this population access to long-term nursing home care. These individuals may be transitioning from a correctional facility, have criminal justice involvement and/or transitioning from a higher level of care provided by DMHAS.

This initiative will prevent the Department of Correction (DOC) from having to follow other states' solutions to build and operate nursing homes at 100 percent state expense. By transferring individuals who no longer meet hospital level of care, this initiative will allow the Department of Mental Health and Addiction Services (DMHAS) to comply with federal Department of Justice guidance and will free twenty-five inpatient beds at Connecticut Valley Hospital (CVH). It will also allow DOC to downsize its population by discharging individuals who would be better served outside correctional institutions. This initiative will result in 50 percent Medicaid-reimbursement for services that had been provided at 100 percent state cost in CVH and DOC infirmaries.

AUTISM

Public Act 11-6 required a study of issues related to the needs of persons with autism spectrum disorder (ASD). Several agencies are compiling data about services currently provided to such individuals. This information will provide a comprehensive understanding of the services funded and provided to this population. Once the data has been collected and aggregated, the workgroup will engage advocates, providers and family members who can compare data and experiences and use them to inform discussions about gaps in the service system and options for addressing these gaps. Funding of $1.0 million is proposed in the budget to address recommendations resulting from the report.

MODERNIZE HEALTH AND HUMAN SERVICES INFORMATION TECHNOLOGY

The federal Centers for Medicare and Medicaid (CMS) recently notified states about the opportunity to enhance their information technology systems and receive 90 percent federal reimbursement for their efforts. The Governor is recommending more than $550,000 to allow DDS and DSS to begin the planning phases of development of a comprehensive waiver management system.

In addition, a workgroup of health and human service agencies is exploring the development of an integrated eligibility system for state programs to increase efficiency and improve customer experience. The project is anticipated to be largely funded through federal funds designated for these efforts.

MILITARY SUPPORT PROGRAM

The Military Support Program (MSP), originally established by the General Assembly through one-time funds from the sale of Fairfield Hills Hospital, has provided outpatient counseling, outreach, intensive case management, information, referral and advocacy and transportation services to service members and their families since 2007. The recommended budget provides $293,000 to continue this program.

CAMPUS AND GROUP HOME CONSOLIDATION

A total of $2.3 million will be saved in the DDS budget in FY 2013 through the continued consolidation of campus settings at Southbury Training School and the closure of three additional public group homes beyond those in the adopted biennial budget. These savings will be achieved through natural attrition in various state operated programs.

INCREASING GOVERNMENT EFFECTIVENESS – CONSOLIDATION OF STATE AGENCIES

Upon taking office, Governor Malloy began the work of changing how the state does business by making government smaller, less costly, and easier to navigate. In his first year in office, Governor Malloy reduced state agencies by 27 percent through mergers and consolidations – going from 81 separate line-item state agencies to 59. Continuing these efforts to downsize state government, the Governor is proposing further consolidations which will reduce the number of state agencies to 52, as well as reducing the number of quasi-public agencies.

Current	Consolidated with
University of Conn. Health Center Office of Chief Medical Examiner	University of Connecticut
Department of Construction Services	Department of Administrative Services
Comm. on Human Rights and Opportunities Office of Protection and Advocacy	Dept. on Human Rights, Protection and Advocacy
Teachers' Retirement Board	Office of State Comptroller
Workers' Compensation Commission	Department of Labor
Psychiatric Security Review Board	Dept. of Mental Health and Addiction Services
CT Higher Educ. Supplemental Loan Authority	CT Health and Educational Facilities Authority

UNIVERSITY OF CONNECTICUT

As part of Governor Malloy’s commitment to right-sizing government and promoting statewide efficiency, the budget reflects consolidating the Office of the Chief Medical Examiner and the University of Connecticut Health Center within the University of Connecticut.

Consolidating the University of Connecticut Health Center (UCHC) with the University of Connecticut aligns them with their governing structure, as the Health Center is part of the University and both are governed by the UConn Board of Trustees. Additionally, the Office of the Chief Medical Examiner (OCME), which is located on the Health Center campus in Farmington, will be merged with UConn. This will enable OCME to leverage UConn's resources while the Commission on Medicolegal Investigations (COMLI), which oversees the operations of the medical examiner's office, would remain an independent commission, collaborating with the Board of Trustees for the University of Connecticut. At the same time, OCME will benefit from administrative support and oversight from the Health Center. It is anticipated that this consolidation will mesh the educational mission of the Health Center with the needs of the medical examining profession by providing medical students with greater exposure to forensic sciences.

Under this proposal, while a single agency will exist for state budgeting and management purposes, in order to promote transparency the University of Connecticut, the Health Center, and the OCME will each have distinct and separate appropriations. Additionally, each entity will continue to employ and report on their currently established non-appropriated funds (e.g., operating funds, research, clinical) through independent financial reports.

