Fiscal Accountability Report
Fiscal Years 2012 – 2016

A Report to
The Appropriations Committee and
The Finance, Revenue and Bonding Committee
Pursuant to Section 2-36b of the Connecticut General Statutes

Office of Policy and Management
Benjamin Barnes, Secretary

November 15, 2011

SUMMARY

THIS REPORT INDICATES THE FOLLOWING:

- The state's budgetary picture has stabilized as compared to the current services projection presented in the 2010 fiscal accountability report. This is due to the structural changes adopted during the 2011 legislative session, including increased revenues, reduced spending, and concessions by the state's workforce.
  - A year ago, the state faced current services shortfalls in excess of $3 billion in each year of the current budget biennium.
  - The enacted budget returns the state to structural balance for the foreseeable future, with operating surpluses projected in each year of the biennium.
  - Maintaining these structural surpluses over the long term is the key to achieving budgetary balance in accordance with Generally Accepted Accounting Principles, and to addressing the state's long-term obligations.
- State government has become leaner and more efficient. The number of state agencies and the size of the state workforce have been reduced.
- The state faces significant long-term obligations including debt, unfunded pension liabilities and unfunded post-employment retirement benefits that are estimated to exceed $71 billion in total.
- Significant cost drivers include health and pension costs for active and retired state employees and teachers, and expenditures related to the Medicaid program. Debt service will continue to consume a significant portion of the budget.
- While not a budgeted fund, the state's Unemployment Insurance Trust Fund is insolvent and has relied on federal loans, which must be repaid, to maintain benefits. Repayment of the principal and interest on these loans will affect employers, who will pay increased assessments.

MAJOR ISSUES AND TRENDS IMPACTING THE STATE'S FISCAL SITUATION

- Despite the budget stability that can be expected in the near term, high fixed costs and the lack of reserves (i.e., a depleted Budget Reserve Fund) leave the state unprepared for the next recession.
- The state has not adopted a comprehensive plan to reduce its significant liabilities and to rebuild reserves, which is a negative factor in the state's credit rating.
- The economic recovery has been slower and more prolonged than past recoveries and will affect the state's economy and job picture.
  - During the most recent recession the state lost 119,200 jobs and has only regained 23% of those jobs over the past 20 months.
  - The state's unemployment rate is expected to remain elevated due to the slow recovery.

CONNECTICUT MUST MEET THE CHALLENGE

Connecticut must continue to get its fiscal house in order.

- The state must continue to look for opportunities to efficiently serve the public, and to support business and industry as they create jobs.
- The state must plan for and undertake a disciplined approach to addressing its unfunded liabilities.
- The state must embark on rebuilding the Rainy Day Fund in order to be prepared for the next recession.

INTRODUCTION

This report has been prepared in accordance with Section 2-36b of the Connecticut General Statutes. It contains the estimated revenues for the three fiscal years next ensuing the 2011-13 biennium and projected expenditures for the same period.

FINANCIAL SUMMARY OF FUNDS
(in millions)

	Estimated	Revised Enacted[6]	Projected		
General Fund	2011-12	2012-13	2013-14	2014-15	2015-16
Revenues[1]	$ 18,777.5	$ 19,354.0	$ 20,290.9	$ 21,275.1	$ 22,303.6
Expenditures	$ 18,710.4	19,056.5	20,127.5	21,114.5	21,783.0
Balance	$ 67.1	$ 297.5	$ 163.4	$ 160.6	$ 520.6
Reserve for GAAP	(67.1) [4]	(50.0)	(160.0)	(160.0)	(160.0)
Reduce Indebtedness/Reserves	$ -	$ (247.5)	$ (3.4)	$ (0.6)	$ (360.6)
Balance	$ -	$ -	$ -	$ -	$ -
Special Transportation Fund					
Revenues	$ 1,243.7	$ 1,316.1	$ 1,351.2	$ 1,368.8	$ 1,401.6
Expenditures	1,241.9	1,277.8	1,318.7	1,372.2	1,430.1
Balance	$ 1.8	$ 38.3	$ 32.5	$ (3.4)	$ (28.5)
Other Funds [2]					
Revenues	$ 171.5	$ 170.1	$ 247.4	$ 251.8	$ 255.7
Expenditures	171.2	169.6	247.0	251.3	255.3
Balance	$ 0.3	$ 0.5	$ 0.4	$ 0.5	$ 0.4
Total All Appropriated Funds					
Revenues	$ 20,192.7	$ 20,840.2	$ 21,889.5	$ 22,895.7	$ 23,960.9
Expenditures	20,123.5	20,504.0	21,693.2	22,738.0	23,468.5
Balance	$ 69.2	$ 336.2	$ 196.3	$ 157.7	$ 492.4
Expenditure Cap Results					
Total All Appropriated Funds	$ 20,140.8 [5]	$ 20,504.0	$ 21,693.2	$ 22,738.0	$ 23,468.5
Allowed Appropriations per Cap	20,141.9	20,699.1	21,040.5	21,624.7	22,252.6
Over/(Under) the Cap	$ (1.0)	$ (195.1)	$ 652.7	$ 1,113.3	$ 1,215.9
Revenues and the Expenditure Cap[3]					
Revenues - All Funds			$ 21,889.5	$ 22,895.7	$ 23,960.9
Allowed Appropriations per Cap			21,040.5	21,624.7	22,252.6
Revenues Less Allowed Approps.			$ 849.0	$ 1,271.0	$ 1,708.3

(1) Revenues reflect the October 14, 2011 consensus revenue forecast as revised by PA 11-1 of the October Special Session.
(2) Other funds include the: a) Mashantucket Pequot and Mohegan Fund, b) Soldiers, Sailors and Marines' Fund, c) Regional Market Operating Fund, d) Banking Fund, e) Insurance Fund, f) Consumer Counsel and Public Utility Control Fund, g) Workers' Compensation Fund, h) Criminal Injuries Compensation Fund.
(3) Article 3, section 18 of the State Constitution requires a balanced budget.
(4) Public Act 11-48 section 46 requires the Comptroller to reserve any unappropriated surplus not to exceed $75 million in FY 2012 and $50 million in FY 2013, to prevent an increase in the cumulative GAAP deficit. Amounts in FY 2014 through FY 2016 reflect estimated requirement to convert to GAAP accounting, including amount needed to amortize the cumulative GAAP deficit over fifteen years.
(5) FY 2012 reflects appropriated budget level and does not tie to estimated expenditure levels shown above.
(6) FY 2013 reflects enacted budget plus roll-out of FY 2012 projected deficiencies.

SECTION 1

ESTIMATE OF STATE REVENUES, EXPENDITURES AND ENDING BALANCE

ASSUMPTIONS

ASSUMPTIONS USED TO DEVELOP EXPENDITURE ESTIMATES

The *Estimated FY 2012* and the *Revised Enacted FY 2013* columns show the original appropriation (PA 11-6, PA 11-61, and PA 11-1(JSS)) adjusted to reflect the rollout of recognized FY 2012 deficiencies. The three out years have been developed based on the *Revised Enacted FY 2013* level using the inflation factors noted below.

GENERAL ASSUMPTIONS

With notable exceptions, those expenditures not governed by statute were increased by projected standard inflation rates as follows:

FY 2014	2.95%
FY 2015	3.07%
FY 2016	2.09%

In addition, the following medical inflation rates were used where appropriate:

FY 2014	4.15%
FY 2015	4.01%
FY 2016	3.87%

Personal Services was inflated by 4.5% each year. Expenditures increased by the standard inflation rates include: Other Expenses, Other Current Expenses, and Grants. Partial year costs are annualized. Equipment costs are not inflated and reflect the FY 2013 enacted budget; agency equipment requirements beyond this level are assumed to be funded from the Capital Equipment Purchase Fund.

NOTABLE EXCEPTIONS

Listed below are significant items within the three out years that were developed using other than the standard inflation guidelines, or that require further explanation.

STATE COMPTROLLER - FRINGE BENEFITS

- *State Employees Retirement System* - FY 2012 through FY 2014 based on June 30, 2010 valuation. A revised valuation reflecting the pension changes from the 2011 SEBAC agreement is due later in calendar year 2011. FY 2015 and FY 2016 assume an average increase of 4.4%.
- *Higher Education Alternate Retirement Plan and Employer's Social Security Tax* - Reflects decrease to 26 pay periods in FY 2013 from 27 pay periods in FY 2012.
- *Judges and Compensation Commissioners' Retirement* - FY 2012 through FY 2014 based on June 30, 2010 valuation. FY 2015 and FY 2016 assume an average increase of 5.2%.
- *State Employee and Retiree Health Service Costs* - Reflects medical inflation.

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- *Adjustment to Pequot Grant* - Fiscal years 2014, 2015 and 2016 assume funding at the statutory transfer level of $135 million.

DEPARTMENT OF PUBLIC HEALTH

- *Breast and Cervical Cancer, Medicaid Administration, Children's Health Initiative* - Reflects Personal Services inflation applied to salary component of account. Medical inflation applied to remainder of Breast and Cervical Cancer Detection and Treatment, and standard inflation applied to remainder of Medicaid Administration and Children's Health Initiatives accounts.
- *Community Health Services, X-Ray Screening and TB Care, Immunization Services, Venereal Disease Control* - Reflects medical inflation.
- *Local & District Departments of Health* - Per capita grant reflects 0.5% population growth per year.

OFFICE OF THE CHIEF MEDICAL EXAMINER

- *Medicolegal Investigations* – Reflects medical inflation rate.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- *Cooperative Placements Program, Employment Opportunities and Day Services, Community Residential Services* - Reflects anticipated caseload growth including high school graduates and age outs, Messier-related placements, Money Follows the Person eligible placements, and court ordered placements.
- *Cooperative Placements Program, Voluntary Services, Community Residential Services* - Reflects leap year payments for FY 2016.
- *Clinical Services, Early Intervention* - Reflects medical inflation rate.

DEPARTMENT OF MENTAL HEALTH & ADDICTION SERVICES

- *Personal Services and Other Expenses* - Adjustments include inflation on Disproportionate Share amount of $79,818,546 which is budgeted in the Department of Social Services - DMHAS/Disproportionate Share Account.
- *TBI Community Services, Discharge and Diversion Services, and General Assistance Managed Care* - Reflects anticipated caseload growth.
- *General Assistance Managed Care, Professional Services* - Reflects leap year payments in FY 2016.
- *Home and Community Based Waiver* - Reflects anticipated current costs and caseload trends.

DEPARTMENT OF TRANSPORTATION

- *Town Aid Road Grants* - Reflects level funding at the $30 million level.
- *Highway & Bridge Renewal Equipment* – Reflects level funding.

DEPARTMENT OF SOCIAL SERVICES

- *State-Funded Supplemental Nutrition Assistance Program, HUSKY Program, Charter Oak Health Plan, Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled, Temporary Assistance to Families, ConnPACE, Connecticut Home Care Program, Child Care - TANF/CCDBG, State Administered General Assistance* - Reflects anticipated cost and caseload changes based on current trends.
- *Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled* - Reflects leap year payments in FY 2016.
- *Medicaid, Charter Oak Health Plan* - Reflects expansion of Medicaid coverage for low-income adults with income up to 133% of the federal poverty level beginning January 1, 2014 and reduction in expenditures under the Charter Oak Health Plan.
- *Medicaid, Housing/Homeless Services* - Reflects transition of additional clients under the Money Follows the Person initiative.

SOLDIERS, SAILORS AND MARINES' FUND

- *Award Payments to* Veterans - Medical inflation applied to portion of account dedicated to hospital and medical payments.

BUREAU OF REHABILITATIVE SERVICES

- *Part-Time Interpreters, Educational Aid for Blind and Handicapped Children* - Reflects Personal Services inflation rates.

DEPARTMENT OF EDUCATION

- *Technical High Schools* - Reflects Personal Services inflation increases for salary portion of the account.
- *Transportation of School Children, Adult Education, Health Services for Pupils Private Schools, Excess Cost - Student Based (Special Education) and Non-Public School Transportation* - Reflect funding grants at the statutory, un-capped level.
- *Charter Schools, OPEN Choice Program and Magnet Schools* – Reflect anticipated cost based on estimated enrollment.

TEACHERS' RETIREMENT BOARD

- *Retirement Contributions* - FY 2014 and beyond reflect a 4% increase per year.
- *Retirees Health Service Cost and Municipal Health Insurance Cost* - Reflects medical inflation rate.

DEPARTMENT OF CHILDREN AND FAMILIES

- *Personal Services* – Raise the Age of Juvenile Jurisdiction - Reflects annualized costs in FY 2015 and FY 2016 to reflect the delayed hire of additional Connecticut Juvenile Training School staff.
- *Board and Care for Children - Residential, Juvenile Justice Outreach, No Nexus Special Education* - Raise the Age of Juvenile Jurisdiction - Reflects anticipated services required to meet the needs of youth who will be considered juveniles under the recent legislation. The age of juvenile jurisdiction was increased to include 16 year olds as of January 1, 2010; 17 year olds will be considered juveniles as of July 1, 2012.
- *Board and Care for Children - Adoption, Foster Care, Residential* - Leap Year - Board and Care for Children accounts have been adjusted in FY 2016 for the cost of an additional per diem payment due to leap year.
- *Board and Care for Children - Adoption, Foster Care* - Caseload Growth - Board and Care accounts reflect anticipated growth in the number of clients served.
- *Board and Care for Children - Residential, No Nexus Special Education* - Reflects anticipated number of children and youth placed in facility settings; and rate increases determined through the Single Cost Accounting System for residential treatment facilities and no-nexus special education costs as authorized in statute.
- *Supportive Housing for Families* - Supportive Housing Rent Supports - Reflects funding to support housing vouchers for new families in the Supportive Housing for Families program and assumes current caseload remains in program.
- *Local Systems of* Care – Reflects Personal Services inflation on salary component; standard inflation on remainder.

PUBLIC DEFENDER SERVICES COMMISSION

- *Personal Services and Other Expenses* - Reflects additional costs related to the transition of the 17-year-old population to juvenile jurisdiction under the Raise the Age initiative.

