

A PATH FORWARD



RECOMMENDED BUDGET FOR THE FY 2020 – FY 2021 BIENNIUM

GOVERNOR NED LAMONT



FEBRUARY 20, 2019

Introduction

A Path Forward

The Governor's budget proposal for the biennium solves a \$1.5 billion deficit in FY 2020 and \$2.2 billion in FY 2021

Budget Principles: Stability, Confidence, Investment & Growth

This budget is pro-growth and produces balanced operations through:

- Modernizing the sales tax base for the 21st century
 - Structural spending reforms
 - Operational Efficiencies



Budget Overview



Proposed Budget for FY 2020 and FY 2021

Appropriated Funds Of The State (in millions)

	Appropriated <u>FY 2019</u>	Recommended <u>FY 2020</u>	Recommended <u>FY 2021</u>
General Fund	\$ 18,998.2	\$ 19,259.3	\$ 19,866.9
Special Transportation Fund	1,617.3	1,705.3	1,806.6
Banking Fund	27.4	25.5	26.5
Insurance Fund	95.2	105.7	114.6
Consumer Counsel and Public Utility Control Fund	25.6	27.4	28.5
Workers' Compensation Fund	24.9	28.0	28.7
Mashantucket Pequot & Mohegan Fund	49.9	49.9	49.9
Regional Market Operation Fund	1.1	1.1	1.1
Criminal Injuries Compensation Fund	2.9	2.9	2.9
Tourism Fund	<u>12.9</u>	<u>12.9</u>	<u>12.9</u>
Grand Total	\$ 20,855.4	\$ 21,218.1	\$ 21,938.6
		1.7%	3.4%

Change over prior year:

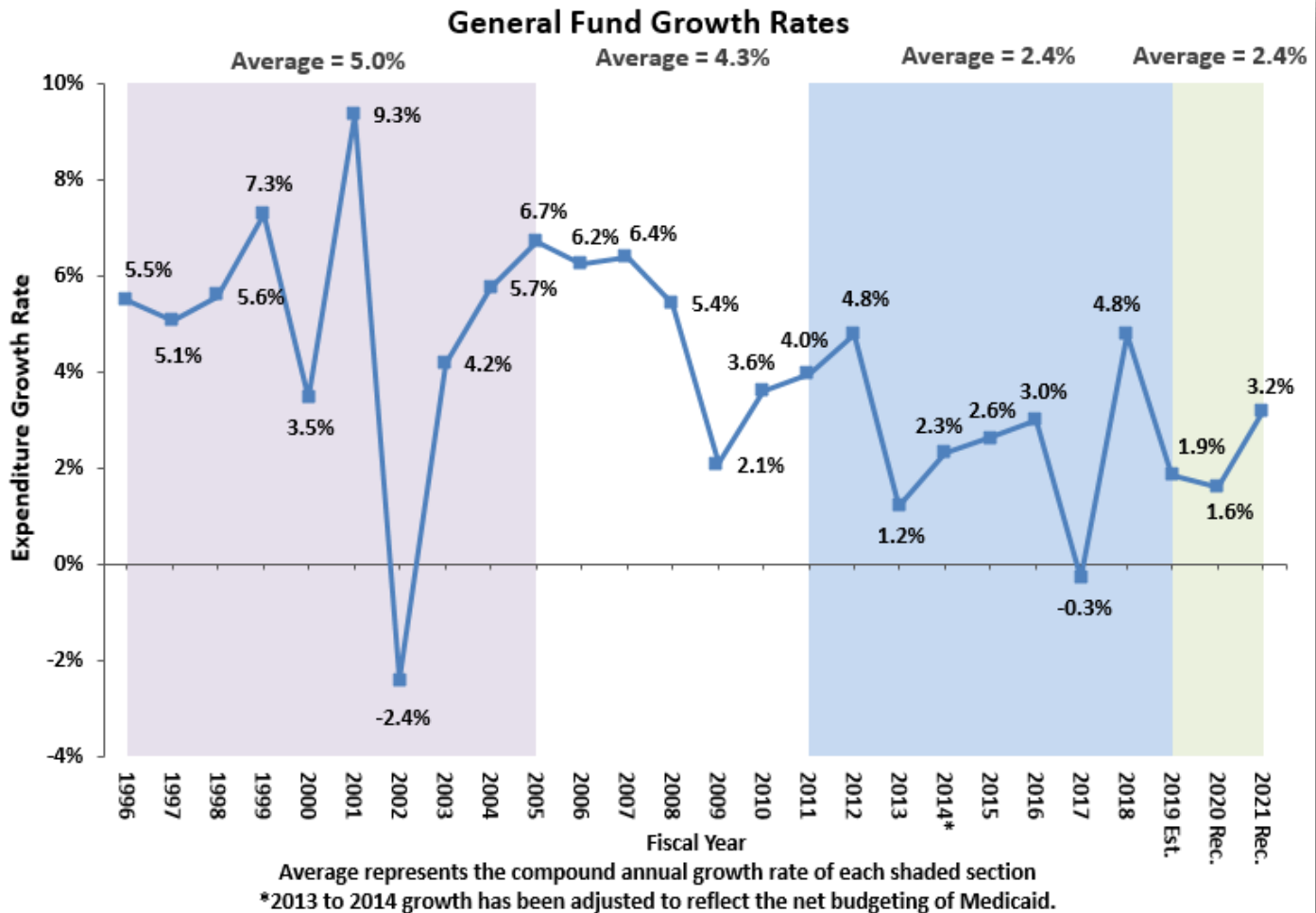
1.7%

3.4%

Totals may not add due to rounding



General Fund Expenditure Growth Rates



General Fund

GOVERNOR'S BUDGET PLAN (in millions)

<u>General Fund</u>	<u>Estimated FY 2019</u>	<u>Recommended FY 2020</u>	<u>Recommended FY 2021</u>
Revenues	\$ 19,473.0	\$ 19,365.0	\$ 20,037.3
Revenue Cap	100.0%	99.5%	99.25%
Available Revenue	19,473.0	19,268.2	19,887.0
Expenditures	<u>18,956.9</u>	<u>19,259.3</u>	<u>19,866.9</u>
Projected Surplus/(Deficit) 6/30	\$ 516.1	\$ 8.9	\$ 20.2
Proposed Adjustments			
Transfer to TRS Special Capital Reserve	\$ <u>(381.0)</u>	\$ _____ -	\$ _____ -
Revised Surplus/(Deficit) 6/30	\$ 135.1	\$ 8.9	\$ 20.2



General Fund Baseline vs. Proposed Budget

Baseline Estimate versus Proposed Budget

(in millions)

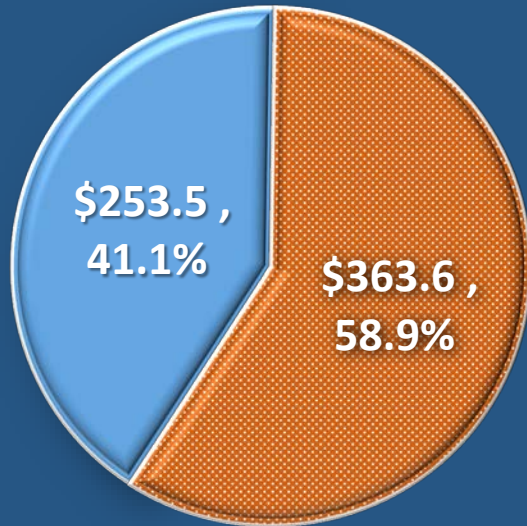
General Fund	Fiscal Year 2020				Fiscal Year 2021			
	Baseline Estimate	Maintain Current Policies	New Policy Changes	Proposed Budget	Baseline Estimate	Maintain Current Policies	New Policy Changes	Proposed Budget
Revenues*	\$ 17,993.1	\$ 1,021.6	\$ 253.5	\$ 19,268.2	\$ 18,139.8	\$ 1,095.7	\$ 651.5	\$ 19,887.0
Expenditures	19,528.4	94.4	(363.6)	19,259.3	20,348.0	41.5	(522.6)	19,866.9
Surplus/(Deficit)	\$ (1,535.4)	\$ 927.2	\$ 617.1	\$ 8.9	\$ (2,208.1)	\$ 1,054.2	\$ 1,174.1	\$ 20.2

* Note: Revenues shown are amounts available after application of the revenue cap



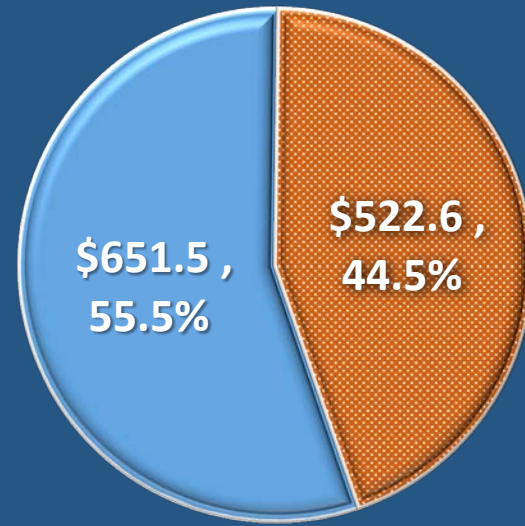
Closing the General Fund Gap

New Policy Changes, FY 2020
(in millions)