DEPARTMENT OF ADMINISTRATIVE SERVICES

The Department of Construction Services (DCS) was established to consolidate construction activities into a single agency. In an effort to further streamline operations, Governor Malloy is proposing to merge DCS into the Department of Administrative Services (DAS). All of the agency's functions, which include facilities design and construction, the school construction grant program, and building and fire safety inspections, would be transferred to DAS under this proposal. This consolidation will align all construction functionalities along with property management programs, promoting knowledge sharing and creating efficiencies.

DEPARTMENT ON HUMAN RIGHTS, PROTECTION AND ADVOCACY

The budget includes a recommendation to create a new Department on Human Rights, Protection and Advocacy. This new agency would be comprised of the Commission on Human Rights and Opportunities (CHRO) and the Office of Protection and Advocacy (OP&A). Both of these agencies currently act to protect civil and human rights for Connecticut's citizens, albeit each with a different emphasis: CHRO strives to eliminate discrimination and to establish equal opportunity, and OP&A works to protect the rights of those with disabilities. The Governor expects that the coordination of this work will lead to greater efficiency and effectiveness in executing this common mission.

OFFICE OF THE STATE COMPTROLLER

The Teachers' Retirement Board (TRB), whose primary mission is to administer the State Teachers' Retirement System, is proposed for consolidation within the Office of the State Comptroller. Administration of the pension and health insurance systems for retired teachers will be consolidated into the Office of the State Comptroller. The funding for pensions and healthcare will be maintained as separate accounts administered by the Comptroller's Office. By integrating the TRB with the Comptroller, the TRB's programs will benefit from additional insight from staff at the Comptroller's Office who are currently responsible for pensions and health care systems management.

DEPARTMENT OF LABOR

In recognition of the value of a trained and safe workforce, the Governor is proposing a merger of the Workers' Compensation Commission (WCC) with the Department of Labor (DOL). The WCC is responsible for administering the workers' compensation laws of the state and adjudicating and resolving disputes arising from the workers' compensation process, while the Department of Labor's mission is to protect and promote the interests of the state's workforce by assisting workers and employers to be competitive in the global economy. A merger of these two agencies, both with workforce missions, will provide for better utilization of programs and services and can create functional efficiencies in order to offer a greater benefit to all Connecticut workers. The revamped agency will enhance workforce support while heightening enforcement of state labor laws.

DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

The Governor is recommending the consolidation of the Psychiatric Security Review Board (PSRB) into DMHAS. This consolidation will maintain the independent nature of the board and their decisions with respect to clients found not guilty by reason of insanity but will afford PSRB administrative support it has lost through retirements and turnover.

CONNECTICUT HEALTH AND EDUCATION FACILITIES AUTHORITY

The Governor recommends, with approval and due diligence review by each board, that the Connecticut Higher Education Supplemental Loan Authority (CHESLA) be merged into the Connecticut Health and Education Facilities Authority (CHEFA). CHESLA currently operates under a three year contract, expiring June 30, 2012, and sublease with the Connecticut Conference of Independent Colleges (CCIC). The benefits of this proposed consolidation include:

- Creation of a framework for long term stability and continuity of management, rather than continued reliance on short term management contracts;
- Providing a structure that would facilitate continued focus on CHESLA's mission;
- Preserving CHESLA's separate identity and reputation in the bond market;
- Maintaining CHESLA's separate identity with financial aid officers and students/families;
- Minimizing the impact on CHESLA's outstanding bonds and bond documentation; and
- Allowing CHESLA to achieve economies of scale and to access CHEFA resources without loss of separate identity.

DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

The Governor announced the formation of the Capital Region Development Authority (CRDA) which will strengthen and broaden the redevelopment efforts in Hartford and East Hartford. The Capital City Economic Development Authority (CCEDA), and OPM's Rentschler Field administrative function will be consolidated within DECD for better coordination of initiatives in the Greater Hartford region.

The CRDA will include appointees of the Governor, as well as the Commissioners of the Departments of Transportation and Economic and Community Development, the Secretary of OPM, the Mayors of Hartford and East Hartford, one appointment each for the state House of Representatives and the Senate, and two appointees of the Mayor of Hartford.

This new authority will provide the organizational backbone needed to better manage the state's interest in the many assets, activities and investments in greater Hartford. Improved coordination will help create a more lively, thriving capital city area with stronger economic prospects over the long-term.

By placing the management of our assets—Rentschler Field, the Convention Center, and, ultimately, the XL Center—under one umbrella, CRDA will redouble efforts to stimulate new investment in Connecticut and highlight the Hartford/East Hartford regional attractions through an integrated management structure and coordination of marketing and venue development.