SUMMARY OF APPROPRIATED FUND PROJECTIONS

(in millions)

GENERAL FUND	Estimated FY 2012	Revised Enacted FY 2013	FY 2014	Estimated FY 2015	FY 2016
DSS - Medicaid	$ 4,662.1	$ 4,855.2	$ 5,253.3	$ 5,651.0	$ 5,939.2
STATEWIDE - Personal Services	2,366.9	2,266.5	2,372.7	2,483.5	2,598.2
SDE - Education Equalization Grants	1,889.6	1,889.6	1,945.4	2,005.1	2,047.0
OTT - Debt Service	1,697.4	1,678.3	1,719.3	1,776.7	1,656.0
TRB - Retirement Contributions	757.2	787.5	819.0	851.8	885.9
OSC - Employee Retirement Contribution	722.1	715.5	773.7	807.8	843.3
OSC - State Employees Health Serv Cost	602.4	663.8	691.4	719.1	746.9
OSC - Retired Employee Health Serv Cost	565.1	614.1	639.6	665.2	691.0
STATEWIDE - Other Expenses	466.1	465.0	478.9	493.7	504.1
DDS - Community Residential Services	419.6	431.9	455.3	469.3	493.5
DSS - Disproportionate Share-Med Emer Asst	268.5	268.5	268.5	268.5	268.5
OSC - Employers Social Security Tax	244.9	245.9	253.1	260.9	266.3
SDE - Magnet Schools	215.9	235.4	254.5	263.6	267.7
UOC - Operating Expenses	213.5	210.4	219.9	229.8	240.2
DCF - Board & Care - Residential	189.2	196.9	190.5	200.3	207.8
DDS - Employment Opportunities & Day Svcs	186.6	197.1	205.2	211.5	215.9
MHA - General Assistance Managed Care	182.5	195.8	205.5	215.8	226.6
BOR - Connecticut State University	157.4	153.5	160.4	167.7	175.2
BOR - Regional Community - Technical Colleges	153.8	150.1	156.8	163.9	171.3
SDE - Regional Vocational-Technical School Sys	149.6	143.7	149.9	156.4	163.0
SDE - Excess Cost - Student Based	139.8	139.8	184.8	196.0	207.9
UHC - Operating Expenses	121.0	109.2	114.1	119.2	124.6
DSS - Temporary Assist to Families - TANF	120.6	122.2	120.0	124.9	129.1
SDE - Priority School Districts	116.6	116.1	119.5	123.2	125.8
DCF - Board and Care for Children - Foster	115.5	120.1	120.6	128.1	134.3
OPM - Loss Taxes Private Tax-Exempt Property	115.4	115.4	115.4	115.4	115.4
OTT - UConn 2000 - Debt Service	110.3	130.0	144.9	157.4	161.7
DSS - DMHAS – Disproportionate Share	105.9	105.9	105.9	105.9	105.9
DSS - Child Care Services - TANF/CCDBG	97.6	104.3	111.5	117.8	123.5
DOC - Inmate Medical Services	97.0	94.7	98.7	102.6	106.6
DCF - Board and Care for Children - Adoption	87.1	92.9	92.6	97.4	101.7
OTT - Pension Obligation Bonds - TRB	80.9	121.4	145.1	133.9	132.9
MHA - Grants for Mental Health Services	76.4	76.4	79.6	82.8	86.0
OPM - Loss of Taxes on State Property	73.5	73.5	73.5	73.5	73.5
DSS - Connecticut Home Care Program	62.6	65.1	49.6	52.0	54.6
DSS - Aid to the Disabled	61.8	62.0	65.8	70.3	73.2
MHA - Young Adult Services	60.8	64.8	67.7	70.7	73.9
SDE - Charter Schools	57.1	59.8	64.8	67.4	68.9
JUD - Alternative Incarceration Program	56.7	56.6	58.3	60.1	61.4
DSS - Housing/Homeless Services	55.3	59.8	63.3	67.1	70.2
OPM - Reserve for Salary Adjustments	42.6	200.1	206.0	212.3	216.8
DOC - Community Support Services	40.4	40.4	41.6	42.8	43.7
MHA - Managed Service System	38.8	38.7	40.3	42.0	43.6
OSC - Higher Ed Alternative Retirement Sys	38.0	37.7	38.9	40.0	40.9
DSS - HUSKY Program	37.7	42.6	32.1	33.7	35.4
DDS - Early Intervention	36.3	34.7	36.1	37.6	39.0
DSS - Old Age Assistance	35.6	36.1	38.6	40.1	41.5
DDS - Voluntary Services	31.3	31.2	32.1	33.1	34.8
DOC - Workers' Compensation Claims	30.6	29.9	30.8	31.8	32.4
JUD - Juvenile Alternative Incarceration	30.2	30.2	31.1	32.0	32.7
DHE - CT Aid for Public College Students	29.8	29.8	30.7	31.6	30.4
DAS - Workers' Compensation Claims	27.7	27.2	28.0	28.9	29.5
DOL - Workforce Investment Act	27.4	27.4	27.4	27.4	27.4

SUMMARY OF APPROPRIATED FUND PROJECTIONS

(in millions)

GENERAL FUND	Estimated FY 2012	Revised Enacted FY 2013	FY 2014	Estimated FY 2015	FY 2016
TRB - Retirees Health Service Cost	27.4	30.5	31.8	33.0	34.3
OPM - Tax Relief for Elderly Renters	26.2	29.2	30.0	31.0	31.6
SDE - Transportation of School Children	25.8	24.9	84.5	86.8	89.1
MHA - Grants for Substance Abuse Services	25.0	25.0	26.1	27.1	28.2
DCF - Community KidCare	23.6	23.6	24.3	25.0	25.5
DDS - Cooperative Placements Program	21.9	22.6	24.2	24.9	26.2
SDE - Adult Education	21.0	21.0	20.7	20.9	21.0
OPM - Prop Tax Relief Elder-Circuit Breaker	20.5	20.5	21.1	21.8	22.2
SDE - OPEN Choice Program	19.8	22.1	30.1	32.6	33.9
SDE - Develop of Mastery Exams Grades 4,6&8	19.1	19.1	19.6	20.2	20.6
SDE - Child Care Services	18.4	18.4	19.0	19.5	20.0
DHE - CT Independent College Student Grant	18.1	16.2	16.6	17.1	17.5
DOL - Jobs First Employment Services	17.7	17.7	18.2	18.7	19.1
DCF - Individualized Family Supports	16.4	16.4	17.6	18.2	18.6
DDS - Workers' Compensation Claims	15.5	15.2	15.7	16.2	16.5
OSC - Judges & Comp Commissioner Ret	15.1	16.0	18.0	19.0	20.0
ECD - Statewide Marketing	15.0	15.0	15.4	15.9	16.2
DSS - State Administered General Assistance	14.6	14.7	15.0	15.6	16.2
DCF - Support for Recovering Families	14.5	16.8	19.2	21.8	24.3
MHA - Housing Supports and Services	14.4	15.0	15.6	16.2	16.9
DCF - Gts Psychiatric Clinics for Children	14.1	14.1	14.5	15.0	15.3
DAS - IT Services	13.6	13.4	13.8	14.2	14.5
DDS - Supplemental Payments for Medical Services	13.1	13.4	13.4	13.4	13.4
DAS - Insurance & Risk Operations	13.0	13.0	13.4	13.8	14.1
DCF - Juvenile Justice Outreach Services	12.6	13.4	14.2	15.1	15.4
OSC - Unemployment Compensation	12.5	8.9	9.2	9.4	9.6
DAS - Rents and Moving	12.4	12.7	13.1	13.5	13.8
DSS - Children's Trust Fund	12.3	13.1	13.5	13.9	14.2
MHA - Professional Services	11.8	11.8	12.3	12.8	13.3
PDS - Contracted Attorneys	11.4	10.8	11.1	11.5	11.7
MHA - TBI Community Services	11.2	12.7	14.8	15.4	16.0
SDE - Interdistrict Cooperation	11.1	11.1	11.5	11.8	12.1
MHA - Workers' Compensation Claims	10.8	10.6	11.1	11.5	12.0
DSS - Connecticut Children's Medical Center	10.6	10.6	10.6	10.6	10.6
DPH - School Based Health Clinics	10.4	10.4	10.7	11.1	11.3
MHA - Employment Opportunities	10.4	10.4	10.7	11.1	11.3
DEP - Environmental Quality Fees Fund	10.4	10.2	10.5	10.8	11.0
DCF - Workers' Compensation Claims	10.4	10.3	10.6	11.0	11.2
MHA - Discharge and Diversion Services	10.3	12.6	14.7	15.3	15.9
STATEWIDE - ALL OTHER	537.5	538.2	554.4	577.0	597.4
General Fund - Gross	$ 19,518.6	$ 20,022.3	$ 21,093.3	$ 22,080.3	$ 22,748.8
Unallocated Lapse	(92.0)	(91.7)	(91.7)	(91.7)	(91.7)
Unallocated Lapse - Legislative	(2.7)	(3.0)	(3.0)	(3.0)	(3.0)
Unallocated Lapse - Judicial	(3.5)	(5.4)	(5.4)	(5.4)	(5.4)
General Personal Services Reduction – Legislative	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
General Personal Services Reduction - Executive	(11.5)	(11.5)	(11.5)	(11.5)	(11.5)
General Other Expenses Reductions - Legislative	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
General Other Expenses Reductions - Executive	(9.1)	(9.1)	(9.1)	(9.1)	(9.1)
Labor Management Savings Lapse – Legislative	(4.6)	(6.7)	(6.7)	(6.7)	(6.7)
Labor Management Savings Lapse – Executive	(625.9)	(807.0)	(807.0)	(807.0)	(807.0)
Labor Management Savings Lapse – Judicial	(27.7)	(30.6)	(30.6)	(30.6)	(30.6)
Other Allocated Lapses	(30.3)	-	-	-	-
General Fund - Net	$ 18,710.4	$ 19,056.5	$ 20,127.5	$ 21,114.5	$ 21,783.0

SUMMARY OF APPROPRIATED FUND PROJECTIONS

(in millions)

GENERAL FUND	Estimated FY 2012	Revised Enacted FY 2013	FY 2014	Estimated FY 2015	FY 2016
SPECIAL TRANSPORTATION FUND - Gross	$ 1,315.5	$ 1,345.8	$ 1,386.6	$ 1,440.1	$ 1,498.0
Estimated Unallocated Lapses	(11.0)	(11.0)	(11.0)	(11.0)	(11.0)
Labor Management Savings Lapse	(42.5)	(56.9)	(56.9)	(56.9)	(56.9)
Other Allocated Lapses	(20.0)	-	-	-	-
Special Transportation Fund - Net	$ 1,241.9	$ 1,277.8	$ 1,318.7	$ 1,372.2	$ 1,430.1
BANKING FUND - Gross	$ 26.8	$ 26.2	$ 27.1	$ 28.1	$ 29.0
Judicial Branch Savings Target Lapse	(0.3)	(0.1)	-	-	-
Banking Fund - Net	$ 26.6	$ 26.1	$ 27.1	$ 28.1	$ 29.0
INSURANCE FUND	$ 26.6	$ 26.1	$ 27.3	$ 28.4	$ 29.6
CONSUMER COUNSEL/PUBLIC UTILITY FUND	$ 26.4	$ 26.0	$ 27.0	$ 28.0	$ 28.9
WORKERS' COMPENSATION FUND	$ 22.3	$ 22.0	$ 22.9	$ 23.7	$ 24.5
MASHANTUCKET PEQUOT AND MOHEGAN FUND	$ 61.8	$ 61.8	$ 135.0	$ 135.0	$ 135.0
SOLDIERS, SAILORS AND MARINES FUND	$ 3.1	$ 3.1	$ 3.2	$ 3.3	$ 3.4
REGIONAL MARKET OPERATION FUND	$ 1.0	$ 0.9	$ 1.0	$ 1.0	$ 1.0
CRIMINAL INJURIES COMPENSATION FUND	$ 3.5	$ 3.6	$ 3.7	$ 3.8	$ 3.9
TOTAL ALL FUNDS - NET	**$ 20,123.5**	**$ 20,504.0**	**$ 21,693.2**	**$ 22,738.0**	**$ 23,468.5**

PROJECTED REVENUES

Consensus Revenue Forecast Adjusted for the October Special Session

(In Millions)

General Fund

Taxes	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Personal Income Tax	$ 8,456.9	$ 8,839.3	$ 9,411.0	$ 10,030.0	$ 10,648.6
Sales & Use Tax	3,765.5	3,916.0	4,053.0	4,164.4	4,279.0
Corporation Tax	707.7	774.5	723.3	701.5	779.5
Public Service Tax	268.7	275.2	279.3	285.3	287.8
Inheritance & Estate Tax	158.0	162.1	166.9	171.9	177.1
Insurance Companies Tax	228.7	229.8	221.6	225.8	230.2
Cigarettes Tax	443.8	425.9	414.2	402.8	391.8
Real Estate Conveyance Tax	97.8	105.5	112.2	117.1	122.2
Oil Companies Tax	115.5	143.1	149.8	151.3	151.7
Electric Generation Tax	71.0	71.0	-	-	-
Alcoholic Beverages Tax	54.9	58.0	58.4	58.8	59.2
Admissions & Dues Tax	37.8	39.7	40.1	40.5	40.8
Health Provider Tax	525.9	530.7	533.3	535.9	538.6
Miscellaneous Tax	16.3	16.1	16.4	16.6	16.7
Total Taxes	$ 14,948.5	$ 15,586.9	$ 16,179.5	$ 16,901.9	$ 17,723.2
Less Refunds of Tax	(816.1)	(884.0)	(927.7)	(974.1)	(1,022.3)
Less Earned Income Tax Credit	(110.2)	(116.5)	(122.3)	(128.4)	(134.9)
Less R&D Credit Exchange	(9.0)	(9.5)	(10.0)	(10.5)	(11.0)
Total - Taxes Less Refunds	$ 14,013.2	$ 14,576.9	$ 15,119.5	$ 15,788.9	$ 16,555.0
Other Revenue					
Transfers-Special Revenue	$ 292.3	$ 293.7	$ 295.2	$ 296.7	$ 298.2
Indian Gaming Payments	354.8	365.5	373.8	381.3	388.9
Licenses, Permits, Fees	274.1	247.8	277.3	251.6	281.1
Sales of Commodities	36.4	37.3	38.7	40.0	42.0
Rents, Fines, Escheats	127.4	121.7	119.2	116.8	114.5
Investment Income	2.0	3.2	4.7	5.7	7.2
Miscellaneous	168.0	168.5	169.3	170.1	171.0
Less Refunds of Payments	(50.0)	(35.8)	(36.0)	(36.6)	(37.3)
Total - Other Revenue	$ 1,205.0	$ 1,201.9	$ 1,242.2	$ 1,225.6	$ 1,265.6
Other Sources					
Federal Grants	$ 3,606.0	$ 3,716.7	$ 4,146.0	$ 4,478.4	$ 4,692.4
Transfer From Tobacco Settlement	96.1	93.1	91.0	90.0	98.4
Transfers From (To) Other Funds	(142.8)	(234.6)	(307.8)	(307.8)	(307.8)
Total - Other Sources	$ 3,559.3	$ 3,575.2	$ 3,929.2	$ 4,260.6	$ 4,483.0
Total - General Fund Revenues	$ 18,777.5	$ 19,354.0	$ 20,290.9	$ 21,275.1	$ 22,303.6