Revenue Increases Expenditure Reductions

New Policy Changes, FY 2021
(in millions)



Revenue Increases Expenditure Reductions



Addressing the FY 2020 and FY 2021 General Fund Baseline Gap

GENERAL FUND APPROPRIATIONS - SUMMARY OF CHANGES (in millions)

	<u>FY 2020</u>	<u>FY 2021</u>
Current Services Adjustments		
Debt Service	\$ 73.5	\$ 242.6
State Employee Wages and Coll. Barg. Increases	66.1	232.2
State Employees' Pension and Healthcare	221.5	436.5
Teachers' Pension and Healthcare	112.2	161.3
Hospitals - Supplemental & Current DRG	(388.9)	(391.6)
Caseload, Utilization, Reimb., and COLAs	219.2	369.8
Statutory Grants and Rates	192.4	260.7
All Other	<u>34.3</u>	<u>38.4</u>
Total - Current Services Updates	\$ 530.3	\$ 1,349.8
Extend Current Policies		
Maintain Hospital User Fee	\$ 326.8	\$ 326.8
Maintain Statutory Formula Aid and Rates	(200.5)	(268.1)
All Other	<u>(31.9)</u>	<u>(17.2)</u>
Total - Current Policies	\$ 94.4	\$ 41.5
New Policy Proposals		
Reduce Debt Issuance	\$ (14.4)	\$ (63.9)
Achieve Labor Savings	(181.9)	(276.8)
Reduce Teachers' Pension Costs	(183.4)	(189.4)
Increase ECS	20.6	42.3
All Other	<u>(4.4)</u>	<u>(34.9)</u>
Total - New Policies	\$ (363.6)	\$ (522.6)



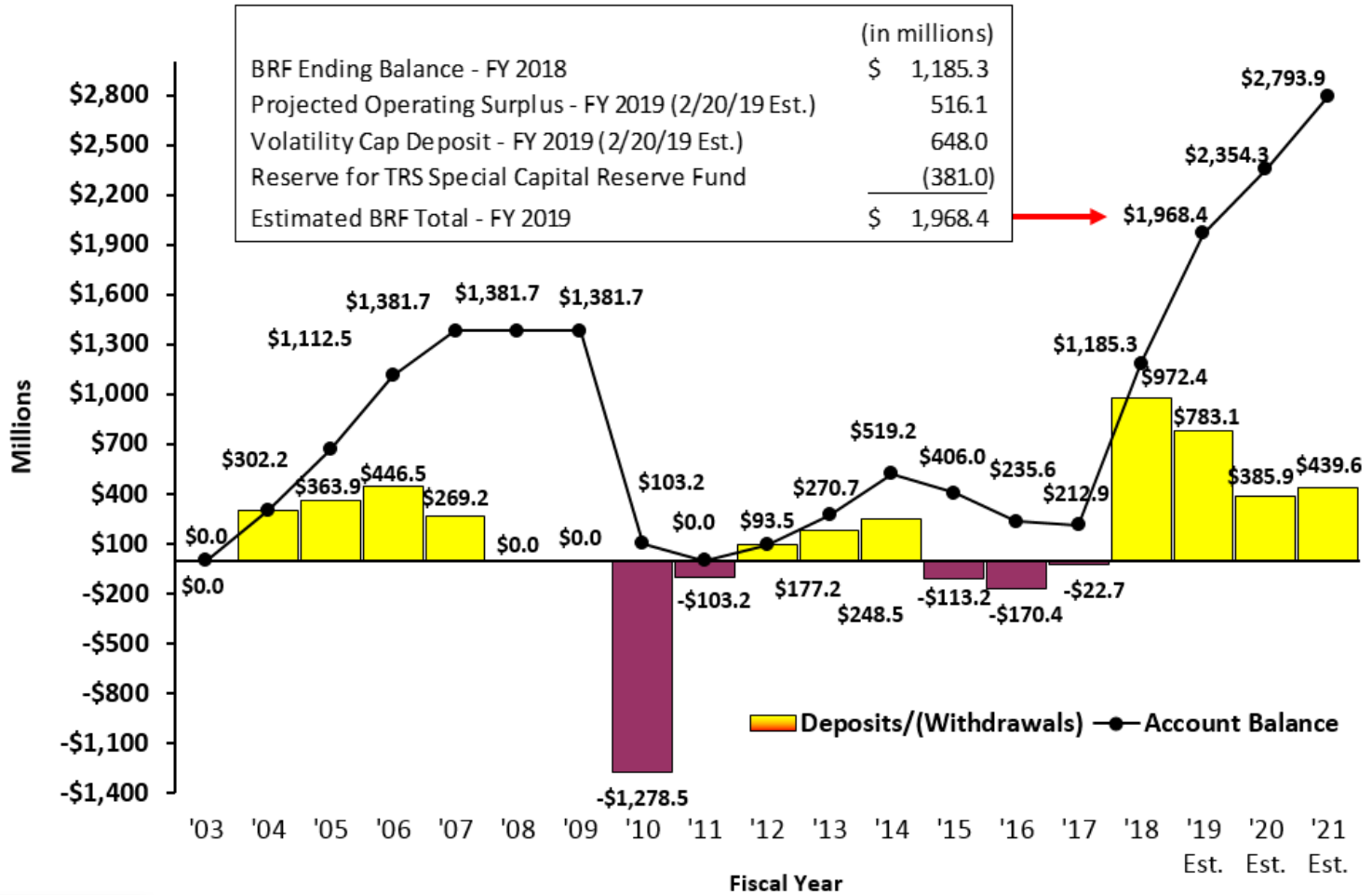
Changes in Revenue From FY 2019 to FY 2020

(In millions)

<p>\$1,479.9 million difference</p>	\$19,473.0	FY 2019 Consensus Revenue (January 2019)
		<u>Increases/(Decreases)</u>
		(516.0) Reduction in Hospital User Fee
		(219.0) Decrease in Federal Reimbursement Due to FY 2020 Reduction in Hospital Supplemental Payments
		(516.1) One-Time Federal Funds Received in FY 2019 for Services Provided in FY 2018 (Includes Hospitals)
		(91.0) Transfer of Car Sales Tax to Special Transportation Fund
		(55.3) Restoration of Property Tax Credit in FY 2020
		(16.4) Personal Income Tax Exemption for Pensions/Annuities
		(8.4) Increased Personal Income Tax Exemption for Social Security
		(3.9) New Personal Income Tax Credit for STEM graduates
		(8.0) Increase in Teachers' Retirement Exemption
		(11.0) Regional Planning Incentive Account Diversion in FY 2020
		(23.9) Gift and Estate Phase in of Exemption Levels and \$15m Cap
		(75.5) Recommencement of GAAP Amortization
	<u>280.2</u> Net Estimated Revenue Growth/Current Law	
	(1,389.5) Revenue Gain/(Loss)	
	\$18,083.5	FY 2020 Consensus Revenue (January 2019)
	<u>(90.4)</u>	Less Revenue Reserved Under Revenue Cap
	\$17,993.1	FY 2020 Available Revenue



Budget Reserve Fund



Revenue Proposals



Revenue Proposals

General Fund Revenue Changes

(in millions)

	<u>FY 2020</u>	<u>% of Total</u>	<u>FY 2021</u>	<u>% of Total</u>
Maintain FY 2018-19 Biennial Budget Policy	\$ 1,021.6	79.7%	\$ 1,095.7	62.2%
Sales Tax Modernization	292.0	22.8%	505.0	28.7%
Promoting Health and Wellness	0.5	0.0%	167.1	9.5%
Promoting a Better Environment	35.1	2.7%	33.4	1.9%
All Other Revenue Items	<u>(67.7)</u>	-5.3%	<u>(40.8)</u>	-2.3%
Total All Changes	\$ 1,281.5	100.0%	\$ 1,760.4	100.0%

- Does not contain income tax rate increases
- Does not contain general sales tax rate increases
- 79.7% of revenue in FY 2020 and 62.2% of revenue in FY 2021 relies on continuation of policies in effect during the FY 2018 – FY 2019 biennial budget
- Additional policy changes are a conscientious effort to modernize Connecticut's revenue policy to better reflect a 21st century economy



Promoting a Better Environment

- Surcharge on plastic bags of 10 cents
 - Reduces the state's reliance on environmentally unfriendly plastic disposable bags
 - \$30.2 million in FY 2020, \$26.8 million in FY 2021
- Expands the bottle deposit for litter reduction and better recycling out-comes
 - Adds a 25 cent deposit on wine and liquor bottles
 - Adds a 5 cent deposit on 50 ml liquor containers
 - \$4.9 million in FY 2020, \$6.6 million in FY 2021