Collaborating with venues such as the Wadsworth Atheneum, the Bushnell and the iQuilt project, CRDA will engage in strategic planning with Hartford, East Hartford and surrounding communities and propel the area toward the next stage of economic growth by attracting new business and strengthening the capital area's role in a revitalized Connecticut.

CRDA will also offer a path to assist cultural and entertainment venues, parks and other organizations with state funding, and will expand the development district currently under the Capital City Economic Development Authority (CCEDA).

STATE OFFICE OF HOUSING

Currently, responsibility for the state's housing programs is divided among state agencies – with the majority of programs split between DECD and DSS. In order to provide a coordinated and comprehensive approach to Connecticut's housing policies and programs, Governor Malloy proposes combining these functions into a new Office of Housing within DECD. The agency will provide leadership for the state's housing policy issues and will coordinate implementation of the state's housing agenda.

<u>State-funded programs that will transfer to the new Office of Housing</u>

- Rental Assistance Program
- Residences for Persons with AIDS
- Emergency Shelters for Homeless (including Special Projects for Homeless Shelters)
- Transitional Living
- Shelters and Services for Victims of Domestic Violence
- Housing Mediation and Rent Bank
- Security Deposit Guarantee Program
- Rental assistance subsidies portion of the Supportive Housing for Families program (now in Department of Children and Families)
- Elderly Renters Program (now in Office of Policy and Management)
- Federally-funded programs such as Section 8 Housing Vouchers and Housing Opportunities for Persons with AIDS (HOPWA) will transfer from DSS to DECD as well. Nine DSS staff will transfer to DECD to administer these programs and the Governor's budget adds two new positions at DECD: a support position and a Deputy Commissioner.

Coordinating the state's housing functions has several advantages over the existing, fragmented system.

First, it is more consumer-friendly and will be considerably easier to navigate for potential and existing clients. With the responsibility for shelters, transitional living, and permanent affordable housing options all under one "roof," policies and programs can focus on a continuum of needs and streamlining our ability to provide individuals and families with appropriate housing options.

Second, the consolidation of housing production, operation and financing will enhance our productivity and will ensure a comprehensive approach to housing initiatives. The new office will be a single point of contact for developers, advocates, municipalities, the federal government, and our quasi-public partners. The state's ability to collaborate with these partners will be enhanced and the coordinated approach will provide an opportunity to simplify procedures and facilitate action.

Finally, the consolidation will provide the most effective structure for strong leadership and bold vision to bring the state's housing agenda to the forefront. Over the past year, collaboration between DECD and CHFA has been significantly enhanced and a coordinated approach to allocating resources has been adopted. With the new position of Deputy Commissioner for Housing, as proposed by Governor Malloy, DECD will be well-positioned to highlight the critical importance of quality, affordable housing as a cornerstone of the state's responsibility to its citizenry.

GENERAL GOVERNMENT

ENHANCING THE CRIME LAB

Governor Malloy's Crime Lab Working Group has been tasked with developing both short- and long-term strategies to bolster the state crime lab's ability to deal with an unprecedented increase in its workload. Since 2005, the overall workload at and case submissions to the laboratory have increased by 26 percent, while the volume of DNA evidence testing has increased by 400 percent. This has resulted in backlogs in forensic examinations in each section within the division; most acutely in the firearms and DNA sections where the backlog, assuming no new cases were submitted to the laboratory, would be seven and four years, respectively. Last year, Connecticut's backlog ranked worst in the nation.

In an effort to remediate the backlog and provide timelier responses and examinations, the Governor's Crime Lab Working Group recommends additional staff to meet the needs of the criminal justice community. Included in this recommendation for additional staff is the hiring of a full-time qualified scientist with the academic and forensic credentials to serve as the division administrator and head of the Division of Scientific Services within the Department of Emergency Services and Public Protection. Additionally, given the number of personnel assigned to the DNA section and due to mounting federal compliance requirements, state statutes, and accrediting board policies, it is recommended that the head of the DNA section be elevated to a managerial position at the Assistant Director level. This position would serve as technical lead and serve as the liaison to the FBI oversight board for DNA. The division head and assistant director positions are essential to ensure the continuity and long term leadership of the division.

Based on the working group's input, Governor Malloy recommends $2.4 million in funding for 32 staff to eliminate the backlogs and to address the increased workloads of the division. In addition, the Governor is recommending additional state funds of just under $1 million for the continuation of 15 positions that are currently funded with federal funds that will be expiring at the end of FY 2012. The addition of these funds and staff, along with the continuation of existing staff, will allow the state's crime lab to once again be the model for other states to emulate.