Special Transportation Fund

Taxes	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Motor Fuels Tax	$ 491.8	$ 491.8	$ 495.0	$ 498.6	$ 502.9
Oil Companies Tax	226.9	199.4	222.7	226.8	231.4
Sales Tax - DMV	74.3	74.7	75.5	77.0	78.5
Total Taxes	$ 793.0	$ 765.9	$ 793.2	$ 802.4	$ 812.8
Less Refunds of Taxes	(7.4)	(7.5)	(7.6)	(7.7)	(8.3)
Total - Taxes Less Refunds	$ 785.6	$ 758.4	$ 785.6	$ 794.7	$ 804.5
Other Sources					
Motor Vehicle Receipts	$ 237.5	$ 242.4	$ 246.0	$ 251.3	$ 255.0
Licenses, Permits, Fees	141.9	142.5	143.9	145.2	146.6
Interest Income	9.0	12.0	15.0	17.0	20.0
Federal Grants	13.1	13.1	13.1	13.1	13.1
Transfers From (To) Other Funds	60.1	151.3	151.3	151.3	166.3
Less Refunds of Payments	(3.5)	(3.6)	(3.7)	(3.8)	(3.9)
Total - Other Sources	$ 458.1	$ 557.7	$ 565.6	$ 574.1	$ 597.1
Total - STF Revenues	$ 1,243.7	$ 1,316.1	$ 1,351.2	$ 1,368.8	$ 1,401.6

PROJECTED REVENUES

(In Millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Mashantucket Pequot and Mohegan Fund	$ 61.8	$ 61.8	$ 135.0	$ 135.0	$ 135.0
Soldiers, Sailors, and Marines Fund	$ 3.1	$ 3.1	$ 3.2	$ 3.3	$ 3.4
Regional Market Operating Fund	$ 1.0	$ 1.0	$ 1.0	$ 1.1	$ 1.1
Banking Fund	$ 26.6	$ 26.2	$ 27.2	$ 28.2	$ 29.0
Insurance Fund	$ 26.7	$ 26.2	$ 27.3	$ 28.5	$ 29.7
Consumer Counsel & Public Utility Control	$ 26.5	$ 26.0	$ 27.0	$ 28.0	$ 29.0
Workers' Compensation Fund	$ 22.3	$ 22.1	$ 22.9	$ 23.8	$ 24.5
Criminal Injuries Fund	$ 3.5	$ 3.7	$ 3.8	$ 3.9	$ 4.0
All Appropriated Funds Revenues	**$ 20,192.7**	**$ 20,840.2**	**$ 21,889.5**	**$ 22,895.7**	**$ 23,960.9**

Impact of the October 2011 Jobs Session on Consensus Revenue

General Fund
(In Millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Personal Income Tax					
Angel Investor Tax Credit	$ -	$ (1.5)	$ -	$ -	$ -
Job Expansion Tax Credit	-	(5.0)	(5.0)	(5.0)	(5.0)
Total Personal Income Tax	$ -	$ (6.5)	$ (5.0)	$ (5.0)	$ (5.0)
Corporation Tax					
Biennial Business Entity Tax	$ -	$ -	$ -	$ (40.0)	$ -
Relocated Film Production Credit	-	(15.0)	(10.0)	(10.0)	(10.0)
Airport Enterprise Zones	-	(0.1)	(0.2)	(0.5)	(0.5)
Manufacturers' Reinvestment Accounts	-	(0.2)	(0.3)	(0.6)	(0.6)
Job Expansion Tax Credit	-	(10.0)	(12.5)	(12.5)	(5.0)
Total Corporation Tax	$ -	$ (25.3)	$ (23.0)	$ (63.6)	$ (16.1)
Insurance Premiums Tax					
Raise 30% Cap to 55%- Film & Infrastructure Credit	$ (8.5)	$ (8.5)	$ -	$ -	$ -
Grand Total	**$ (8.5)**	**$ (40.3)**	**$ (28.0)**	**$ (68.6)**	**$ (21.1)**

ASSUMPTIONS USED TO DEVELOP REVENUE ESTIMATES

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
UNITED STATES					
Gross Domestic Product	3.5%	5.2%	6.4%	6.0%	4.8%
Real Gross Domestic Product	2.4%	3.7%	3.9%	3.8%	3.4%
G.D.P. Deflator	1.5%	1.9%	2.6%	2.2%	1.6%
Unemployment Rate	9.0%	8.7%	7.6%	6.3%	5.7%
New Vehicle Sales (M)	13.20	15.28	16.90	16.64	16.04
Consumer Price Index	2.6%	1.9%	3.0%	3.1%	2.1%
CONNECTICUT					
Personal Income	4.3%	6.5%	6.1%	5.4%	4.7%
Nonagricultural Employment	-0.1%	0.0%	1.8%	2.9%	2.1%
Housing Starts (T)	3.01	4.93	7.47	8.37	8.58
Unemployment Rate	8.8%	8.4%	7.4%	6.2%	5.6%

(M) denotes millions
(T) denotes thousands

OPM ECONOMIC GROWTH RATES FOR PROJECTED TAX REVENUES

(PERCENT CHANGE)

General Fund

Taxes	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Personal Income Tax [1]	4.3, 8.0	6.5, 10.0	6.1, 7.0	6.5, 7.0	5.7, 7.0
Sales & Use Tax	2.4	3.9	3.5	2.7	2.8
Corporation Tax	2.8	4.0	2.5	2.5	4.0
Public Service Tax	-0.4	2.4	1.5	2.1	1.0
Inheritance & Estate Tax	2.0	2.5	3.0	3.0	3.0
Insurance Companies Tax	0.0	0.0	0.0	1.9	1.9
Cigarettes Tax	-3.0	-4.0	-2.7	-2.8	-2.7
Real Estate Conveyance Tax	2.1	7.9	6.4	4.4	4.4
Oil Companies Tax	2.4	0.0	-6.0	1.5	1.3
Alcoholic Beverages Tax	-7.4	7.3	0.7	0.7	0.7
Admissions & Dues Tax	0.9	-3.2	1.0	1.0	1.0

Special Transportation Fund

Taxes	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Motor Fuels Tax	-2.0	0.0	0.7	0.7	0.9
Sales Tax - DMV	0.6	1.9	1.1	2.0	1.9

NOTE:
1. Rates for withholding and "estimates and final filings".

SECTION 2
PROJECTED TAX CREDITS

PROJECTED TAX CREDITS

It should be noted that the basis for projections of tax credits claimed relies upon data from several years ago. This is due to the fact that information regarding tax credits is typically delayed as firms often request an extension to file their final returns. This delays the receipt of such data by the tax department which then must still have the return information data captured.

In calculating the expected amount of credits to be claimed, OPM examined the most recent relevant years available (income years ranging from 2005 to 2009 for business credits and income year 2009 for the personal income tax credit). An average value was derived over that time period which then became the base for fiscal year 2011. From fiscal year 2012 and forward, the dollar value of credits claimed was grown by appropriate growth rates.

Projected Total Amounts of Tax Credits Claimed

(In Thousands)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Personal Income Tax Credits					
Property Tax	$ 214,000	$ 218,000	$ 222,000	$ 226,000	$ 231,000
Job Tax Credits	-	5,000	5,000	5,000	2,000
Angel Investor	1,000	6,000	3,000	3,000	3,000
Total Personal Income Tax	$ 215,000	$ 224,000	$ 225,000	$ 229,000	$ 234,000
Business Tax Credits					
Fixed Capital	$ 50,000	$ 51,500	$ 53,000	$ 54,600	$ 56,200
Human Capital	1,500	1,500	1,500	1,500	1,500
Electronic Data Processing(1)	28,000	28,800	29,700	30,600	31,500
Research and Experimental Expenditures	10,000	10,300	10,600	10,900	11,200
Research and Development Expenditures	5,000	5,200	5,400	5,600	5,800
Film Industry Production(1)	40,000	50,000	52,500	55,100	57,900
Film Industry Digital Animation(1)	15,000	15,000	15,000	15,000	15,000
Film Industry Infrastructure(1)	-	5,000	5,300	5,600	5,900
Urban and Industrial Reinvestment	15,000	18,000	30,000	30,000	30,000
Job Tax Credits	3,000	15,000	15,000	15,000	8,000
Housing Program Contribution(1)	2,000	2,000	2,000	2,000	2,000
Historic Rehabilitation	1,500	1,500	1,500	1,500	1,500
Machinery and Equipment	1,000	1,000	1,000	1,000	1,000
All Other Credits	5,000	5,000	10,000	10,000	10,000
Total Business Tax Credits	$ 177,000	$ 209,800	$ 232,500	$ 238,400	$ 237,500
Total Projected Amount Claimed	$ 392,000	$ 433,800	$ 457,500	$ 467,400	$ 471,500

(1) Includes credits claimed under the Corporation Tax and the Insurance Premiums Tax

SECTION 3

SUMMARY OF ESTIMATED DEFICIENCIES

SUMMARY OF ESTIMATED DEFICIENCIES

(REASONS FOR DEFICIENCIES AND BASIS OF ASSUMPTIONS)

The following deficiencies are anticipated in the General Fund:

DEPARTMENT OF SOCIAL SERVICES

After accounting for various offsetting lapses, a net shortfall of $30.0 million is forecast in the Medicaid account, largely due to the Medicaid expansion for low-income adults (LIA). To comply with federal requirements, the previous asset limit of $1,000 was eliminated and greater access to long-term care, home health and non-emergency medical transportation benefits became available under LIA. Elimination of the asset test, economic conditions, and inclusion of populations who did not formerly qualify for State Administered General Assistance have created an unanticipated level of caseload growth – from 46,156 in June, 2010, to 73,320 in October, 2011, an increase of 59% over sixteen months. Although caseload growth appears to be slowing, the enacted budget did not assume the current caseload level of 73,320 would be reached until January 2013.

PUBLIC DEFENDERS SERVICES COMMISSION

A $2.0 million shortfall is projected in the Contracted Attorneys account in order to resolve payments for cases handled by contracted child protection attorneys, with a net deficiency of $555,000 anticipated after considering lapses in various accounts. The Commission on Child Protection incurred a significant deficiency last fiscal year due to increased rates paid to child protection attorneys. Given the consolidation of that agency into the Public Defenders Services Commission, the merged agency is left with the carryover of claims for reimbursement from prior periods.

TEACHERS' RETIREMENT BOARD

This agency is expected to experience a deficiency of $2.4 million in its Retirees Health Service Cost account due to higher than anticipated membership in the plan. The appropriation for this account assumed 17,048 members would be enrolled in the health plan, but enrollment is currently at 18,547 members and is expected to reach 19,000 by the end of the fiscal year.

WATCH AREAS

Several areas of the budget have the potential to significantly impact General Fund balance. First, deficiencies are not currently projected in the accounts within the Office of the State Comptroller that fund health costs for active and retired state employees. However, based on higher than anticipated enrollment in the Health Enhancement Plan and given limited expenditure data available to OPM, a significant shortfall is possible. Second, while a shortfall is not currently projected in the Comptrollers' account that covers pension contributions to the State Employee Retirement Fund, the impacts of changes negotiated between the State and SEBAC in combination with recent market changes will affect the State's actuarially required pension contribution. An updated valuation and ARC calculation is underway and is expected to be available in January. Lastly, the federal government has not adopted a budget and continues to operate under a continuing resolution that reduces discretionary funding relative to federal fiscal year 2011. The current process calls for automatic across-the-board cuts if the Joint Select Committee (supercommittee) is unable to approve a plan by November 23rd that would reduce the federal deficit by at least $1.2 trillion over the next decade. The impacts of any potential federal funding reductions on programs important to Connecticut, including LIHEAP, are not known.

SECTION 4

PROJECTED BALANCE OF THE BUDGET RESERVE FUND

BUDGET RESERVE FUND

PROJECTED FUND BALANCE
(in millions)

BUDGET RESERVE FUND ACTIVITY

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016[3]
Beginning Balance	$ 103.2	$ -	$ -	$ -	$ 662.1	$ 1,890.9
Deposits/(Withdrawals) [see below]	(103.2)	-	-	662.1	1,228.8	1,489.2
Ending Balance	$ -	$ -	$ -	$ 662.1	$ 1,890.9	$ 3,380.1
Balance as Percent of Budget	0.6%	0.0%	0.0%	3.3%	9.2%	15.9%
Balance Over/(Under) Target[1]	$ (1,870.8)	$ (1,905.7)	$ (1,952.2)	$ (1,346.0)	$ (174.5)	$ 1,255.6
Available Over BRF Target [2]	$ -	$ -	$ -	$ -	$ -	$ 1,255.6

STATUTORY DISPOSITION OF FUTURE SURPLUSES

Note: C.G.S. 4-30a directs any unappropriated surplus to the Budget Reserve Fund, except as provided below:

		Legislative Reference
FY 2011-FY 2013		
Any surplus shall be used to:		
1.	ERN's- Redeem FY 2009 Economic Recovery Notes	PA 09-3- JSS
2.	Budget Reserve Fund	C.G.S. 4-30a
FY 2014-FY 2017		
Any surplus shall be used to:		
1.	GAAP- Annual amortization of the deferred charge	PA 11-48, sec. 46
2.	ERN's-Redeem FY 2009 Economic Recovery Notes	PA 09-3- JSS
3.	Budget Reserve Fund	C.G.S. 4-30a
FY 2018-FY 2028		
Any surplus shall be used to:		
1.	GAAP- Annual amortization of the deferred charge	PA 11-48, sec. 46
2.	Budget Reserve Fund	C.G.S. 4-30a

EXPLANATION OF PROJECTED DEPOSITS TO THE BUDGET RESERVE FUND

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
FY 2013 General Fund Surplus				$ 53.1	$ 194.4	$ -
Projected General Fund Surplus- FY 2014- FY 2016				3.4	0.6	360.6
Expenditure Reductions Necessary to Remain Below Expenditure Cap				605.6	1,033.8	1,128.6
Budget Reserve Fund Deposit				$ 662.1	$ 1,228.8	$ 1,489.2

(1) Target Balance is equal to ten percent of the next fiscal year's adjusted general fund appropriations.
(2) Available for debt service and/or unfunded liabilities when BRF target of 10% has been reached.
(3) FY 2016 Target Balance assumes average expenditure growth rate of previous two years.