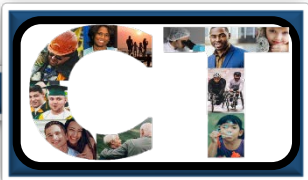
Promoting Health and Wellness

- Reducing tobacco product consumption
 - Raises the age for the consumption of tobacco products and electronic cigarettes to 21
 - Results in a revenue loss of \$5.8 million in FY 2020 and \$5.5 million in FY 2021
 - Taxes electronic cigarette nicotine liquids at 75% of the wholesale price to bring tax parity with the cigarette tax rate
 - Results in a revenue gain of \$6.7 million in FY 2020 and \$9.7 million in FY 2021
 - Net: \$0.9 million in FY 2020, \$4.2 million in FY 2021
- Encouraging healthy choices
 - Adds a 1.5 cent per ounce tax on sugar-sweetened beverages
 - Revenue of \$163.1 million in FY 2021



Targeted Tax Relief

- Eliminating the \$250 biennial business entity tax
 - This reduction is partially offset by an increase in the annual filing fee at the Secretary of State's Office from \$20 to \$100. This will save each entity \$90 or 31% over a two year period and will reduce paperwork for business entities
- Allowing the existing \$200 property tax credit to apply to all filers, not just the elderly and those with dependents
- Eliminating the only state level gift tax in the nation
- Increasing the filing deadline from 6 to 9 months for estate tax filings
- Continuing the phase-in toward the federal exemption level under the estate tax



Modernizing the Sales Tax - Services

- Governor Lamont is not proposing a sales tax rate increase
- Services are a growing portion of the economy
- In Connecticut, overall personal consumption expenditures grew by 114% between 1997 to 2017
 - Goods - spending grew 84%
 - Services - spending grew 129%



Modernizing the Sales Tax Base for the 21st Century

- Incorporate additional services, a growing segment of our economy, into the sales tax base
 - Exclude basic needs: groceries, health, and education services
- Level the playing field with equal tax treatment between goods and services



Sales Tax Modernization

- Professional services
 - Legal, accounting, interior design, and real estate services
- Personal services
 - Dry-cleaning, barber shops, beauty salons, veterinary services, parking, and sports/recreation instruction and industries
- Repeal exemptions
 - Renovation and repair of residential property, winter boat storage, non-prescription drugs, trade-in on vehicles, and newspapers and magazines

**Modernizing the sales tax will yield \$292.0 million in FY 2020
and \$505 million in FY 2021**



General Fund Expenditure Proposals



General Fund Expenditure Proposals

(in millions)

	<u>FY 2020</u>	<u>FY 2021</u>
Debt Diet	(14.4)	(63.9)
Pension Reform (SERS and TRS)	(315.3)	(331.2)
Healthcare Reforms	(50.0)	(135.0)
Municipal Aid (Increases for ECS)	20.6	42.3
Health & Human Services Initiatives and Medicaid Savings	11.9	(17.8)
Efficiency and Operational Savings	(37.1)	(46.0)
New Initiatives	<u>20.8</u>	<u>29.0</u>
Total	(363.6)	(522.6)

Note: Federal reimbursement reductions related to these proposals total \$21.6 million in FY 2020 and \$6.0 million in FY 2021

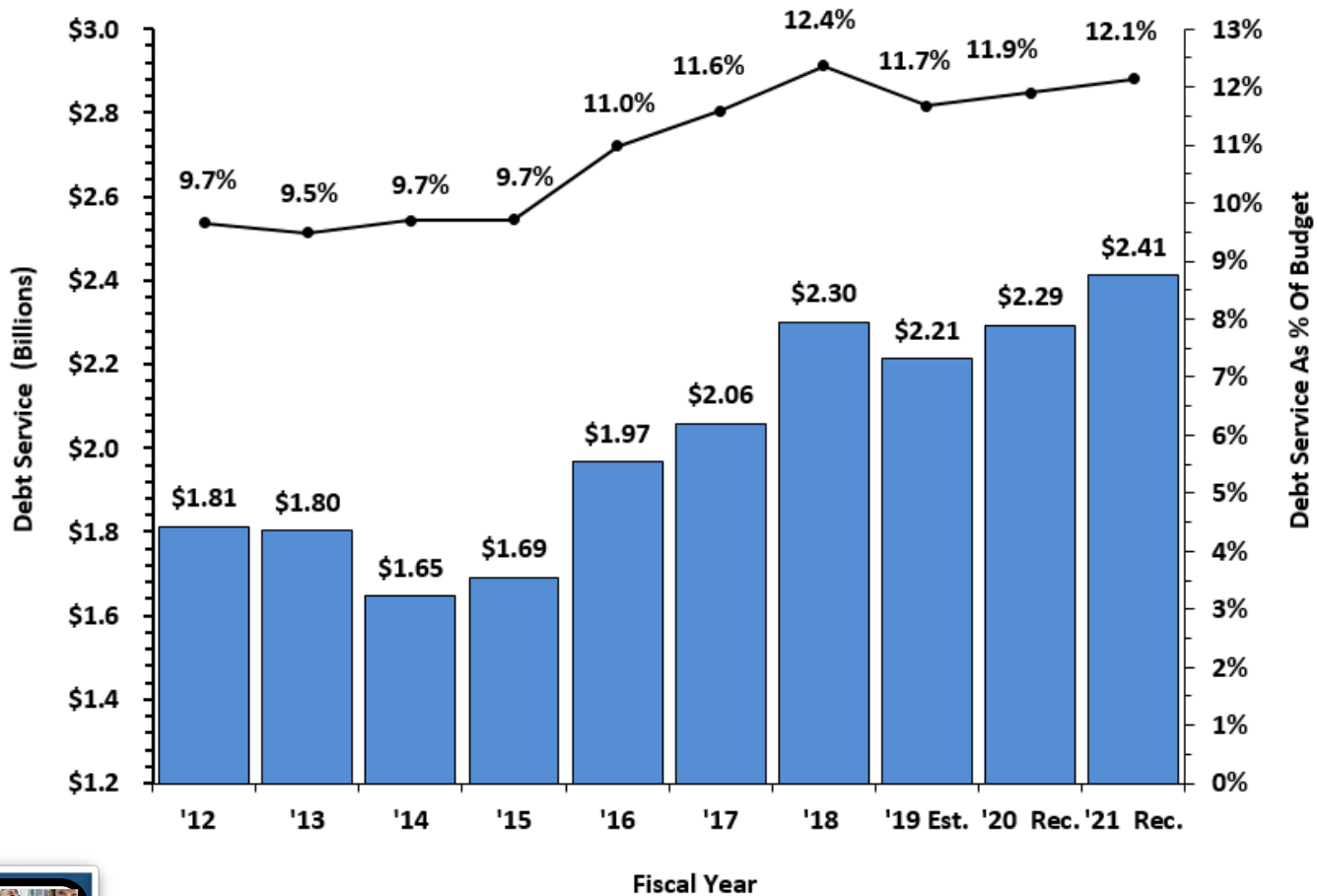


Capital Budget – Going on a “Debt Diet”

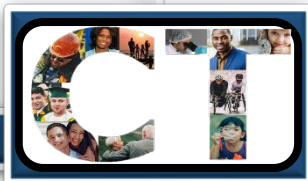
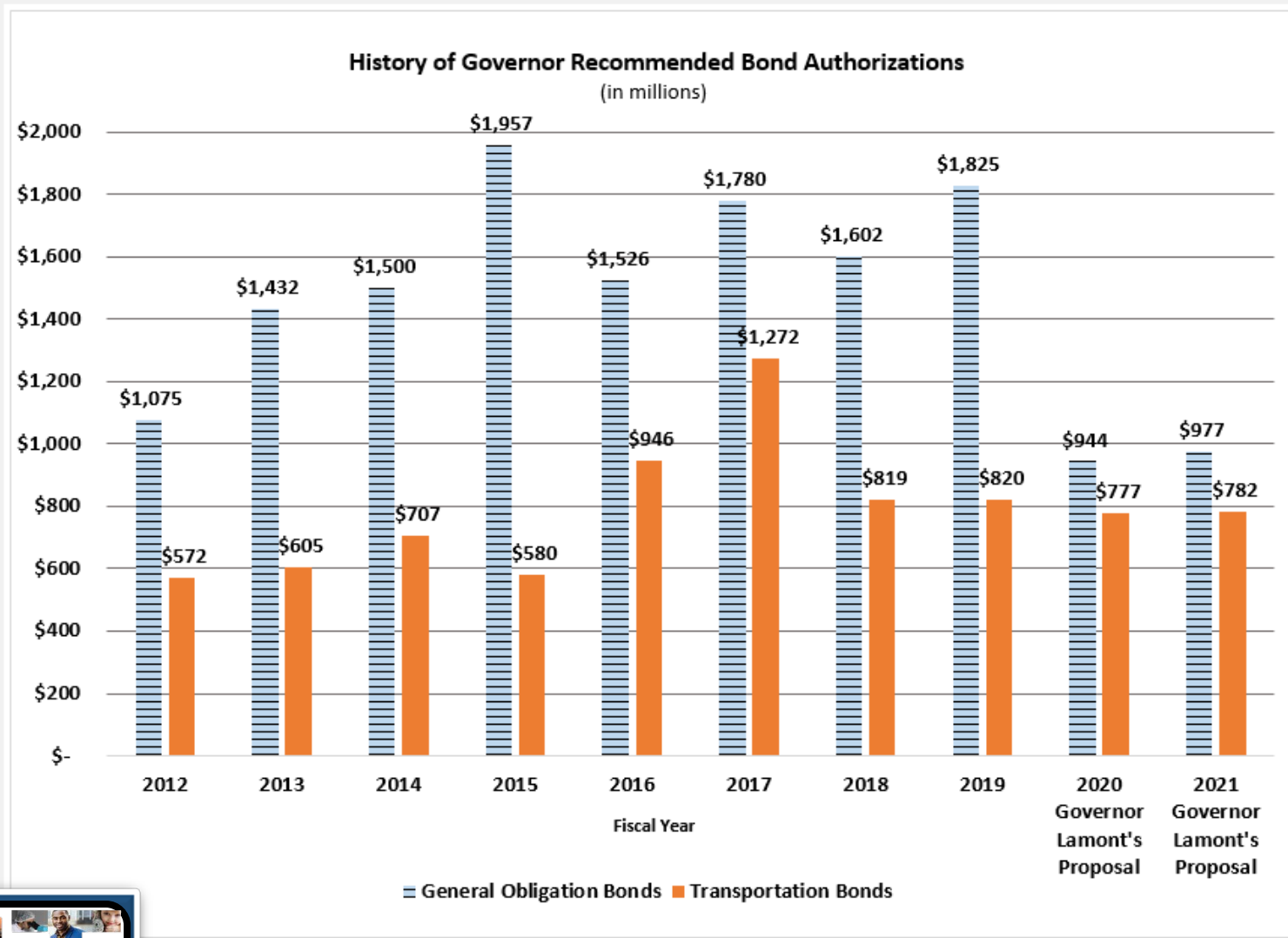