CRIMINAL JUSTICE INFORMATION SYSTEM

Per Public Act 08-1 of the January special session, the state is required to design and implement a comprehensive, state-wide information technology system to facilitate the immediate, seamless and comprehensive sharing of information between all state agencies, departments, boards and commissions having cognizance over matters relating to law enforcement and criminal justice, and organized local police departments and law enforcement officials. This system will integrate other criminal justice information systems including the Offender Based Tracking System (OBTS) and the Connecticut Impaired Driving Records Information System (CIDRIS) into the new Connecticut Information Sharing System (CISS).

In recognition of the importance of this effort, Governor Malloy is recommending funding in his FY 2013 budget to allow for the continued development of CISS and to maintain OBTS and CIDRIS to ensure that the data is not compromised when the systems are merged. The budget includes $225,836 in funding for three staff to assist with implementation of CISS. Additionally, $753,473 is added in the Office of Policy and Management's budget for operating costs of OBTS to ensure the system remains operational until CISS is fully implemented, as well as $454,704 for consultants to assist with the ongoing maintenance of CIDRIS and OBTS. The ultimate goal is to ensure CISS is fully operational by the end of FY 2017.

INSURANCE DEPARTMENT STAFFING

Governor Malloy is recommending additional funding of $1.5 million for 13 full time and three part time staff for the Insurance Department to promote the state's image as a leader in the insurance industry. Responding to requests from the state's insurance companies, the Governor's proposal provides the regulatory divisions of the Insurance Department with sufficient personnel to dramatically reduce backlogs, ensure the agency's continued accreditation with the National Association of Insurance Commissioners (NAIC), and most importantly to enhance protections for the state's insurance consumers. A stand-alone division created to regulate the captive insurance industry will promote Connecticut as a state for insurance innovation, encouraging companies to become domiciled in our state – ultimately leading to job growth.

EXPAND PUBLIC TRANSPORTATION SERVICE

As part of his continued effort to enhance the state's public transportation services, the Governor has included $261,000 to expand Shore Line East weekend train service and $113,000 to expand night bus service in Waterbury.

With this expansion, weekend Shore Line East schedules will now include train service providing five round trips between Old Saybrook and New London, and one round trip between New Haven and Old Saybrook beginning April 1, 2013.

In addition to enhancing the state's train services, the Governor has taken advantage of federal grant funding which has allowed for expanded night bus services in Waterbury. Federal funding has subsidized most of the initial funding for the service which began on October 1, 2011 with the state providing the balance of startup funding through Naugatuck Valley Community College. Each year, the state's share of investment in this service is anticipated to grow as federal funding decreases. This ongoing investment demonstrates the Governor's strong commitment to both education and the workforce by increasing bus transportation accessibility at night to both students and the workforce in the Waterbury area.

INCREASED COMMITMENT TO PAY AS YOU GO TRANSPORTATION PROJECTS

In order to improve Connecticut's roads and highways, Governor Malloy is recommending an increase in the Department of Transportation's Pay As You Go appropriation by $5 million. This account is used for non-bondable transportation projects (those with a project life of less than twenty years), such as: tree trimming; bridge repairs and inspection; pavement management and markings, and other highway projects.

Through the expansion of train and bus services and increased funding for transportation improvements through Pay As You Go, the state's citizens will experience improved accessibility to and expanded options for the state's growing modes of transportation.

ENHANCE FUNDING FOR TWEED NEW HAVEN AIRPORT

The Governor is recommending an increase of $500,000 in the subsidy for Tweed-New Haven Airport. This increase will restore the subsidy, which was reduced in the FY 2011 legislative session, to $1.5 million and will allow the regional public airport owned by the City of New Haven to continue operations at an acceptable level.

REAL-TIME REGIONAL PREPAREDNESS TRAINING

Governor Malloy created the Two Storm Panel to review the preparedness, response and recovery efforts of Tropical Storm Irene and the October Nor'easter. The panel recognized that pre-storm training is critically important and underscored the need for an annual exercise that brings all parties together with an agreed upon plan of action and clear roles and responsibilities that are tested in a real-time experience. The municipalities' emergency response plans vary greatly and would be enhanced by training and exercise to increase all participants' understanding of their roles relative to other responders.

As a result, one of the recommendations of the Governor's Two Storm Panel is that the Division of Emergency Management and Homeland Security (DEMHS) of the Department of Emergency Services and Public Protection (DESPP) sponsor real-time regional training exercises incorporating utilities, municipalities, the State of Connecticut, and other critical stakeholders (including the American Red Cross and the Connecticut Amateur Radio Emergency Service), in which all parties identify the assets available and the condition of those assets. These training exercises would allow non participating communities to observe and provide input as well.