Note: Assumes General Fund expenditures will remain within the spending cap in FY 2014 - FY 2016.

SECTION 5

PROJECTED BOND AUTHORIZATIONS, ALLOCATIONS AND ISSUANCES

FIVE YEAR BOND PROJECTIONS

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Bond Authorizations					
General Obligation Bonds	$ 1,422,550,606	$ 1,710,140,135	$ 1,000,000,000	$ 1,000,000,000	$ 1,000,000,000
Special Tax Obligation Bonds	628,649,193	515,239,168	525,000,000	525,000,000	525,000,000
Clean Water Fund Revenue Bonds	233,420,000	238,360,000	150,000,000	150,000,000	150,000,000
Bioscience Collaboration Program	34,162,000	85,113,000	59,728,000	19,669,000	21,425,000
UCONN 21st Century	157,200,000	143,000,000	198,000,000	208,500,000	199,500,000
CSUS 2020	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Total Bond Authorizations	**$ 2,570,981,799**	**$ 2,786,852,303**	**$ 2,027,728,000**	**$ 1,998,169,000**	**$ 1,990,925,000**
Bond Allocations					
General Obligation Bonds					
School Construction Program	$ 400,000,000	$ 575,000,000	$ 500,000,000	$ 500,000,000	$ 500,000,000
Urban Action Grants	75,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Small Town Economic Assistance Program	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Housing Trust Fund & Housing Programs	75,000,000	60,000,000	65,000,000	65,000,000	65,000,000
Supportive Housing Program	30,000,000	-	-	-	-
Clean Water Grants	92,600,000	94,000,000	60,000,000	60,000,000	60,000,000
Manufacturing Assistance Act	165,000,000	100,000,000	100,000,000	50,000,000	50,000,000
Local Capital Improvement Program	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Community College System	73,000,000	60,000,000	37,000,000	74,000,000	125,000,000
Connecticut State University System - CSUS2020	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
UConn Technology Park Development	18,000,000	154,500,000	-	-	-
Bioscience Collaboration Program	34,162,000	85,113,000	59,728,000	19,669,000	21,425,000
Connecticut Innovations Recapitalization	25,000,000	25,000,000	25,000,000	25,000,000	25,000,000
All other GO projects/programs	250,000,000	100,000,000	100,000,000	150,000,000	100,000,000
UCONN 21st Century	157,200,000	143,000,000	198,000,000	208,500,000	199,500,000
Total General Obligation Bonds	$ 1,539,962,000	$ 1,601,613,000	$ 1,349,728,000	$ 1,357,169,000	$ 1,350,925,000
Special Tax Obligation Bonds	600,000,000	600,000,000	600,000,000	600,000,000	600,000,000
Clean Water Fund Revenue Bonds	233,420,000	238,360,000	150,000,000	150,000,000	150,000,000
Total Bond Allocations	**$ 2,373,382,000**	**$ 2,439,973,000**	**$ 2,099,728,000**	**$ 2,107,169,000**	**$ 2,100,925,000**

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Bond Issuance					
General Obligation Bonds	$ 1,150,000,000	$ 1,250,000,000	$ 1,250,000,000	$ 1,300,000,000	$ 1,300,000,000
Special Tax Obligation Bonds	550,000,000	575,000,000	600,000,000	600,000,000	600,000,000
Clean Water Revenue Bonds	200,000,000	200,000,000	150,000,000	150,000,000	150,000,000
UCONN 21st Century	138,800,000	157,200,000	143,000,000	198,000,000	208,500,000
Total Bond Issuance	**$ 2,038,800,000**	**$ 2,182,200,000**	**$ 2,143,000,000**	**$ 2,248,000,000**	**$ 2,258,500,000**
Debt Service					
General Fund	$ 1,840,380,839	$ 1,935,247,677	$ 2,014,696,735	$ 2,073,505,815	$ 1,956,194,476
Transportation Fund	458,835,373	492,217,529	502,675,455	525,307,250	556,059,365
Total Debt Service	**$ 2,299,216,212**	**$ 2,427,465,206**	**$ 2,517,372,190**	**$ 2,598,813,065**	**$ 2,512,253,841**
Debt Service as a Percentage of Budget					
GO Debt Service as Percentage of General Fund	9.84%	10.16%	10.01%	9.82%	8.98%
Total Debt Service	11.52%	11.94%	11.74%	11.56%	10.82%

Assumptions

Bond Authorizations

Projected General Obligation Bond authorizations assume that authorizations continue at historical average levels.
Clean Water Program Revenue Bond authorizations based on projected allocations.
UCONN 21st Century authorizations in accordance with C.G.S. 10a-109g as amended.
CSUS2020 authorizations in accordance with C.G.S. 10a-91e as amended.

Bond Allocations

Projected bond allocations do not represent a commitment to fund any of these programs or projects.

SECTION 6

REVENUE AND EXPENDITURE TRENDS, MAJOR COST DRIVERS

WATCH LIST

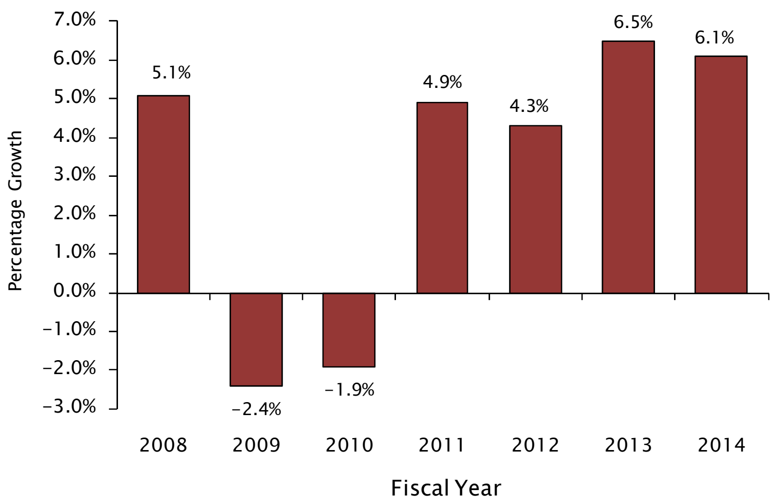
FY 2012 AREAS OF CONCERN

GENERAL FUND AND SPECIAL TRANSPORTATION FUND

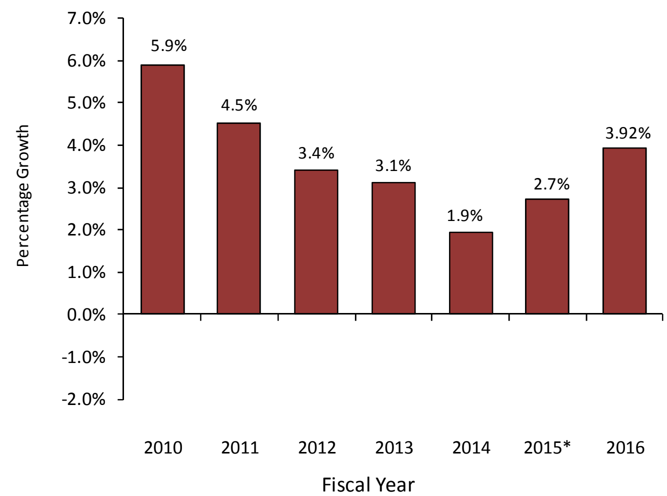
- SEBAC 2011
  - Healthcare savings
  - State Employee Retirement System revaluation
- Unallocated Lapse
- Department of Social Services - Medicaid
  - Low Income Adult (LIA) caseload growth
  - Administrative Service Organization (ASO) conversion
- State share of costs related to Tropical Storm Irene and Storm Alfred
- Federal budget reductions

EXPENDITURE CAP

CT PERSONAL INCOME GROWTH



CT EXPENDITURE CAP GROWTH RATE



* Inflation is the limiting factor

- Although revenues have been the sole limiting factor for the budget over the past few years, that is about to change.
- Personal Income growth serves as the expenditure cap's proxy for the economy's ability to pay for government services.
- Two years of declines in Connecticut personal income will take their toll on upcoming expenditure cap rates.
- The next few years will witness the lowest allowable expenditure cap growth rates since the inception of the cap.
- So low, in fact, that the secondary measure of inflation is projected to be the limiting factor in 2015. The 5-year moving average of Personal Income is projected to fall to 2.2% which is below the projected growth in inflation of 2.7%.

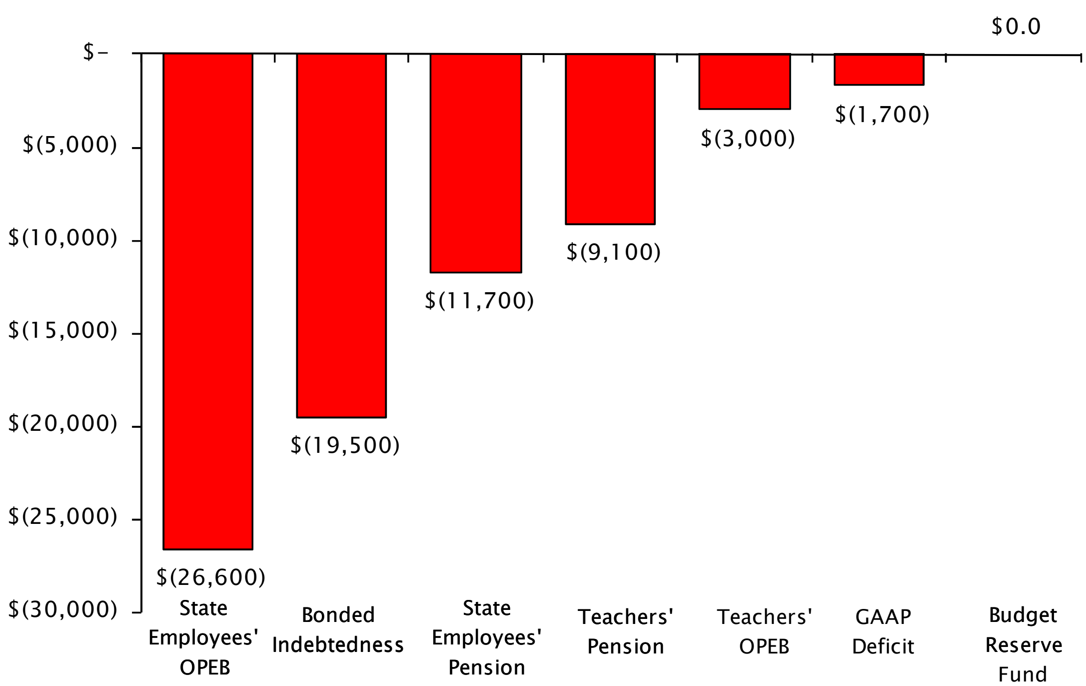
LONG-TERM OBLIGATIONS

- The state's long-term obligations total $71.6 billion, up 5.6% from last year's reported amount of $67.8 billion.
- This equates to approximately $20,450 for every man, woman and child in Connecticut, up $1,050 from last year's reported amount of $19,400.
- In comparison, total Personal Income Tax collections in FY 2012 will only be $8.7 billion.

LONG-TERM OBLIGATIONS
(In Billions)

Bonded Indebtedness - As of 7/31/11	$ 19.5
State Employee Pensions - Unfunded 6/30/10	11.7
Teachers' Pension - Unfunded 6/30/10	9.1
State Employee Post Retirement Health and Life - Unfunded	26.6
Teachers' Post Retirement Health and Life - Unfunded	3.0
Cumulative GAAP Deficit (General Fund Unreserved) 6/30/2010	1.7
Total	$ 71.6

LONG-TERM OBLIGATIONS ARE SIGNIFICANT
(In Millions)



DEBT BURDEN

State Debt Comparison Among the 50 States in 2009

Ranked by Per Capita State Debt-2009			Ranked by State Debt As a % of Personal Income (PI)- 2009		
Rank	State	Amount ($)	Rank	State	Debt/PI
1	Massachusetts	$ 11,316	1	Massachusetts	23.0%
2	Alaska	9,486	2	Alaska	21.8%
3	Rhode Island	8,682	3	Rhode Island	21.4%
4	**Connecticut**	**8,078**	4	Delaware	17.4%
5	Delaware	6,769	5	New Hampshire	15.1%
6	New Jersey	6,545	6	**Connecticut**	**14.9%**
7	New Hampshire	6,362	7	Montana	14.4%
8	New York	6,283	8	Vermont	14.1%
9	Vermont	5,514	9	New York	13.6%
10	Hawaii	5,341	10	New Jersey	13.1%
11	Montana	4,890	11	Hawaii	12.6%
12	South Dakota	4,472	12	New Mexico	12.1%
	UNITED STATES	$ 3,408		UNITED STATES	8.8%

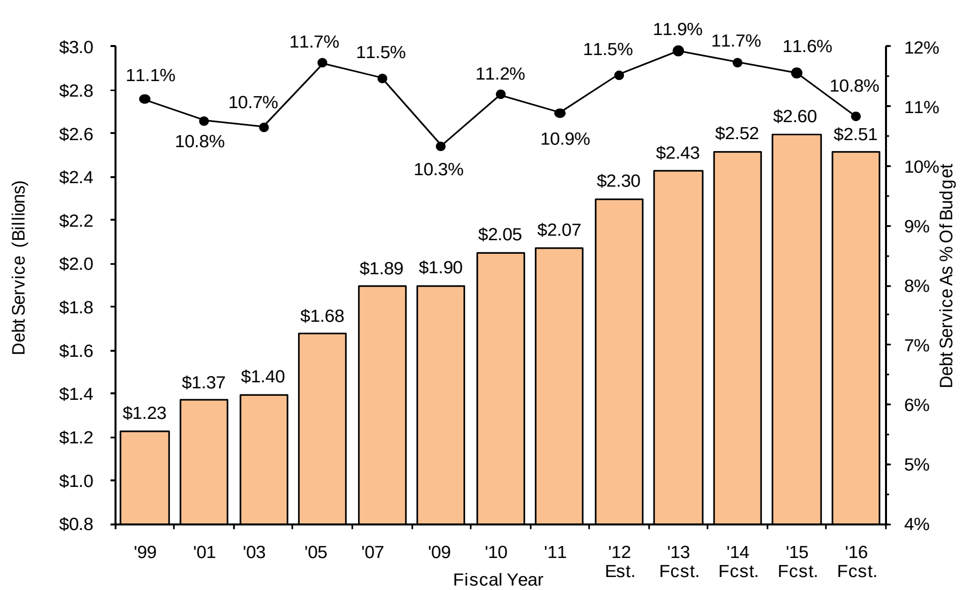
Source: U.S. Department of Commerce, Census & BEA

- Connecticut's debt burden in 2009 equals $8,078 per person.
- The state's burden is more than two times the national average, and higher than most of its neighboring states.
- Even after adjusting for its high personal income, Connecticut would still rank 6th in the nation in 2009.
- Based on 2008 data, even after adjusting for debt issued by counties and other political subdivisions, Connecticut would rank 5th in the nation on a per capita or 31st on a personal income basis.