Projected Debt Service Expenditures

General Fund Debt Service Expenditures



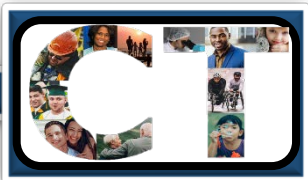
Proposed Capital Budget



Debt Diet

Average Annual Recommended Authorizations (in millions)

<u>Fiscal Years</u>	<u>GO Authorizations</u>	<u>STO Authorizations</u>
2012 through 2019	\$ 1,587.1	\$ 790.0
2020 through 2021	\$960.3	\$ 779.5
Reduction	-39.5%	-1.3%



Limiting Bond Authorizations

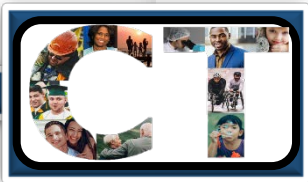
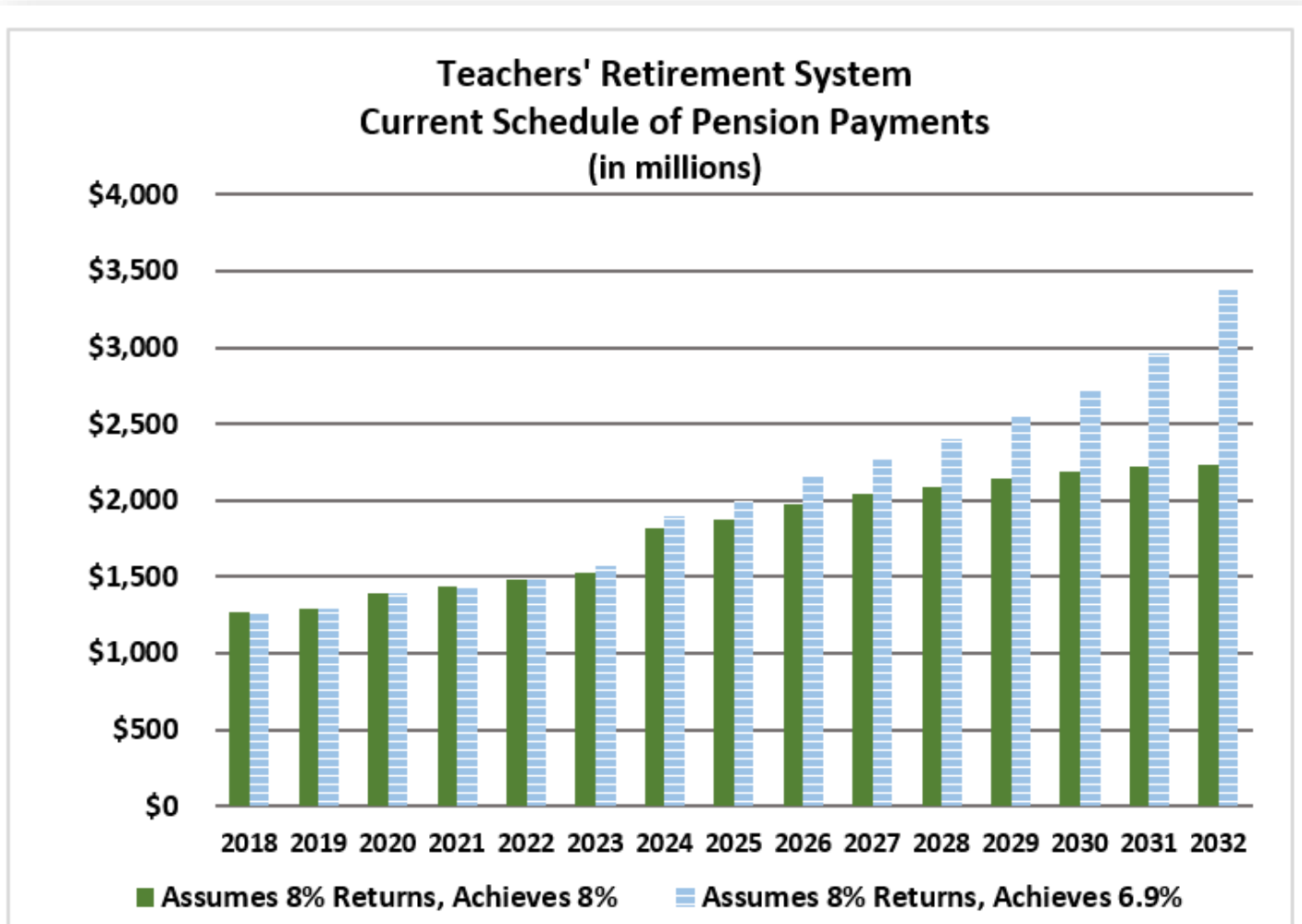
- Environment and Energy – New authorizations are limited to ongoing Clean Water program commitments
- Economic Development – Leverage \$300 million of existing authorizations
- Housing Policy – In light of progress in this area over the past 8 years, prior authorizations are sufficient
- Higher Education – New authorizations are lower as we work with our UConn and CSCU partners on a greater level of prioritization
- Municipal Aid – School Construction, LoCIP, Town Aid Road and Municipal Projects and Purposes grants are being maintained at historical levels
- Information Technology – The Governor is increasing investment in IT to fund the completion of ongoing projects that are replacing antiquated IT systems and to begin to address his goal of developing the first all-digital government



Pension Reform



Teachers' Pensions



Teachers' Pensions

- The state is exposed to potentially unaffordable spikes in the Teachers' Retirement System (TRS)
- Underfunding of the Teachers' Retirement System did not occur overnight
- Full funding of the state's required contributions did not start until FY 2006
- Paying off the pension debt requires commitments to fully fund the contributions and to use realistic assumptions
- However, it is unfair to ask taxpayers to shoulder the full cost of decades of underfunding over the next 12 years



Restructuring Teachers' Pensions

- In 2008, the State of Connecticut issued \$2.2 billion in pension obligation bonds (POBs) for the Teachers' Retirement Fund
- Bond covenant requires full funding of the ADEC and associated amortization schedule unless "adequate provision" is made
- The budget proposes to fully comply with the bond covenant by creating a Teachers' Retirement Fund Special Capital Reserve Fund (TRS SCRF)
- The TRS SCRF will be funded with the maximum annual debt service on the POBs of \$381.0 million
- This will allow the state to re-amortize the pension liability over 30 years
- Lottery revenues are pledged to replenish the TRS SCRF in the unlikely event funds must be drawn

	(in millions)
BRF Ending Balance - FY 2018	\$ 1,185.3
Projected Operating Surplus - FY 2019 (2/20/19 Est.)	516.1
Volatility Cap Deposit - FY 2019 (2/20/19 Est.)	648.0
Reserve for TRS Special Capital Reserve Fund	<u>(381.0)</u>
Estimated BRF Total - FY 2019	\$ 1,968.4