Governor Malloy is recommending $500,000 for DESPP to hold one real-time exercise per region per year. This training will be designed to be robust enough to tax the functional responses properly and it will ensure that meetings between those responsible for emergency response occur in the exercise environment rather than a first meeting of participants being at the actual emergency.

The severe weather of August and October of 2011 exposed the need for greater preparedness to mitigate damage resulting from such storms. Roadways that cannot be travelled due to tree-related obstructions pose safety risks to the public and cause economic setbacks to state businesses. As a result, the Governor proposes significantly increasing the funding for tree maintenance and removal by the Department of Transportation. The recommended budget includes an additional $2 million beyond the $500,000 currently budgeted for these services.

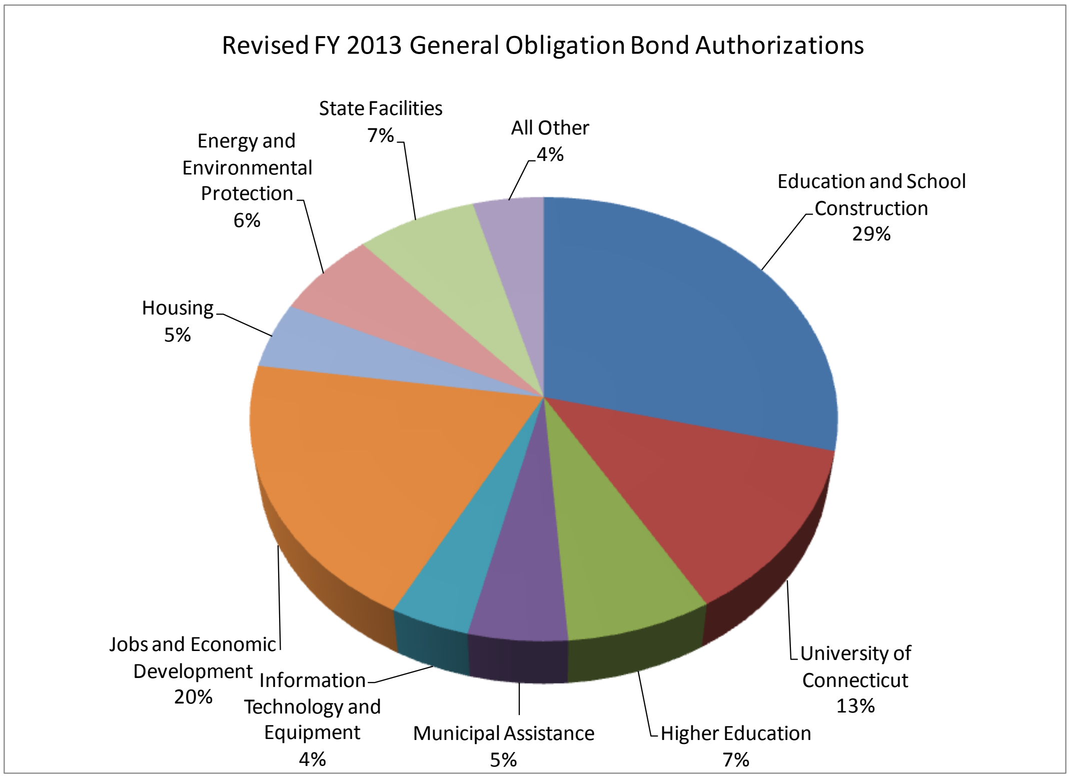
CAPITAL INVESTMENTS

As part of his commitment to rebuilding Connecticut's infrastructure, Governor Malloy is proposing a total of $405.8 million in adjustments to the FY 2013 capital program, with continued focus on funding projects and programs that create and retain jobs in the state. These adjustments emphasize investments in state facilities, the environment, housing, and education and transportation infrastructure.

The Governor's proposed midterm adjustments include:

- An additional $92.5 million for state facility infrastructure;
- New funding of $50 million for capital investments in information technology to enhance the efficiency and effectiveness of state agencies and programs;
- An additional $26.2 million for construction at regional fire training schools;
- New funding of $5 million for a pilot program to establish energy microgrids to support critical municipal infrastructure;
- New funding of $5 million for the underground storage tank petroleum clean-up program;

- An additional $62.5 million for housing projects and programs, including $12.5 million for congregate housing and $30 million to begin to make improvements to the aging state-owned public housing portfolio and to provide additional gap financing for affordable housing projects statewide;
- New funding of $10 million to assist nursing homes with conversion to other purposes;
- An additional $9.1 million for ongoing start-up costs for interdistrict magnet schools in compliance with Sheff v. O'Neill;
- New funding of $45 million for capital improvements, technology and equipment to improve low performing schools and to replicate high performing school models statewide;
- New funding of $5 million for capital improvements at early childhood education facilities; and
- An additional $90 million for bridge improvements in special tax obligation bonds.