IMPACT OF DEBT EXPENSES

DEBT SERVICE EXPENDITURES

GENERAL & SPECIAL TRANSPORTATION FUNDS



- Debt Service expenditures have doubled since 1999.
- The increase in debt service expenditures crowds out discretionary spending.
- With the issuance of over $900 million in Economic Recovery Notes to fund the FY 2009 deficit, debt service as a percentage of expenditures climbs to a high of 11.9% in FY 2013.

CONNECTICUT'S BOND RATING

CURRENT GENERAL OBLIGATION BOND RATING

	Moody's	Standard & Poor's	Fitch
Rating	Aa2	AA	AA
Outlook	Negative	Stable	Stable

- Prior to 1975, Connecticut's General Obligation (GO) bonds had the highest rating possible: Aaa by Moody's and AAA by Standard & Poor's (S&P).
- The most recent revision in Connecticut's bond rating was an outlook change to negative by Moody's in June 2011.

	NUMBER OF STATES RATED BY		
Rating	Moody's	S&P	Fitch
Better than CT	25	19	27
Equal to CT	10	15	5
Lower than CT	3	4	4
Total*	38	38	36

* 39 states issue GO bonds. All 39 states are rated by Moody's and Standard and Poor's; Fitch does not rate Arkansas and New Mexico.

CONNECTICUT'S CREDIT RATING

State Credit Strengths

- Historical application of operating surpluses to the Budget Reserve Fund.
- Early repayment of the Economic Recovery Notes issued to cover operating deficits.
- Wealthiest state in the nation with per capita income well above national levels.

State Credit Challenges

- Vulnerability to financial market fluctuations due to effect on capital gains for high wealth residents and employment in the financial services sector .
- Deterioration of already weak GAAP-basis balance sheet due to negative unreserved/under-designated general fund balance and depletion of Budget Reserve Fund.
- Debt ratios are among the highest in the nation.
- Pension systems have low funding ratios.

What could make the state rating improve

- Achievement and maintenance of high GAAP-basis combined available reserve levels.
- Established trend of structural budget balance.
- Evidence of a stronger economic performance.
- Reduced debt ratios.
- Significantly improving the funding of pension and post-retirement liabilities.

What could make the state rating deteriorate

- Lack of improvement in available reserve levels.
- Failure to identify a plan that improves the state pension funded ratios and lowers its overall fixed costs.
- Reversion to significant one-time budget solutions including the use of deficit financings to resolve budget gaps.
- Reduction in cash flow; reduced liquidity.

Full-Time Workforce

As of October 31, 2011

	Bargaining Unit	Full Time Employees		Full Time Payroll (All Funds)
	Contract Expires End of FY 2012			
1.	Correctional Supervisors (NP-8)	460	$	35,774,941
2.	State Police (NP-1)	1,040	$	75,527,143
	Contract Expires End of FY 2013			
3.	Supervising Judicial Marshals	60	$	3,822,981
	Contract Expires End of FY 2016			
4.	Service/Maintenance (NP-2)	3,745	$	181,019,198
5.	Administrative Clerical (NP-3)	3,801		193,659,775
6.	Correctional Officers (NP-4)	4,608		245,995,444
7.	Protective Services (NP-5)	807		48,260,017
8.	Health Care Paraprofessional (NP-6)	3,338		176,802,890
9.	Health Care Professionals (P-1)	2,782		220,118,593
10.	Social and Human Services (P-2)	3,613		246,042,531
11.	Education - Administrators (P-3A)	244		23,284,174
12.	Education - Educators (P-3B)	679		191,577,681
13.	Engineering, Scientific and Technical (P-4)	2,378		191,577,681
14.	Administrative and Residual (P-5)	2,820		220,691,285
15.	Vocational Technical Faculty	1,098		81,632,578
16.	Vocational Technical Administration	49		5,720,692
17.	Technical College Faculty	187		12,447,167
18.	Connecticut State University Faculty (AAUP)	1,849		113,674,757
19.	Connecticut State University Administrative Faculty	691		50,778,860
20.	Community College Faculty	624		44,483,173
21.	University of Connecticut Faculty (AAUP)	1,497		145,395,511
22.	University of Connecticut Professionals (UCPEA)	1,526		98,905,985
23.	Judicial Professional Employees	1,290		98,776,889
24.	Judicial Non-Professional Employees	1,386		72,415,046
25.	UConn Health Center Faculty	508		83,678,776
26.	UConn Health Center Non-Faculty Professionals	2,323		150,480,827
27.	Criminal Justice Prosecutors	242		26,369,748
28.	Technical College Administrators	78		5,532,245
29.	Criminal Justice Employees	120		6,377,322
30.	Department of Higher Education Professionals	34		2,473,386
31.	Charter Oak State College Professionals	61		4,040,226
32.	Judicial Marshals	727		32,065,706
33.	Criminal Justice Inspectors	76		6,567,169
	Total 6/30/2016	43,181	$	2,980,845,332
	Total - All Contracts	44,741	$	3,095,970,397
Not Covered by Collective Bargaining				
1.	Auditors of Public Accounts	112	$	9,916,184
2.	Other Employees	5,136		508,264,574
	Total Not Covered by Collective Bargaining	5,248	$	518,180,758

Note: Payroll numbers include all wages for full time employees excluding overtime.

SEBAC 2011 Provisions

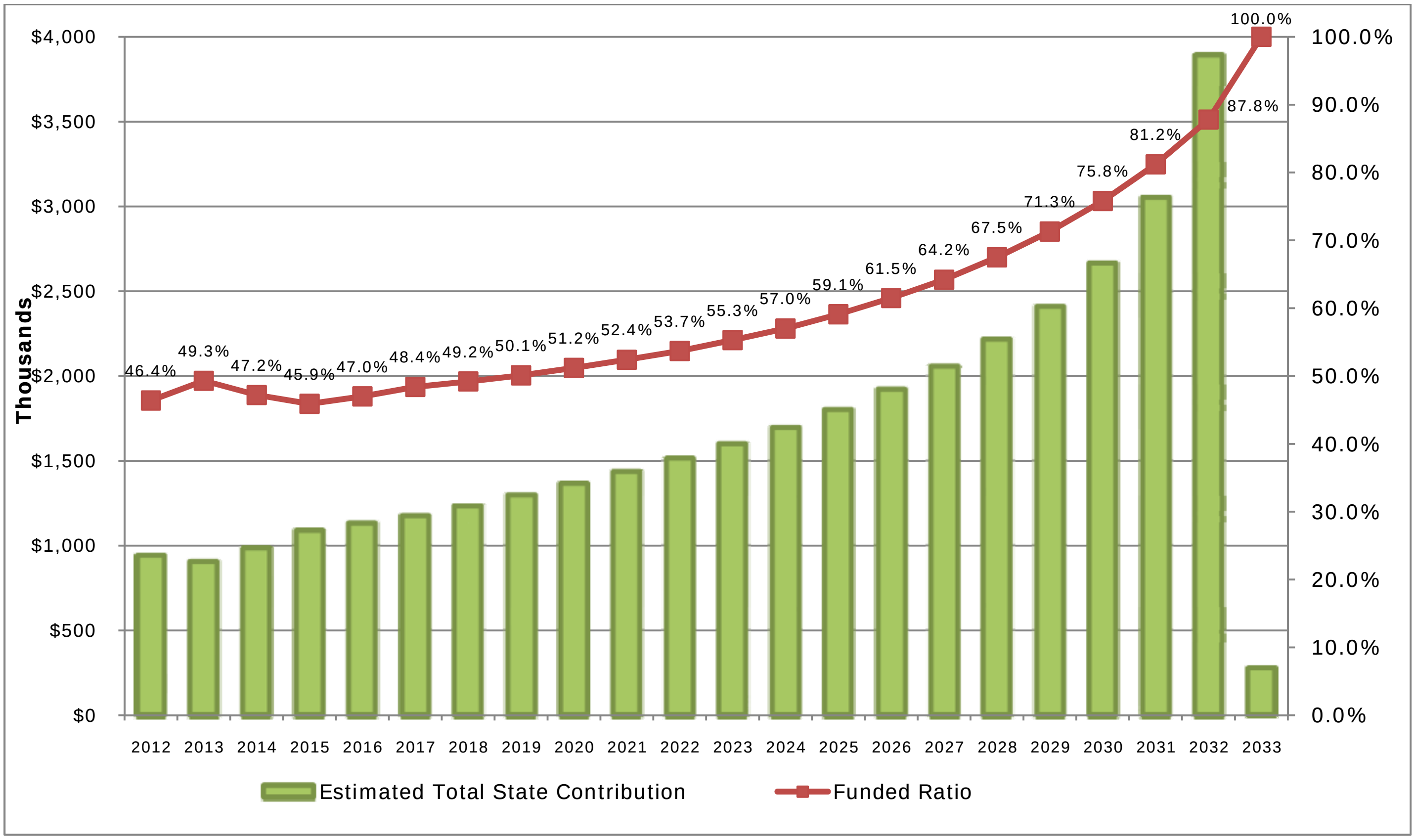
		FY 2012	FY 2013
1.	Cap salary that can be considered as part of an individual's pension benefit as provided under the Internal Revenue Code.	$ 2,400,000	$ 2,500,000
2.	Pension savings due to 2 year wage freeze.	69,316,000	71,198,000
3.	Change the minimum COLA for individuals who retire after 9/2/11 from 2.5% to 2.0% with the highest amount going from 6.0% to 7.5%.	32,525,000	34,315,000
4.	Change the Early Retirement reduction factor from 3% to 6% for each year before eligible to take Normal Retirement. Includes associated health care savings.	35,000,000	32,400,000
5.	Increase the Employee Contribution to 3% for Retiree health care trust fund for all employees (not just new employees) phased in beginning 7/1/13.	-	-
6.	For current employees who retire after 7/1/2022, Normal Retirement eligibility increase from Age 60 and 25 YOS or Age 62 and 10 YOS to Age 63 and 25 YOS or Age 65 and 10 YOS. By 7/1/13, present employees may elect to pay the actuarial pension costs of maintaining the normal retirement eligibility that exists in the present plan which is scheduled to change effective July 1, 2022.	22,000,000	22,000,000
7.	New Tier III for individuals hired after 7/1/11, Normal Retirement eligibility Age 63 and 25 YOS or Age 65 and 10 YOS and salary based on Final five year average; HD 20 Years of HD service and age 50 or 25 Years of HD Service regardless of age and salary based on final five year average pay; Early Retirement Age 60 and 15 YOS; Ten year cliff vesting.	-	9,649,000
8.	Increase number of retirees due to absence of ERIP; reduce refills.	65,000,000	65,000,000
9.	Provide the availability of individuals in the Alternate Retirement Plan to switch to a Hybrid-Defined benefit/Defined contribution type plan.	10,750,000	11,190,000
10.	Value Based Health and Dental Care Plan under which individuals and their families could chose to participate and agree to follow all plan and physician recommended physicals, disease management protocols and diagnostic testing. This plan is available for active employees and individuals who retire on and after 9/2/11. The plan is also offered on a voluntary basis to current retirees. The cost for this plan would be the same as the current plan plus any scheduled experience determined increases. Implement edits currently existing in the plan design but not fully implemented by the vendors, such as prior authorization for certain diagnostic procedures. Institute a $35 Emergency Room Co-pay when the person is not admitted to the hospital.	102,500,000	102,500,000
11.	Non-Value Based Health and Dental - If the employee chooses not to participate in the value based plan, or fails to comply with the plan's provisions, the cost for health care would be the same as calculated in the first year for Value Based, plus $100.00 per month additional. Institute a $350 Medical Deductible per year per individual for the regular plan.	19,200,000	21,700,000

SEBAC 2011 Provisions (continued)

		FY 2012	FY 2013
12.	Reduce Costs with Generics - Drugs coming off patent.	$ 1,500,000	$12,000,000
13.	Tobacco and Obesity - Reduce costs through voluntary referral Program.	1,000,000	2,000,000
14.	Other Health Cost Containment Initiatives - The Healthcare Cost Containment Committee will identify additional cost savings through renegotiation of contracts and improved service delivery.	40,000,000	35,000,000
15.	Mandatory Mail Order / Pharmacy Co-pays: Mandatory Mail Order - maintenance drugs for active employees, future retirees and current retirees under 65 must be ordered through the mail. Voluntary for current retirees over 65 (mandatory once enrolled). Increase co-pay to $5, $20 and $35 for non maintenance drugs.	19,876,000	20,500,000
16.	Healthcare Cost for Early Retirement: Healthcare cost for early retirees until they reach their normal retirement date, or age 65, whichever is earlier.	2,000,000	4,000,000
17.	Minimum Service for Retiree Medical – Increase to 15 years of actual state service for normal, early retirement and HD retirement with continuation of Rule of 75 for Deferred Vested.	1,822,000	5,705,000
18.	Hard Wage Freeze – FY 2012 and FY 2013. No state employee would receive any increase in salary for either of the next two fiscal years, including no payment for individuals who were at their top step.	138,852,400	309,549,857
19.	Adjust break point in Tier 2, Tier 2A and Tier 3.	-	-
20.	Salary Increases – FY 2014, FY 2015 and FY 2016 - Provide three percent plus step increases or their equivalent in those units with them.	-	-
21.	Technology Initiatives - Utilize new technologies and reduced licensing procurement and consulting costs.	40,000,000	50,000,000
22.	SEBAC Budget Savings Initiative - Implement savings ideas proposed by employees to reduce costs in agencies through reduced procurement costs, more efficient agency operations and other initiatives.	90,000,000	90,000,000
23.	Longevity – No longevity payment would be made in October, 2011 to those units with capped longevity and an equivalent savings amount would be negotiated from those with uncapped longevity. No one during the biennium will have those years count for that period. Individuals first hired on or after 7/1/11 (military service counts) would never receive a longevity payment. These provisions are contingent upon similar changes being enacted that would apply to non-represented employees.	7,000,000	-
	Grand Total	**$ 700,741,400**	**$ 901,206,857**