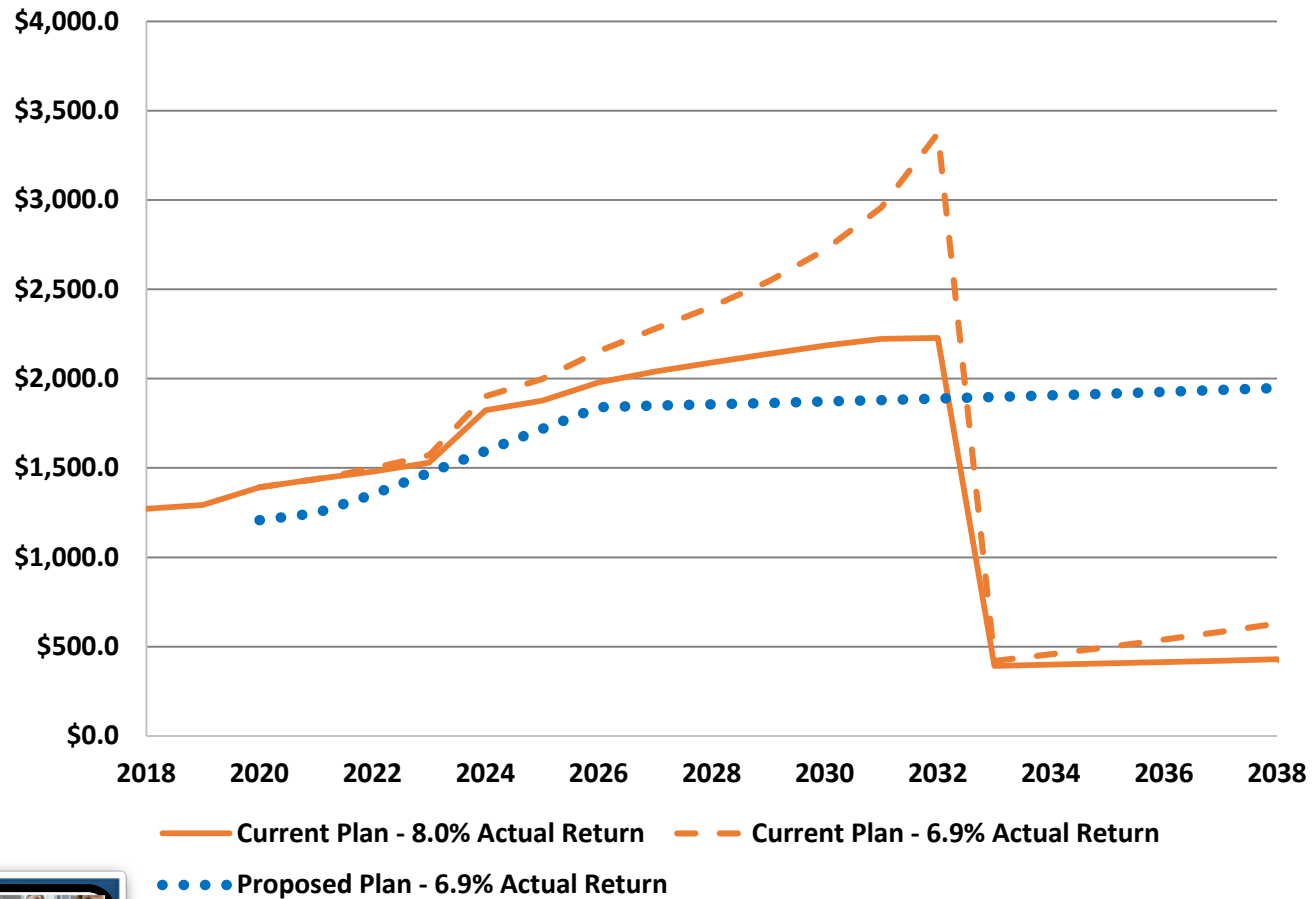
Restructuring Teachers' Pensions

- A number of changes are proposed for TRS that mirror the provisions adopted for the State Employees Retirement System in 2017
- These changes are fully compliant with the 2008 pension obligation bond covenant and include:
 - Reducing the assumed rate of return from 8.0% to 6.9%
 - Re-amortizing the unfunded liability over a new 30 year period
 - Transitioning from level percent of payroll to level dollar amortization, phased in over five years

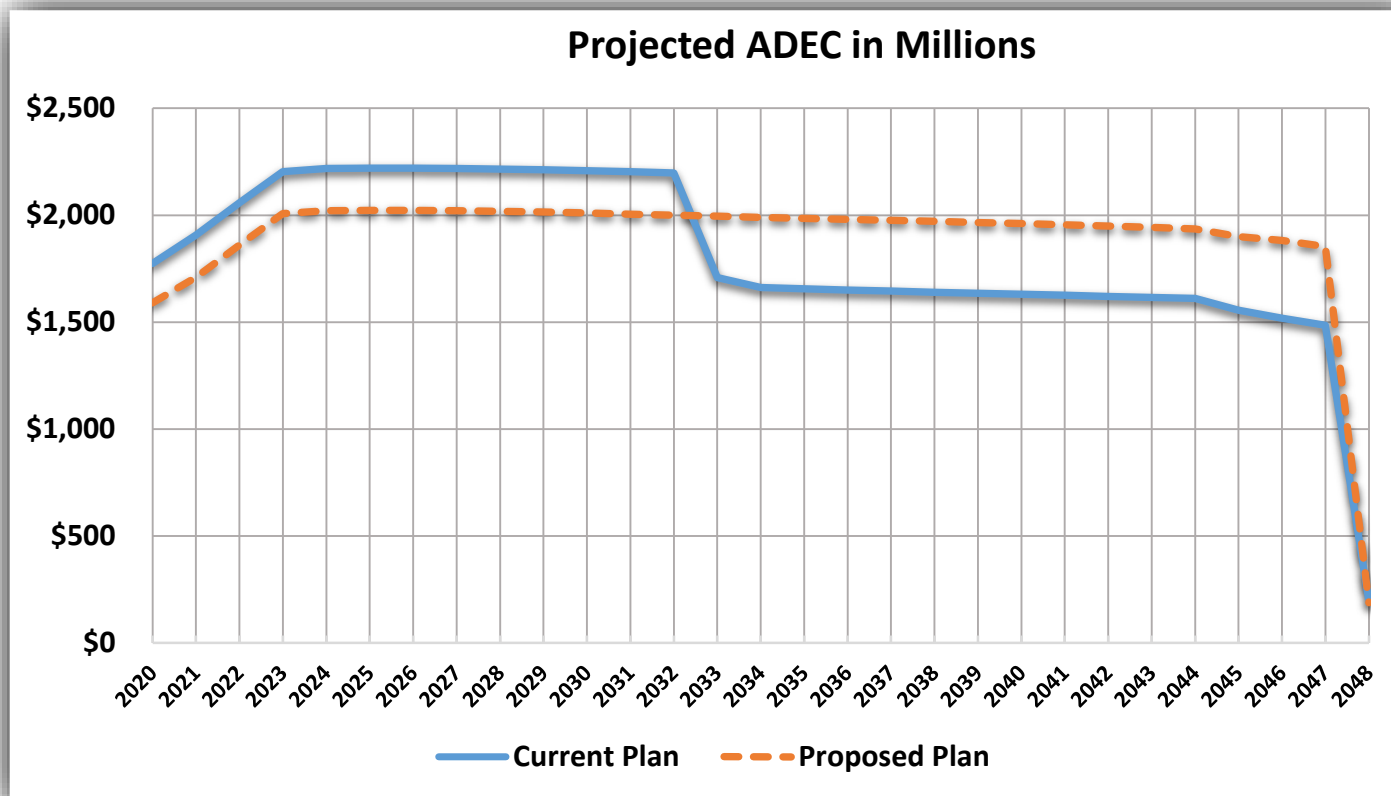


Restructuring Teachers' Pensions

Teachers' Retirement System
Projected ADEC in millions

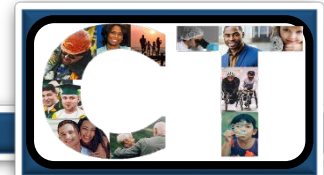


State Employees Retirement System



The Governor's proposed plan involves:

- Combining the statutory and transitional unfunded liability bases
- Adopting a cost of living adjustment (COLA) formula for future retirees that mirrors the risk sharing features of TRS whereby COLAs are dependent on increases granted to Social Security members and also on market returns