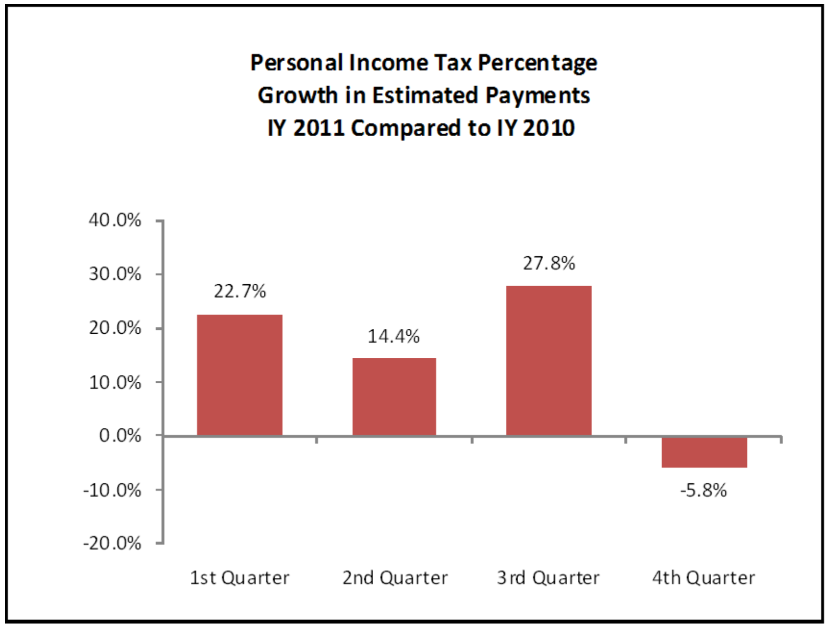


REVENUE

ECONOMIC AND REVENUE BACKDROP

Connecticut's economic fortunes are tied to the health of the national economy. In that regard, the economic forecast for both the nation and the state is still being affected by the financial crisis that began in 2007. Similar to last year, economic projections call for a slow emergence from the most recent recession with Connecticut employment growing at 0.5 percent in FY 2012 and 0.4 percent in FY 2013. By historical standards, the unemployment rate in the state is projected to remain high, averaging 8.5 percent in FY 2012 and declining to 8.1 percent in FY 2013. Connecticut is not projected to regain all the jobs lost in the most recent recession until 2015. Inflation is projected to fall to two percent by FY 2013 and national output is projected to continue to expand over the remainder of the biennium in the two percent to three percent range. Connecticut personal income is projected to expand by 3.3 percent in FY 2012 and 4.1 percent in FY 2013.

Revenue projections contained in this budget proposal represent the consensus forecast reached between the Office of Policy and Management and Office of Fiscal Analysis on January 17, 2012 pursuant to the process required by CGS 2-36c. Underlying these revenue projections are recent collection trends in conjunction with economic forecast data summarized above.



Recent collection trends had been improving, most notably the withholding component of the income tax and the sales and use tax. However, fourth quarter estimated payments under the income tax, due January 17, 2012, and representing the last installment for certain taxpayers on their 2011 income year returns prior to filing their final return in April of 2012, actually registered a decline compared to the same period a year ago. (This decline is incorporated into the January consensus revenue forecast.)

The likely cause for the shortfall is two-fold. First, income year 2010, the period to which we are comparing, may have been inflated by the expectation at the time that the Bush tax cuts would not be extended. Therefore, certain taxpayers realized capital gains in 2010 or, to the extent possible, shifted income into 2010 in anticipation of a federal tax increase. It was not until December of 2010 that Congress took action to extend the tax cuts for two additional years. Second, global events weighed heavily on the world economy in 2011. These include the Japanese earthquake, the U.S. debt ceiling debate, and potential debt default of certain European nations. These elements, combined with the waning effects of the federal stimulus programs, resulted in less robust 2011 income year results for certain taxpayers and therefore such taxpayers may have adjusted their last estimated payment accordingly.

The consensus forecast now anticipates that General Fund revenues will be $94.7 million below the adopted budget for FY 2012 and $138.7 million below the adopted budget for FY 2013. Baseline General Fund revenues (prior to tax changes and other one-time effects) are projected to grow by 1.7 percent in FY 2012 and 5.7 percent in FY 2013.

REVENUE CHANGES

Last year Governor Malloy proposed, and the General Assembly passed, major changes to both the state's revenue and spending policies in order to restore structural balance to the state's budget. The Governor's changes closed a $3.2 billion current services gap in FY 2012, one of the largest shortfalls in our country. The objectives of the changes on the revenue side of the budget last year were fourfold: First, any changes must maintain the state's economic competitiveness; second, the state must maximize federal reimbursement wherever possible; third, in order to not inhibit job growth, tax increases on the business sector should be minimized; and fourth, any revenue changes must be recurring in nature, i.e., no one-shot, temporary solutions. Given the enormity of the policy decisions enacted last year, the Governor is proposing very limited changes that impact revenue for his proposed mid-term budget revisions for FY 2013.