STATE EMPLOYEES RETIREMENT SYSTEM

ANTICIPATED ARC REQUIREMENT THROUGH FY 2033



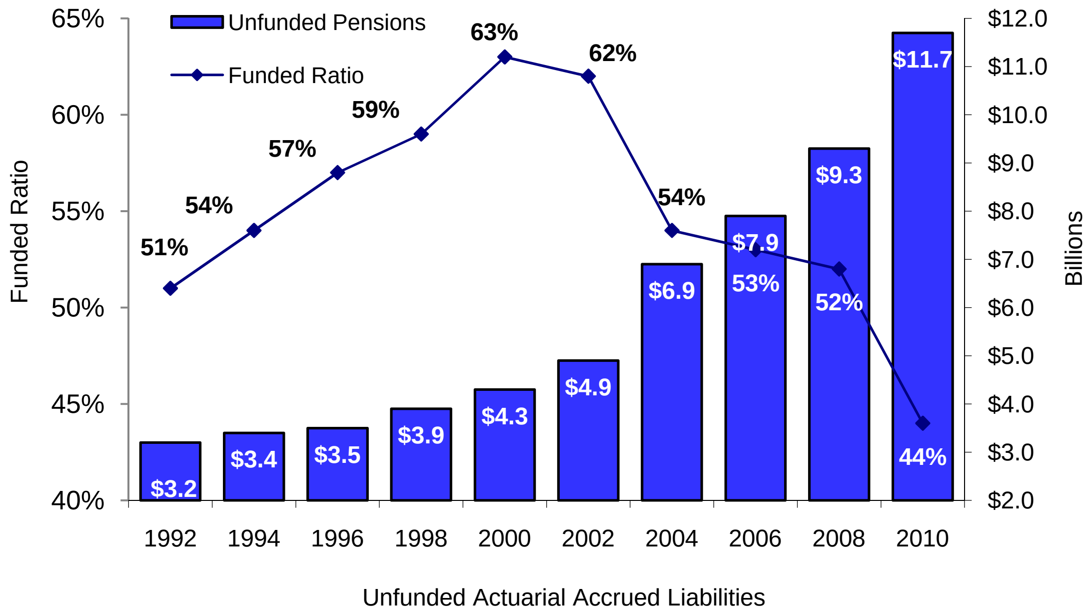
Based on 6/30/10 Valuation ($ in Thousands)		% of Total
Retired/Deferred Liability	$14,073,812	66.8%
Active – Tier I Hazardous	107,541	0.5%
Active – Tier IB	1,844,954	8.8%
Active – Tier IC	71,223	0.3%
Active – Tier II Hazardous	1,369,336	6.5%
Active – Tier II Others	2,419,201	11.5%
Active – Tier IIA Hazardous	474,651	2.3%
Active – Tier II Others	687,620	3.3%
Longley Load	5,859	0.0%
Total Accrued Liability	$21,054,197	100%
Actuarial Value of Assets	9,349,605	
Unfunded Accrued Liability	$11,704,592	
Normal Cost	$296,568	
Amortization of UAL	726,883	
Annual Required Contribution	$1,023,451	

- Even though the state is paying the actuarially required contribution (ARC), the pension fund's funded ratio will remain low until late in the amortization period of the unfunded actuarial accrued liability.

- The amortization method (Level Percent of Payroll) and SEBAC IV & V adjustments have the effect of increasing the ARC payments dramatically towards the end of the amortization period.

UNFUNDED PENSIONS

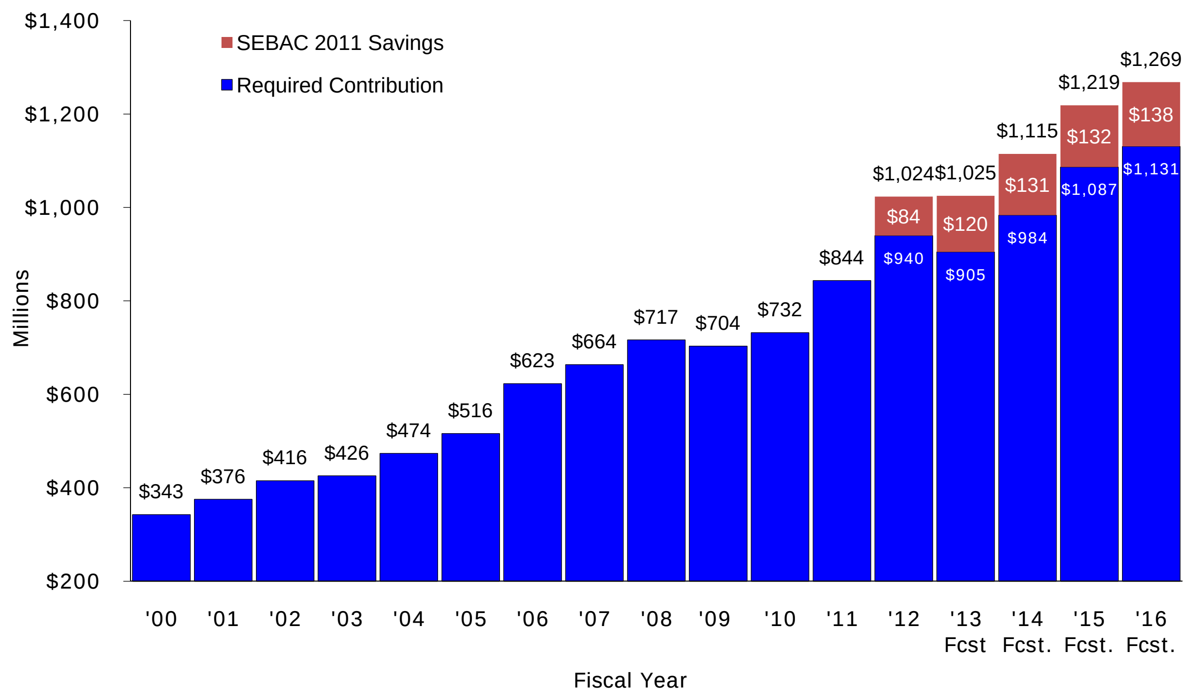
STATE EMPLOYEES RETIREMENT SYSTEM AS OF 6/30



- State Employees unfunded pension liabilities continue to grow.
- The State's obligations at the end of FY 2010 total $11.7 billion.
- This obligation represents roughly $3,275 for every man, woman, and child in the State.

STATE EMPLOYEES RETIREMENT SYSTEM CONTRIBUTIONS

(In Millions)

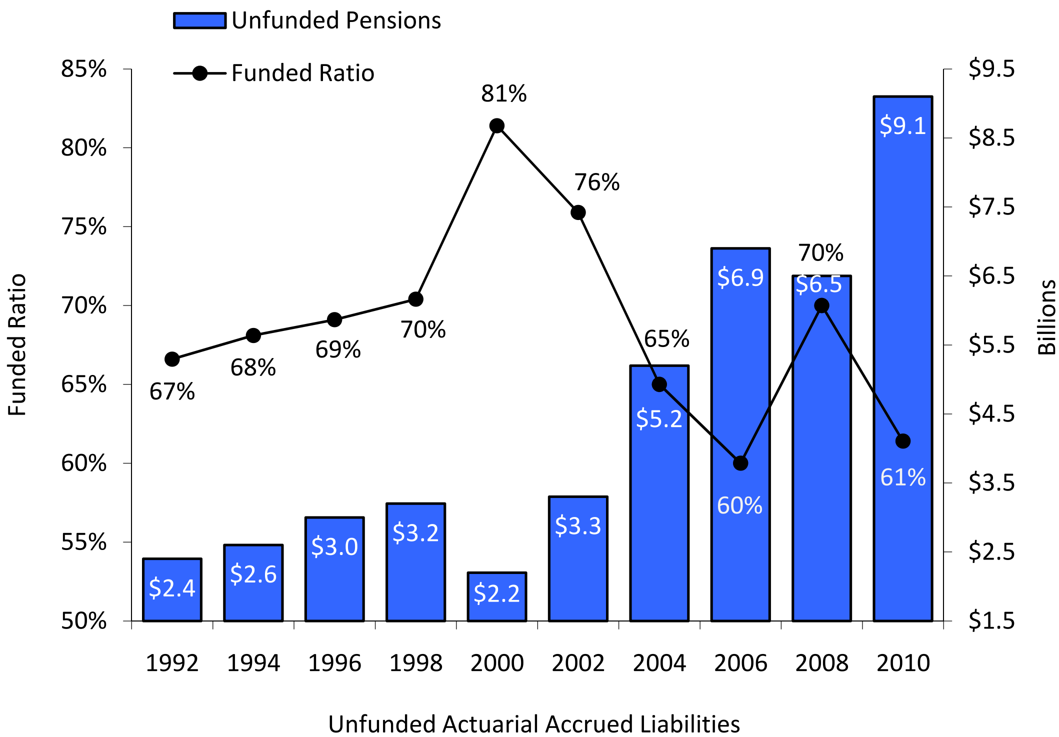


- This obligation rose even with the large increase in equity valuations that took place over the 1990s.
- The deferral of the SERS contribution was $50M in FY 2009, $164.5M in FY 2010 and $100M in FY 2011.

* FYs '09 through '11 include contribution deferrals per the 2009 SEBAC Agreement. FYs '12 through '16 reflect preliminary SEBAC 2011 savings estimates pending formal revaluation.

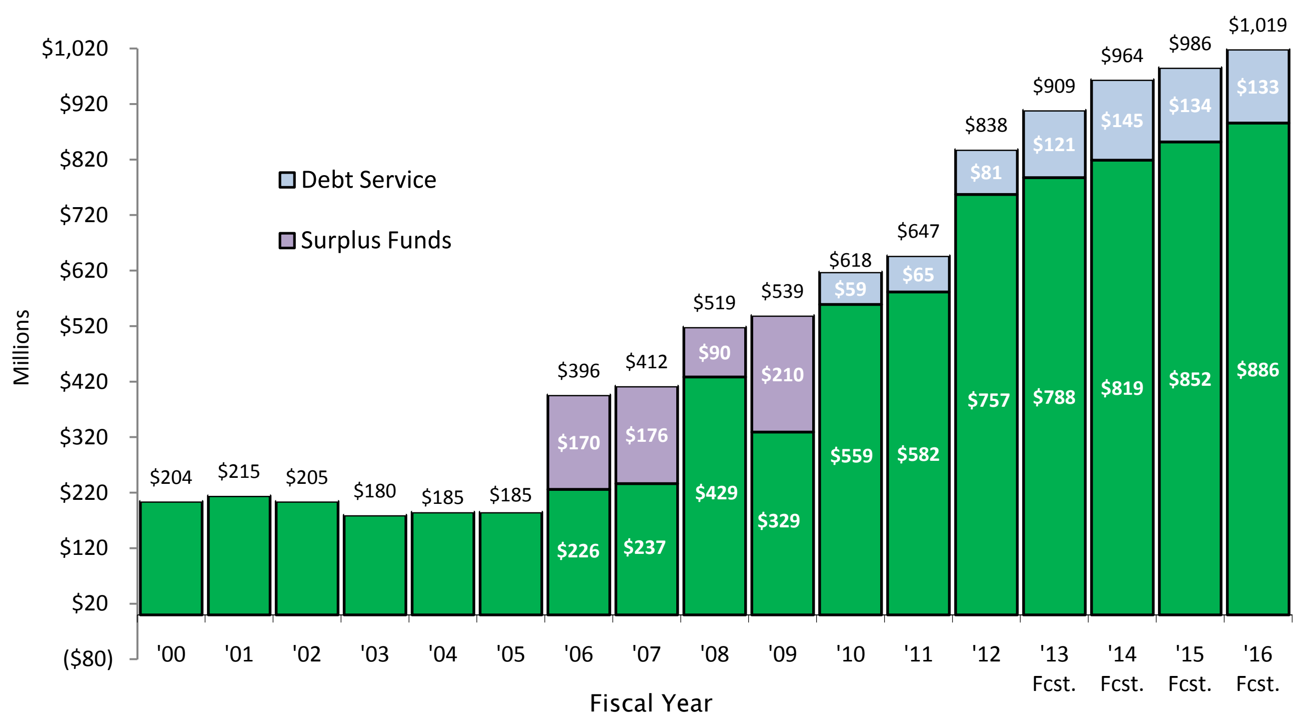
UNFUNDED PENSIONS

CONNECTICUT TEACHERS' RETIREMENT SYSTEM AS OF 6/30



- The State's obligations at the end of FY 2010 total $9.1 billion.
- Appropriations in FY 2006, FY 2007, FY 2008 and FY 2009 were supplemented by the use of surplus funds.
- The $9.1 billion includes investment losses from 2008 and 2009 which overwhelm other actuarial gains. This resulted in an increase in the UAAL and decrease in the funded ratio.

TEACHERS' RETIREMENT SYSTEM CONTRIBUTIONS *



* FY 2010 and beyond include debt service on the $2.3 billion pension obligation bonds issued on April 30, 2008 on behalf of the Teachers' Retirement System.

OTHER POST EMPLOYMENT BENEFITS

- The Governmental Accounting Standards Board (GASB) requires states to report on unfunded liabilities due to other post-employment benefits (OPEB), such as health, dental and life insurance for retirees.
- There is currently no requirement to pre-fund OPEB liabilities. (Some states have already begun pre-funding OPEB, which is looked upon favorably by rating agencies.)
- Among the New England states, Connecticut has the highest per capita OPEB actuarially accrued liability (AAL) and actuarially required contribution (ARC).
- Under various measures, Connecticut consistently ranks among the states with the highest unfunded Other Post Employment Benefit levels.

State	2008 OPEB AAL Per Capita (as % of Per Capita Income)	2008 OPEB ARC Per Capita	2008 Funding Ratio
Connecticut*	$7,428 (11.8%)	$491	0%
Maine	3,334 (8.7%)	124	1.2%
Massachusetts	2,338 (4.1%)	128	1.8%
New Hampshire	2,443 (5.1%)	203	5.4%
Rhode Island	748 (1.7%)	44	0%
Vermont	2,606 (6.1%)	173	0.2%

* The figures for Connecticut reflect a 4.5% pay-as-you-go discount rate.