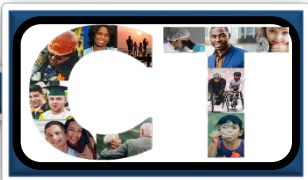
Healthcare Reforms



Active State Employee and Retiree Healthcare Proposals

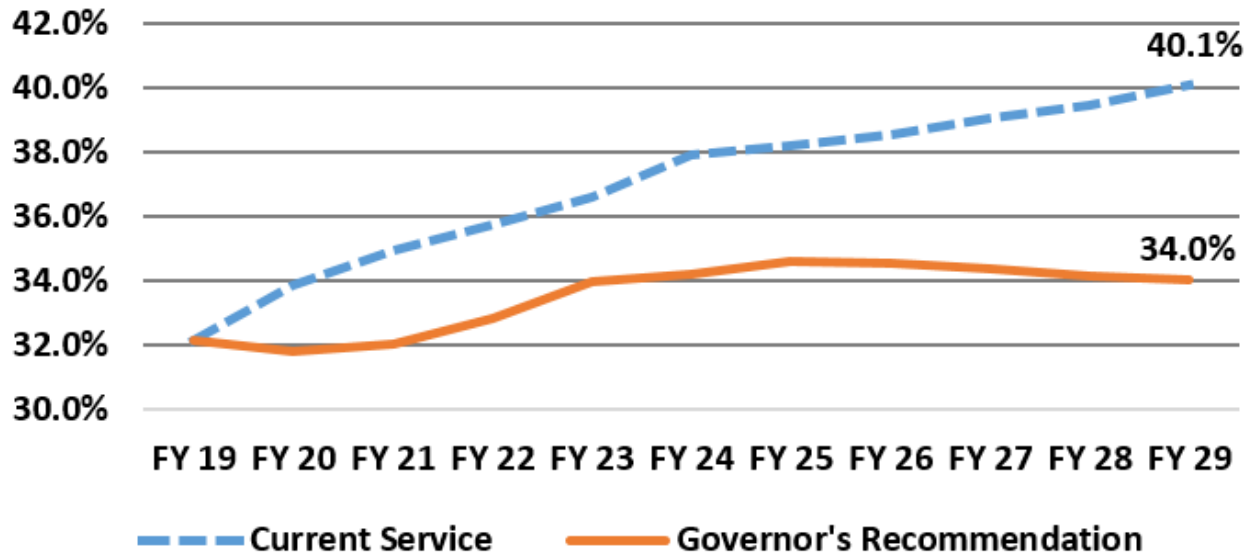
- The State of Connecticut currently spends \$1.3 billion in the General Fund on active and retiree health care benefits (7% of General Fund)
- Set a ceiling on the maximum price the state health plan will pay for services from hospitals and physicians based on a percentage above the Medicare payment rate
- Create a new preferred network with lower premiums linked to quality
- Expand the existing Smart Shopper and Site of Service programs that encourage participants to utilize high-quality, lower-cost providers to other geographical locations

The Governor's budget includes savings of \$50 million in FY 2020 and \$135 million in FY 2021 associated with these proposals



Reducing Fixed Costs Will Strengthen the General Fund

**Pension, Debt Service, Healthcare and OPEB
as % of Total General Fund Budget**



Includes actuarially required employer contributions for SERS and TRS, state employee and retiree healthcare, and General Obligation debt service; recommended also factors in town contributions for TRS normal cost.



Municipal Aid



Education Cost Sharing

Honors the formula passed in PA 17-2 JSS by adding \$17.7 million in FY 2020 and \$39.4 million in FY 2021 to fund scheduled increases and makes the following changes:

- Updated to use October 1, 2018 statistics
- Accelerates the phase-down percentage for reduced ECS grants from the current statutory level of 8.33% through FY 2028 to 25% through FY 2022
- Replaces the problematic free and reduced price lunch count in the formula with direct certification count



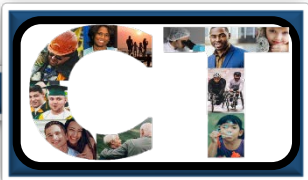
Education Cost Sharing Grants

(in millions)



Collaborating With School Districts to Reduce Costs

- Establishes a Commission on Shared School Services to promote shared services, models of consolidation, and savings
 - Accelerates process for sharing superintendents
- Invests in special education by funding staff at the Department of Education to establish Centers for Excellence
 - To build greater capacity to provide special education services that can be shared among districts to improve opportunities for students and reduce local costs
- Prioritizes school construction more sharply on the regionalization of school districts and Centers for Excellence



Increases in ECS & Minimum Budget Requirement (MBR) Relief

- Allows all towns, including Alliance Districts, who receive an increase in ECS funding over the prior year to use 50% of the increase for the schools' operating costs
- Maintains existing MBR criteria for non-Alliance Districts for:
 1. a reduction in ECS;
 2. a reduction in student count;
 3. a reduction in the number of students attending a designated tuitioning high school; and
 4. the closure of a school
- Governor's proposal expands MBR relief to all districts that realize savings for entering into cooperative arrangements for shared services and for school consolidation

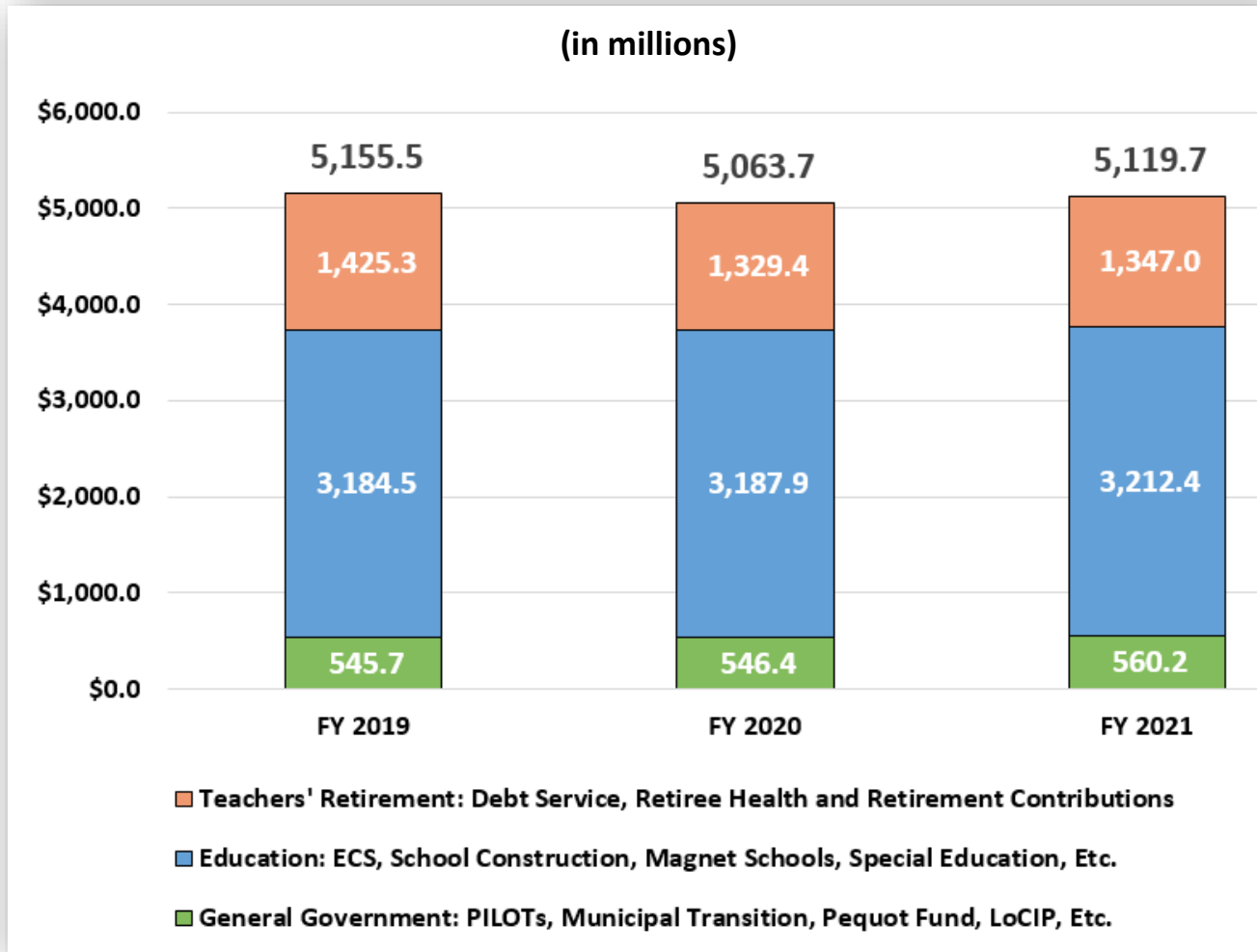


Working Together to Strengthen Local Government

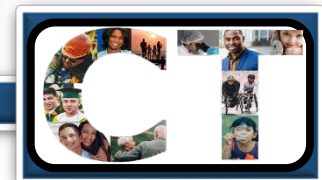
- Budget provides predictability by level-funding non-education grants
- Earlier identification of financially struggling municipalities for referral to the Municipal Finance Advisory Commission
- Charges the Advisory Commission on Intergovernmental Relations with making specific recommendations to implement shared and regional services
- Makes grants to the regional Councils of Governments and others to defray up-front implementation costs
- Streamlines and regionalizes local tax assessment and collection functions



State Aid to Municipalities



- Represents about 20% of the General Fund (about \$4 billion)
- The state's overall commitment to municipalities remains strong during the biennium
- Non-education statutory formula aid is held at FY 2019 levels
- Teachers' Retirement represents net total after partial contribution of normal cost from local governments in the biennium



Reframing the Relationship for TRS Normal Cost

- This budget re-frames the state's relationship with local governments to share the cost of funding current teacher pension benefits
- Excluding Distressed Municipalities, local governments or school districts will contribute at least 25% of their normal cost
- An additional percentage is added to match their level above the median state salary
- Distressed Municipalities contribute only 5%
- Total contributions from municipalities equal \$23.8 million in FY 2020 and \$49.2 million in FY 2021, reflecting the first two years of a three-year phase-in of this new approach



Health and Human Services Initiatives and Medicaid Savings – Becoming Leading Edge