First, the Governor wants to ensure that existing state tax laws are upheld and that revenues lost to non-compliance with those laws are minimized. To that end, he is recommending additional staffing at the Department of Revenue Services (DRS) to enhance their current auditing and collection functions. These initiatives are expected to yield an additional $13 million in FY 2013.

Second, the Governor's proposal to modernize Connecticut's liquor laws are expected to result in additional general fund revenue of $8.7 million in FY 2013

EFFORTS TO PRESERVE AND MAXIMIZE FEDERAL FUNDING

The Malloy administration continues to make federal revenue maximization efforts a priority. In order to gain millions of dollars in new federal revenue, numerous Medicaid state plan amendments and waivers have been submitted or are in the process of being submitted to the federal government while initiatives not requiring federal approval are being operationalized by impacted state agencies.

Some of the major revenue maximization efforts under development include:

- Serving existing clients of the Departments of Developmental Services (DDS), Mental Health and Addiction Services (DMHAS) and Children and Families (DCF) under autism waivers, allowing the state to receive federal reimbursement for services currently being provided at 100 percent state cost;
- Billing for inpatient and outpatient care for certain offenders in the Department of Correction (DOC), allowing the state to receive federal reimbursement, where allowable, for services that are currently being supported at 100 percent state cost;
- Providing nursing home care for individuals currently being cared for in DOC's infirmaries and at Connecticut Valley Hospital. Providing these services in a less intensive setting will permit federal reimbursement for care that is currently at 100 percent state cost;
- Developing a waiver that will allow the state to claim federal reimbursement for services rendered in a private institutional setting that are currently provided at 100 percent state cost;
- Shifting funding for certain DDS case management services off of the Social Services Block Grant in order to gain Medicaid reimbursement for those services, and utilizing the SSBG funds for emergency shelters;
- Developing a waiver that will allow Medicaid reimbursement for certain rehabilitation services being provided by DMHAS that are currently at 100 percent state cost;
- Billing for costs in several state agencies associated with the administration of Medicaid services;
- Developing a new, tightly-controlled waiver for individuals with acquired brain injury to allow Medicaid reimbursement for services supported by DMHAS' state-funded TBI Community Services account;
- Pursuing enhanced reimbursement on the utilization review expenses of administrative services organizations (ASOs);
- Investigating the revenue and expenditure impact of a potential licensure change for the Department of Veterans' Affairs' healthcare center; and
- Reviewing the impact of including coverage of various independent practitioners providing services to individuals 21 years of age and older as an optional service under Medicaid.

While much effort goes into maximizing revenue, equal or greater effort is going into preserving existing sources of federal reimbursement. The federal Centers for Medicare and Medicaid Services (CMS) has strengthened its compliance activities, resulting in significantly greater scrutiny of all state claims. DSS staff and impacted state agencies have experienced significantly increased time and effort explaining and justifying revenue items in order to sustain claims worth hundreds of millions of dollars that had once been considered “routine.” DSS plans to hire additional staff to oversee projects and to ensure that existing claims are maintained and new sources of reimbursement brought to fruition.

MUNICIPAL MANDATES RELIEF

Towns and cities are subject to numerous cost-drivers that put pressure on local budgets and property tax payers. For too long, the state has failed to provide relief to local governments. The Governor is proposing a five-part program that will relieve municipalities of burdensome and unnecessary costs.

ASSESSMENT OF PARTIALLY COMPLETED PROPERTY

A court ruling in Kasica v. Columbia overturned longstanding practice by prohibiting local governments from taxing partially completed property. Municipal assessors believe this could cost towns and cities at least $30 million. In order to protect that revenue and avoid increasing the property tax burden on all other residents and businesses, the Governor is proposing legislation to clarify that municipal assessors may value property “including improvements that are partially completed or under construction.”

FOI REDACTION

Another court ruling has interpreted statutes to require that all public agencies redact the names of certain public employees. This is unworkable in that it would require public agencies to redact names they don’t necessarily know on every document. It could cripple the ability of officials to meet their duties under the law, and puts them in conflict with other statutes which prohibit the alteration of public records.

The Governor is proposing to limit the scope of the requirement in a way that would protect both the public’s right-to-know and the privacy of public employees.

PHASE OUT HEALTH-INSURANCE TAX ON MUNICIPALITIES

The cost of providing health insurance puts a strain on local budgets. Municipalities that purchase health insurance policies must pay a 1.75 percent tax to the state. This year the insurance premium tax is estimated to cost those municipalities almost $9 million that could be used to provide other public services or reduce property taxes.