Source: "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform", The Pew Center on the States, February 2010.

- The actuarial OPEB liability, updated in December 2010, is estimated to be in the range of $14.0 billion to $26.6 billion, excluding the Teachers Retirement System (TRS). A revised valuation for OPEB is expected later this calendar year which will include the impact of recent plan changes made per the 2011 State Employees Bargaining Agent Coalition (SEBAC) agreement.
- Deposits to the OPEB Trust Fund:
  - $10 million – FY 2008. In FY 2008, the state appropriated $10 million for OPEB and represented the state's first deposit into the fund.
  - $14.5 million – FY 2011. An additional $14.5 million was deposited at the end of FY 2011 from the year end fund balance per the 2009 SEBAC agreement.
  - $1.4 million – FY 2010. Approximately $1.4 million was collected in FY 2010 from new employees per the 2009 SEBAC agreement.
  - $21.3 million – FY 2011. Approximately $21.3 million was collected in FY 2011 from new employees and employees with less than 5 years of service per the 2009 SEBAC agreement.

- Recent OPEB Reforms:
  - 2009 – The state entered into an agreement with SEBAC which specified that:
    - New Employees – Effective 7/1/2009, all new health care eligible employees will, for their first 10 years of employment, contribute 3% of their salaries to fund retiree health.
    - Employees with fewer than 5 years – Effective 7/1/2010, any health care eligible employee with fewer than 5 years of service will contribute 3% of their salaries until they reach 10 years of employment.
  - 2011 –The state entered into a further agreement with SEBAC which incorporates additional changes that impact the state's OPEB liability:
    - All Employees – The agreement expands the 3% contribution to all employees, not just new employees, phased-in as follows:
      - 0.5% effective the first day of the pay period after July 1, 2013;
      - 2.0% effective the first day of the pay period after July 1, 2014;
      - 3.0% effective the first day of the pay period after July 1, 2015.

      The contributions will continue for ten years or until retirement, whichever is sooner.
    - State Match – Effective July 1, 2017, the state will contribute to the Retiree Health Care Trust Fund an amount equal to the amount contributed by employees in each year.
    - Greater Premium Share for Early Retirees – Before this agreement, the premium shares for retiree health care coverage were minimal, ranging from zero to a maximum of three percent. The new agreement imposes premium sharing on individuals who elect early retirement, ranging from two percent to forty percent, based on the number of years of service and the number of years retiring early. The premium for any given employee will be capped at 25% of the person's actual pension benefit.

FREQUENCY AND LENGTH OF U.S. RECESSIONS

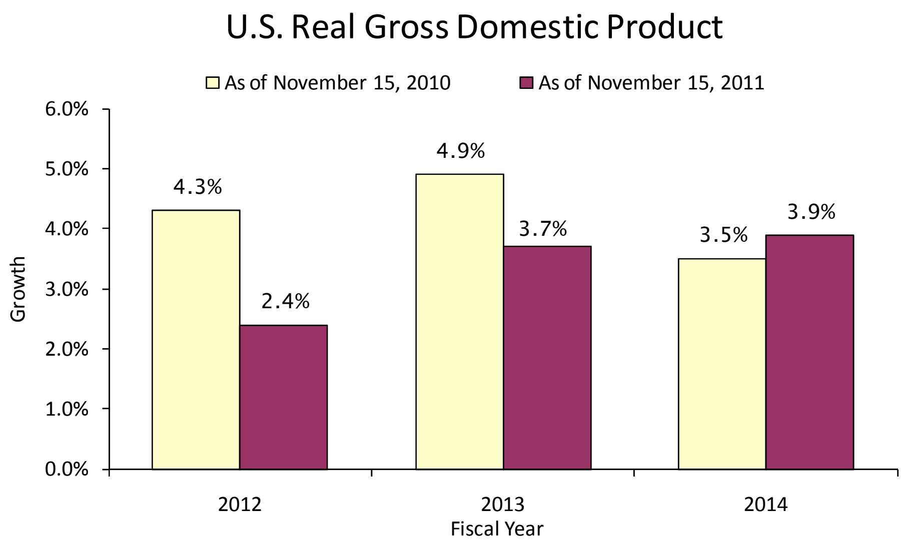
Post WWII Era Economic Cycles	Recessions	Expansions
Average Length	11.1 months	60.5 months
Longest	18 months	120 months
Shortest	6 months	12 months

Source: National Bureau of Economic Research

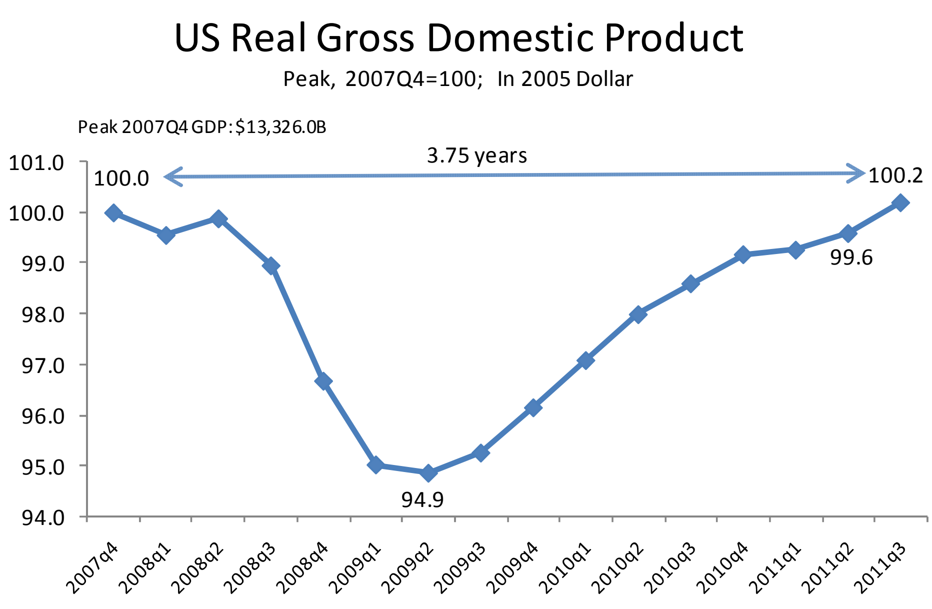
- The US has experienced eleven recessions since World War II ended including the most recent in 2008/09.
- On average, a recession occurs about every six years, from start to start.
- Given that the last recession began in December of 2007, this means that the nation could face its next recession as early as 2013, assuming the average holds.
- Although great strides have been made in re-establishing structural balance to the state's budget, the state is currently not prepared to face another recession because:
  - The Budget Reserve Fund is depleted.
  - The Unemployment Trust Fund is insolvent and the state must repay the federal government at least $810 million for amounts borrowed to date, and potentially more than $1.2 billion for amounts projected to be borrowed through 2015.
  - The state will still owe approximately $600 million on the Economic Recovery Notes that were issued in 2009 to finance that year's operating deficit.

SLOWER ECONOMIC RECOVERY

Latest Economic Projections Are Not as Robust Compared to a Year Ago



- The U.S. economy was originally projected to grow by 4.3% in FY 2012. That has now been revised downward to 2.4%.
- Similarly, the forecast for FY 2013 was 4.9%, but now has been lowered to 3.7%.

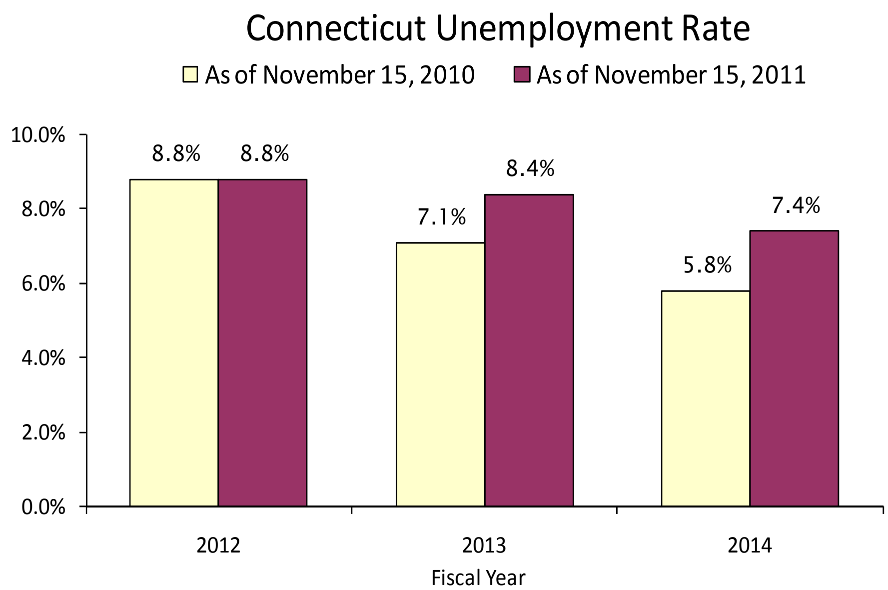


Source: US Department of Commerce, BEA

- From peak to trough, economic output in America fell 5.1%.
- It has taken 3 years and 9 months for the U.S. economy to finally re-attain output levels last seen before the onset of the recession.

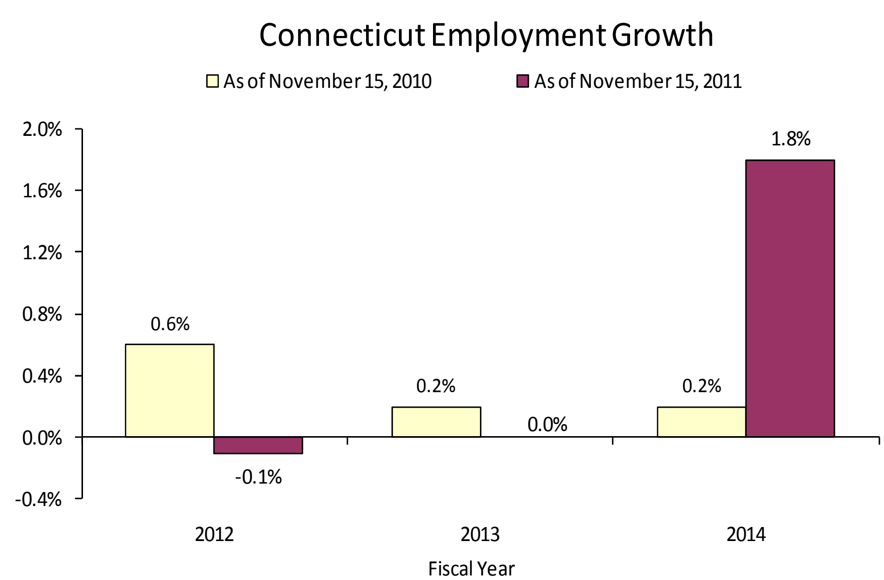
SLOWER ECONOMIC RECOVERY

Latest Economic Projections Are Not as Robust Compared to a Year Ago



Source: Moody's Economy.com

- A year ago, economic projections called for a more rapid improvement in the state's unemployment rate.
- Those projections now appear overly optimistic.

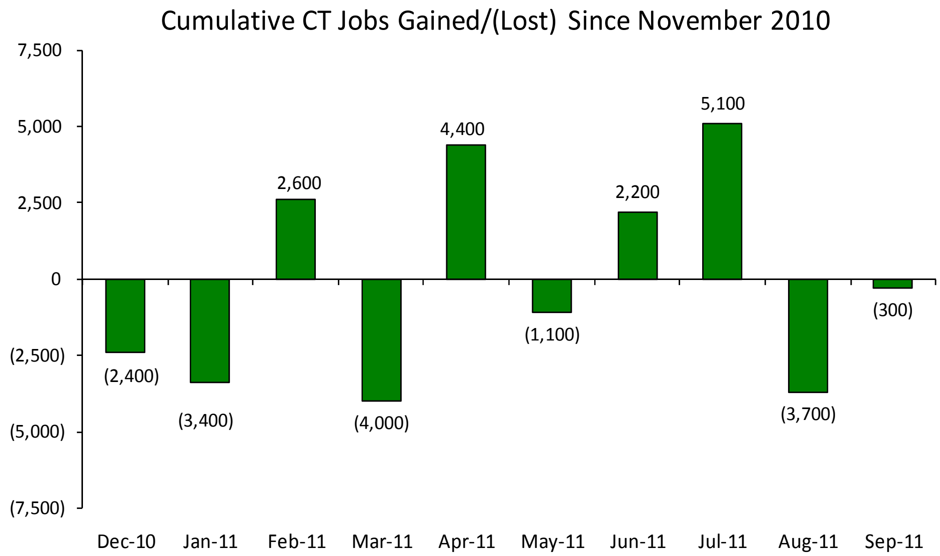


Source: Moody's Economy.com

- Last year projections called for employment growth of 0.6% and 0.2% in FY 2011 and FY 2012 respectively.
- Latest employment projections call for -0.1% and 0.0% in FY 2011 and FY 2012 respectively.

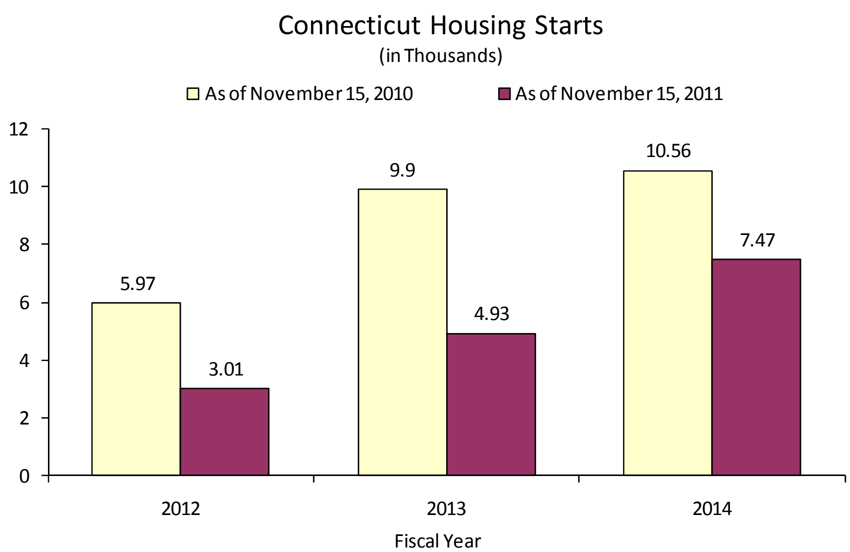
SLOWER ECONOMIC RECOVERY

Latest Economic Projections Are Not as Robust Compared to a Year Ago



- Connecticut job growth has stagnated over the past year.
- Cumulatively Connecticut had virtually no growth in jobs.