Maintains Commitments for Individuals Who Rely on State Care

- DDS – \$46.2 million over the biennium for new caseload growth for day and residential supports
- DDS – Funds 70 new supportive housing units in FY 2021 for those with intellectual disabilities and autism spectrum disorders
- DDS, DMHAS, DOH, DSS – Funds 800 new transitions under Money Follows the Person by June 30, 2021
- DCF - \$9.1 million in net funding to honor the state's commitment to the 2017 revised Juan F. exit plan



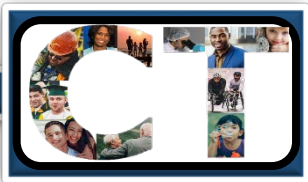
Medicare Savings Program

- Connecticut is one of only eight states without an asset test
 - Governor proposes to reinstate asset test
 - Will join 40 other states with asset limit at federal minimum
 - Countable resources include checking or savings account, stocks and bonds
 - Excludes individual's home, car, burial plot, up to \$1,500 in burial account, household and personal items
- Maintains income eligibility levels
 - Remains the highest in the country



Medicaid Cost Savings Initiatives

- In many areas, Medicaid policy is well situated compared to other states, but there are additional areas of focus to make Connecticut leading edge, including:
 - rebalancing long-term services and supports
 - Medicaid supportive housing benefit
 - pharmacy rebate optimization
 - value-based payments
 - utilization management
 - program integrity
- Together, these initiatives reduce the state's share of Medicaid expenditures by \$16.1 million in FY 2020 and \$38.7 million in FY 2021 (\$41.6 million in FY 2020 and \$101.9 million in FY 2021 after factoring in the federal share)



Hospitals

Under current law, the state would face a \$400 million budget impact in FY 2020

Net Impact of Hospital Financing Based on Current Statute

	FY 2019	FY 2020	Difference	
Revenue				
Hospital User Fee	\$900.0	\$384.0	(\$516.0)	General Fund Revenue - Health Provider Tax
Revenue from Supplemental Payments	330.9	111.0	(219.9)	Federal Grants Revenue
Revenue on Rate Payments	116.7	116.7	-	Medicaid - Federal Share
	<u>\$1,347.6</u>	<u>\$611.7</u>	<u>(\$735.9)</u>	
Appropriation				
Supplemental Payments	\$496.3	\$166.5	(\$329.8)	Total - State and Federal Share
Inpatient/Outpatient Rate Increases	175.1	175.1	-	Medicaid - State Share
	<u>\$671.4</u>	<u>\$341.6</u>	<u>(\$329.8)</u>	
Net State Impact			(\$406.1)	



Hospitals (continued)

- Maintains user fee at the current \$900 million
- Provides supplemental payments of \$453 million
 - Reflects reduction of \$40 million to ensure compliance with federal upper payment limit (needed to ensure federal reimbursement)



Efficiency and Operational Savings



Operational Efficiencies

- Strategies to operate more efficiently include:
 - Leveraging non-profit partners to perform services currently operated by DMHAS, saving \$2.3 million in FY 2020 and \$4.3 million in FY 2021
 - Leveraging new technology and operational changes to reduce employee overtime, saving \$13.3 million each year
 - Creating a central transportation unit at DCF
- Savings of \$37.1 million in FY 2020 and \$46.0 million in FY 2021



Initiatives



21st Century Digital Experience

- Provide a seamless digital experience in the form of a one-stop shop for residents and businesses
 - people starting a business,
 - accessing support during a family crisis, or
 - seeking stability through training and employment
- Modernize and digitize state government. Moving transactions from manual to online will reduce costs. Today, we have over 2,000 different forms and less than 5% of them can be completed online
- Strategically provide resources to focus on digital and technological procurement to avoid purchasing over-priced and underperforming systems
- \$2 million is provided in FY 2020 and \$4.3 million in FY 2021



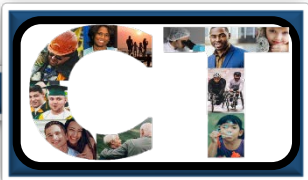
Criminal Justice Reforms

- Promote recovery from opioid use disorders by expanding medication-assisted treatment in correctional facilities (\$6 million in the biennium)
 - In 2016, 52 percent of people in Connecticut who died of a drug overdose had at one point been in a correctional facility
- Overcome barriers to securing a second chance by providing state identification cards (\$230,000 each year) and 60-day bus passes for people returning to the community (\$95,520 each year)
- Establish a pilot program to provide appointed counsel at parole violation hearings (\$250,000)
- Right-size Connecticut's prison capacity to meet changing needs based on falling crime, arrest, and recidivism (\$3.9 million in savings by closing five housing units in the Department of Correction)



Investing in the Health of Connecticut's Children

- Expands state's childhood vaccine program to ensure coverage of all 16 CDC-recommended vaccines and provide influenza vaccine through age 18, at a cost of \$4.5 million in FY 2020 and \$8.8 million in FY 2021
- Enhances state's newborn screening program by adding testing for 3 nationally recommended tests, with \$100,000 in costs supported by fee increase of about \$3



Bolstering Minority Teacher Recruitment

- Maintains existing funding:
 - \$262,500 in Department of Education to aid schools in recruiting minority teachers; and
 - \$320,134 in Office of Higher Education to assist minority students pursuing careers in education and to provide loan forgiveness
- Provides new capital authorizations to the CT Housing Finance Authority for down payment assistance
- Broadens certification reciprocity with other states to attract teacher talent from out of state



Strengthening Connecticut's Families



Minimum Wage Increase

- Governor Lamont supports working families by proposing increases to the minimum wage
- Current hourly wage is \$10.10. Increases would be phased-in over 4 years:
 - Effective 1/1/20 - \$11.25
 - Effective 1/1/21 - \$12.50
 - Effective 1/1/22 - \$13.75
 - Effective 1/1/23 - \$15.00
- Funding included under OPM for estimated private provider impact of wage increases
 - \$3 million in FY 2020, \$6 million in FY 2021



Paid Family and Medical Leave

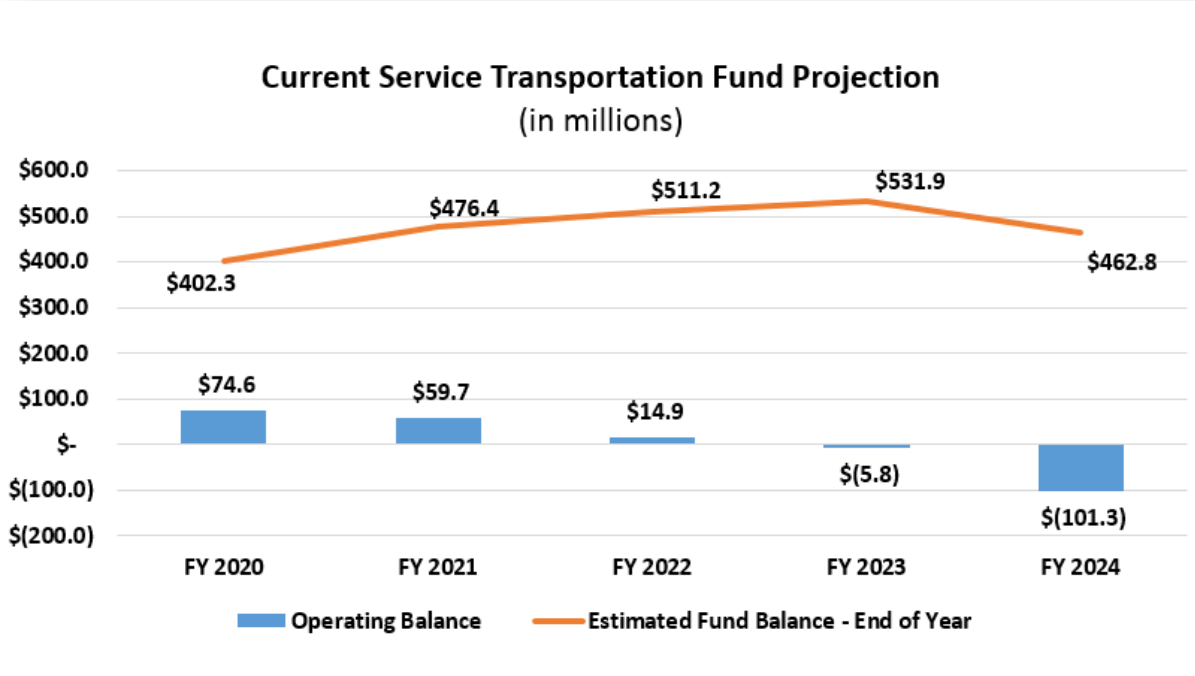
- Paid Family and Medical Leave to assist working families
 - Provides 12 weeks of coverage
 - Provides meaningful wage replacement
 - Modest estimated employee payroll contribution of 0.5%
- \$5.2 million for the Department of Labor
 - One-time startup funding until program revenues are received
 - Administrative costs supported by program revenues thereafter



Special Transportation Fund



Special Transportation Fund Projection – With Car Sales Tax Diversion



**Special Transportation Fund
Motor Vehicle Sales Tax to the STF
Revised Phase-In Schedule per PA 18-81**
(in millions)

Fiscal Year	Transfer Level	Estimated Revenue
2019	8.0%	\$ 29.0
2020	33.0%	\$ 120.0
2021	56.0%	\$ 204.8
2022	75.0%	\$ 275.7
2023	100.0%	\$ 368.2
2024	100.0%	\$ 368.9

Includes full implementation of the car sales tax transfer from the General Fund to the Special Transportation Fund. Does not include the impact of any new revenue sources.