The Governor proposes to phase out the health-insurance premium tax on municipalities by (a) cutting the tax rate for municipalities by 50 percent beginning in 2014, (b) by another 25 percent for 2015 and (c) eliminating the premium tax on municipalities altogether for 2016.

RESPONSIBILITY FOR EVICTED TENANT POSSESSIONS

State law inserts municipal governments into the contractual relationship between landlords and tenants by requiring towns and cities to store the possessions of evicted residential tenants. The Governor is proposing to relieve property tax payers of this burden by allowing municipalities to assess landlords for the cost of storing these items.

In addition, presently municipalities can auction items after 15 days, which in some cases may be too short a time period for tenants to come up with the money necessary to retrieve the items. The Governor proposes allowing municipalities to be sensitive to this need by providing an additional 15 days of storage.

UNEMPLOYMENT RELIEF – PART TIME WORKERS

Municipalities often employ seasonal workers at parks, outdoor ice rinks or other facilities. These jobs are temporary by nature, and property taxpayers should not be required to pay unemployment costs when the jobs end.

The Governor proposes to establish a minimum threshold of at least 600 work-hours of service before part-time, temporary, or seasonal municipal employees are eligible for unemployment benefits.

CONCLUSION

Governor Malloy is proposing an all funds budget of $20,729.0 million for FY 2013, a 3.2 percent increase over estimated FY 2012 expenditures and 1.6 percent above the adopted FY 2013 budget. The recommended budget is $5.9 million below the spending cap for FY 2013.

Appropriated Funds of the State
(In Millions)

	Estimated FY 2012	Recommended FY 2013
General Fund	$ 18,692.5	$ 19,266.4
Special Transportation Fund	1,226.1	1,293.5
Mashantucket Pequot & Mohegan Fund	61.8	61.8
Soldiers, Sailors, and Marines Fund	3.1	3.0
Regional Market Operating Fund	1.0	0.9
Banking Fund	26.8	24.9
Insurance Fund	26.6	28.4
Consumer Counsel and Public Utility Fund	26.4	25.4
Workers Compensation Fund	22.3	21.1
Criminal Injuries Compensation Fund	3.5	3.6
Grand Total	$ 20,090.1	$ 20,729.0

GENERAL FUND

The recommended revised General Fund budget for FY 2013 represents a $313.9 million increase over the adopted FY 2013 budget. Of this increase, $182.0 million is the result of spending necessary to maintain current services, including $119.0 million as a result of a revised estimate for the cost of retiree health care services. In addition, Governor Malloy is proposing investments of $128 million to improve Connecticut's education system and $123.4 million, $85.3 million of which is attributable to the General Fund, to begin to address the state's chronic underfunding of its pension system – a move which, when coupled with proposed additional pension payments beginning in FY 2014, would save taxpayers nearly $6 billion over the next twenty years. Governor Malloy is also proposing more than $124 million in savings initiatives, including a number of changes within the Medicaid program and changes that address the state's growing costs for retired teachers' healthcare. The Governor is continuing to streamline state government by consolidating agencies to gain efficiency: Last year, the number of budgeted state agencies was reduced from 81 to 59; this year, the Governor is proposing consolidations which will reduce that number to 52 agencies.

The January consensus revenue forecast, which forms the basis for the revenues in this budget, is projected at $19,302.3 million, which represents a decrease of $138.7 million from the revenue projected in the adopted budget. Programmatic changes proposed in this budget, including the enhancement of the Department of Revenue Services' auditing and collections functions, federal revenue maximization efforts, and the modernization of Connecticut's alcohol statutes, are anticipated to result in FY 2013 revenue totaling $19,318.0 million, a 3.3 percent increase over estimated FY 2012 revenue.

SPECIAL TRANSPORTATION FUND

In the Special Transportation Fund, the proposed FY 2013 budget is $1,293.5 million, 5.5 percent above the estimated expenditure level for FY 2012 and 1.2 percent above the adopted budget for FY 2013. The pension reform initiative accounts for $12.7 million of the fund's growth.

EXPENDITURE CAP

Appropriations for FY 2012 fall just $1 million below the constitutional expenditure cap. Due to the impact of the recent recession on personal income, growth in the expenditure cap will be based on the increase in the consumer price index (CPI) rather than the five year average growth in personal income, the first time that the CPI will be the limiting factor since the inception of the expenditure cap. As a result, expenditure growth above FY 2012 appropriations is limited to 2.98 percent for expenditures subject to the cap. Governor Malloy's proposed $20,729.0 million all funds budget for FY 2013 falls below the constitutional spending cap by $5.9 million.