Freezing the Car Sales Tax Transfer

Current Service Transportation Fund Forecast Freezing Car Sales Tax

(in millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Revenue	\$ 1,808.1	\$ 1,909.5	\$ 1,998.6	\$ 2,118.0	\$ 2,147.9
Less: Freeze sales tax on cars at 8.0%	<u>(91.0)</u>	<u>(175.8)</u>	<u>(246.7)</u>	<u>(339.2)</u>	<u>(339.9)</u>
Total Revenue	\$ 1,717.1	\$ 1,733.7	\$ 1,751.9	\$ 1,778.8	\$ 1,808.0
Revenue Cap	<u>(8.6)</u>	<u>(13.0)</u>	<u>(17.5)</u>	<u>(22.2)</u>	<u>(27.1)</u>
Available Revenue	\$ 1,708.5	\$ 1,720.7	\$ 1,734.4	\$ 1,756.5	\$ 1,780.8
Expenditures	\$ 1,724.5	\$ 1,835.5	\$ 1,963.7	\$ 2,097.3	\$ 2,216.9
Operating Balance	\$ (16.0)	\$ (114.8)	\$ (229.3)	\$ (340.8)	\$ (436.1)
Estimated Fund Balance - End of Year	\$ 311.3	\$ 209.5	\$ (2.3)	\$ (320.9)	\$ (729.8)



Tolling Options

	OPTION 1: Modified Congestion Mitigation Scenario	OPTION 2: Truck-Only Tolling
Highways Tolled	Interstates: 84, 91, 95 Routes: 15	Interstates: 84, 91, 95 Routes: 15
Net Revenue Potential (Approx.)	\$800 million	Between \$45 million and \$200 million
Capital Cost	\$213 million	\$184 million to \$334 million
Begin Construction	FY 2023	FY 2023
Fully Implemented	FY 2025	Over the next 20 years
Estimated Gantries	53	50 to 100
Federal Exemption	Value Pricing Pilot Program	Bridge Reconstruction



Tolling Options: Truck-Only vs. Modified Congestion

Truck-Only Tolling Proposal

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Operating Balance	\$ 10.6	\$ 3.4	\$ (83.9)	\$ (185.7)	\$ (244.4)
Estimated Fund Balance - End of Year	\$ 337.9	\$ 355.1	\$ 289.6	\$ 127.2	\$ (88.9)

Modified Congestion Mitigation Tolling Proposal

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Operating Balance	\$ 10.6	\$ 3.4	\$ (84.4)	\$ (65.1)	\$ 376.8
Estimated Fund Balance - End of Year	\$ 338.0	\$ 355.1	\$ 289.1	\$ 249.2	\$ 665.1

Both proposals reflect current level of basic maintenance investment



A Path Forward on Tolling

- The Transportation Fund needs an infusion of sustainable and reliable revenue
- Governor Lamont's budget models two scenarios to open this important discussion
- Any tolling proposal **must** maximize discounts for Connecticut EZ-Pass users and frequent drivers
- Tolling revenue will be devoted to transportation, pursuant to the constitutional lockbox and federal requirements



Conclusion

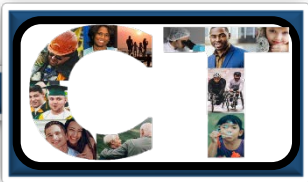


Conclusion

The Governor's budget:

- Focuses on positioning the state for economic growth and provides steps toward long-term sustainability
- Is balanced without gimmicks
- Complies with all caps (spending, revenue, volatility, debt)
- Reduces fixed costs – debt service, pensions and healthcare
- Reduces spending through efficiencies
- Modernizes and updates the sales tax structure
- Maintains our safety net for the most vulnerable
- Supports businesses and prioritizes education, transportation, municipal stability

A Path Forward



Appendix



Proposed Budget for FY 2020 and FY 2021

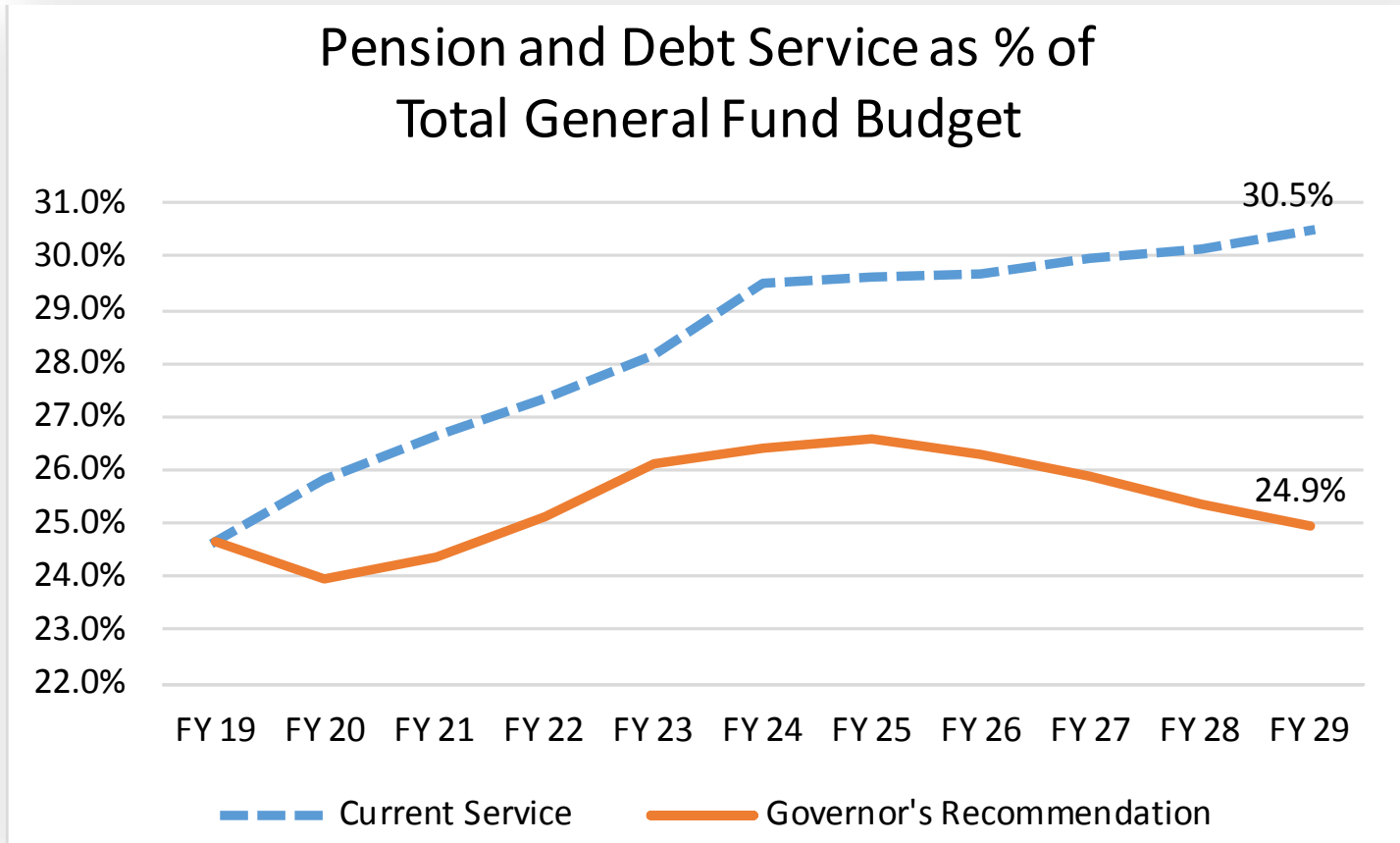
GOVERNOR'S BUDGET PLAN

(in millions)

<u>Special Transportation Fund</u>	Estimated FY 2019	Recommended FY 2020	Recommended FY 2021
Beginning Balance	\$ 245.7	\$ 318.7	\$ 337.9
Revenues	1,687.6	1,724.5	1,823.7
Revenue Cap	100.0%	99.5%	99.25%
Available Revenue	1,687.6	1,715.9	1,810.0
Total Available Resources	1,933.3	2,043.2	2,161.6
Expenditures	<u>1,614.6</u>	<u>1,705.3</u>	<u>1,806.6</u>
Operating Surplus/(Deficit)	\$ 73.0	\$ 10.6	\$ 3.4
Projected Fund Balance 6/30	\$ 318.7	\$ 337.9	\$ 355.1



Reducing Fixed Costs Will Strengthen the General Fund



Includes actuarially required employer contributions for SERS and TRS, and General Obligation debt service; recommended also factors in town contributions for TRS normal cost. Does not include active and retiree healthcare, as in earlier graph.