Source: CT Dept. of Labor



- The recovery in the housing sector has been delayed and will be less substantial than projected last year at this time.

Source: Moody's Economy.com

CAPITAL GAINS ARE NOT A STABLE REVENUE SOURCE

(In Millions)

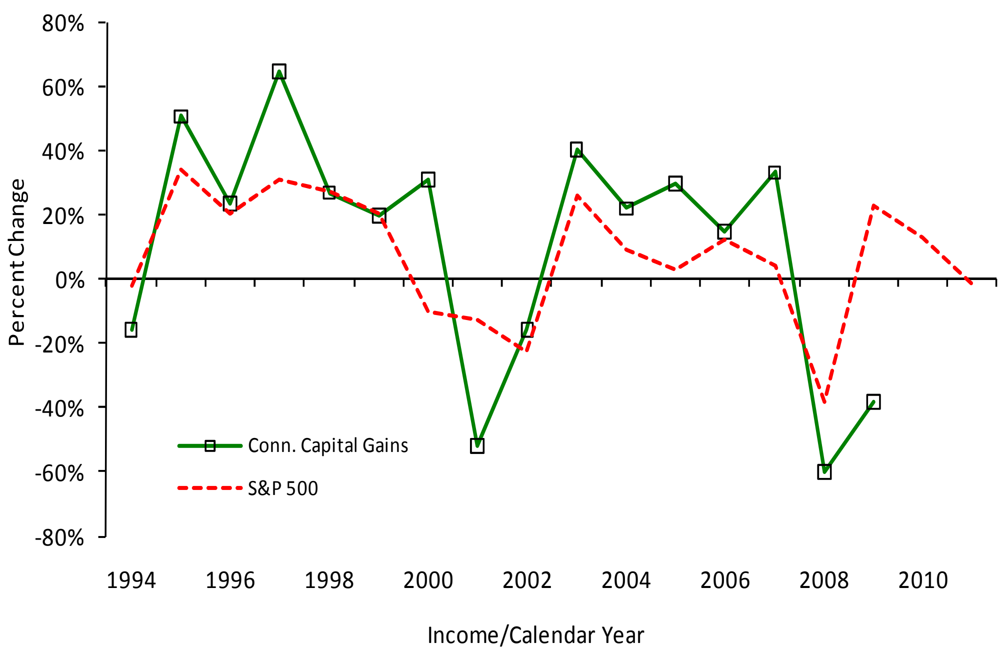
Income Year	Conn. Capital Gains	Percent Change	S&P 500 Percent Change	
1994	$2,547	-16%	-2%	
1995	$3,832	50%	34%	
1996	$4,732	23%	20%	
1997	$7,787	65%	31%	
1998	$9,867	27%	27%	
1999	$11,800	20%	20%	
2000	$15,435	31%	-10%	
2001	$7,391	-52%	-13%	
2002	$6,231	-16%	-23%	
2003	$8,723	40%	26%	
2004	$10,626	22%	9%	
2005	$13,765	30%	3%	
2006	$15,784	15%	12%	
2007	$21,006	33%	4%	
2008	$8,377	-60%	-38%	
2009	$5,172	-38%	23%	
2010	Data not yet available		13%	
2011			-2%	YTD

- Capital gains income is strongly influenced by the performance of the stock market.
- In high years, capital gains can represent almost 15% of total adjusted gross income.
- In low years, capital gains can represent just 5% of total adjusted gross income.
- Unfortunately, a record high year can be immediately followed by a record low year, devastating state finances.
- In 2009, capital gains revenue was less than 25% of the 2007 record high.

Sources: Department of Revenue Services and Internal Revenue Service various years
YTD through 11/2/2010

INCOME TAX GROWTH REMAINS TENUOUS

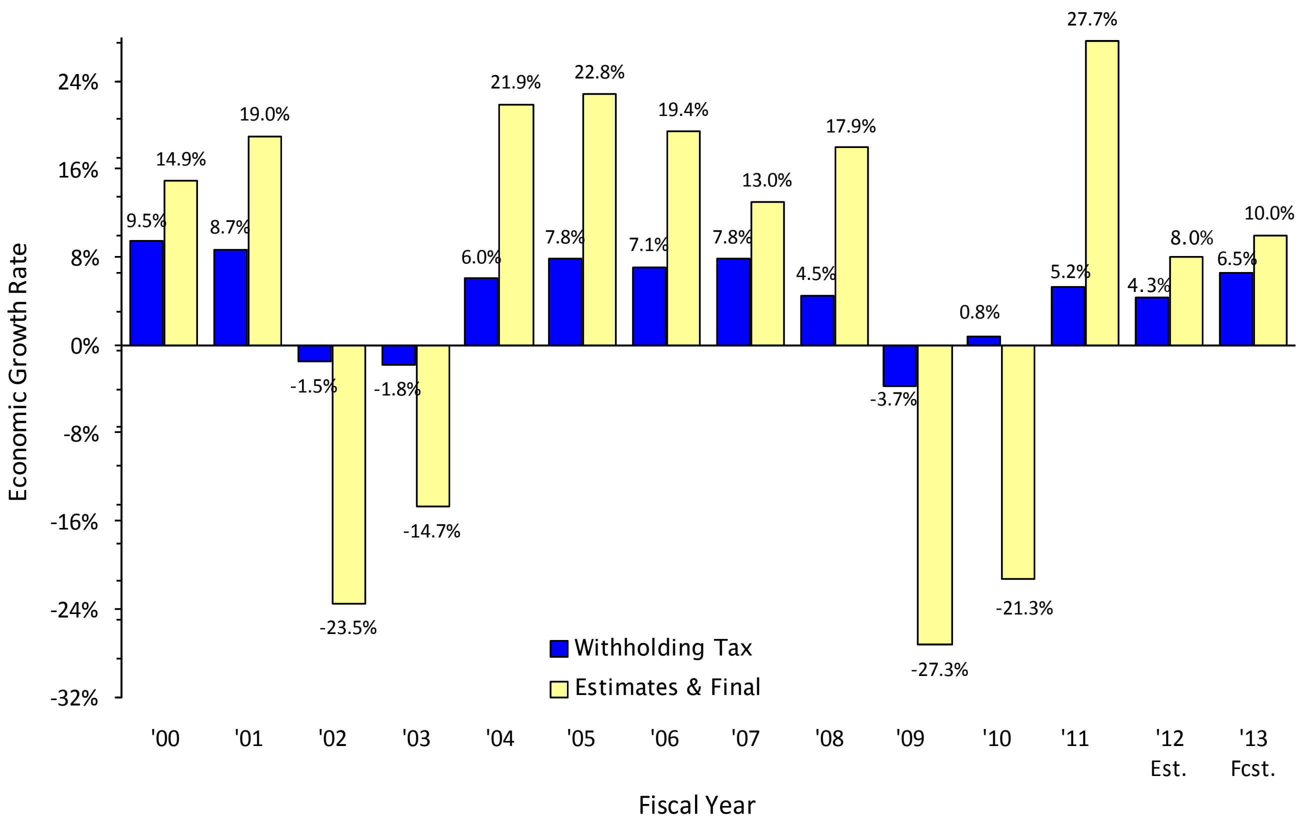
CONNECTICUT CAPITAL GAINS AND THE S&P 500



- Boom periods can encourage unsustainable levels of expenditures when capital gains collapse.
- While the equity markets provided a healthy recovery in 2009 & 2010, returns in 2011 do not bode well for accelerated and sustained growth in the short run.

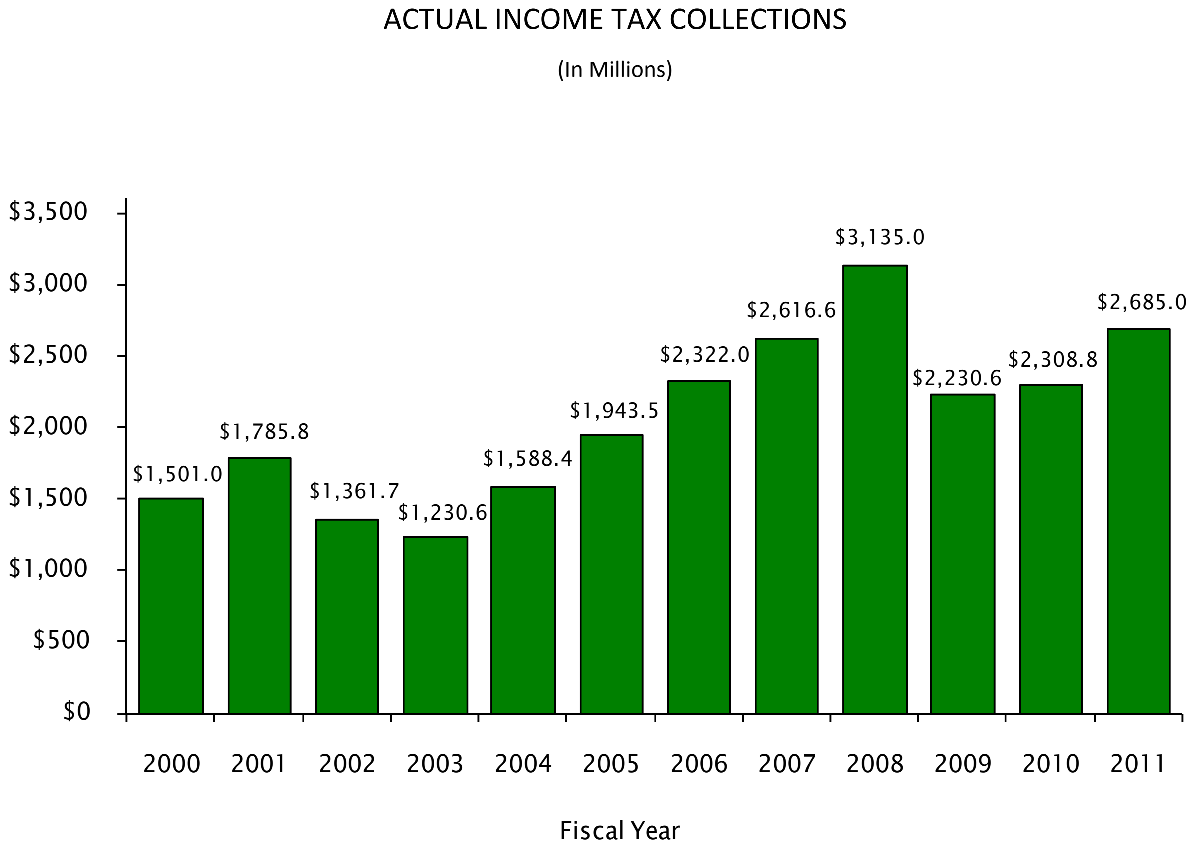
PERSONAL INCOME TAX TRENDS

ECONOMIC GROWTH RATES OF THE PERSONAL INCOME TAX



- Over the past decade Connecticut's income tax revenue has fluctuated dramatically.
- This was due to the performance of the stock market and two recessions.
- Performance in the financial markets significantly influences the growth in this revenue source.

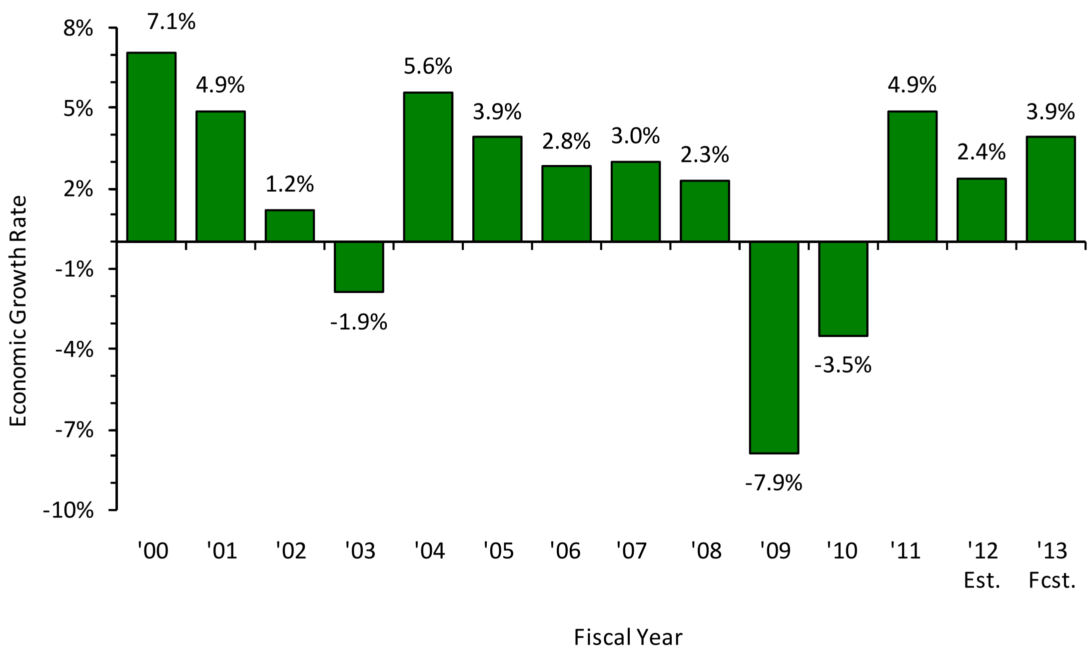
ESTIMATES AND FINALS PERSONAL INCOME TAX



- The estimates and finals component of the income tax typically represents one-third of total income tax collections.
- It has been extremely volatile over the years.
- In FY 2002, estimates and finals fell by $424.1 million.
- In FY 2003, they fell by an additional $131.1 million for a total of $555.2 million or 31% from the 2001 peak.
- In FY 2009 alone, estimates and finals fell by $904.4 million and fell an additional $475.4 million (excluding the impact of the tax increase on millionaires) in FY 2010 for a total decline over two years of approximately $1.4 billion or 44.5% from the 2008 peak.
- The increase in actual collections in FY 2010 was a result of increasing the top tax rate from 5% to 6.5%, the underlying economic growth rate was -21.3%.

SALES TAX TRENDS

ECONOMIC GROWTH RATES OF THE SALES AND USE TAX



- The sales tax dropped in two consecutive years, fiscal 2009 and 2010, due to chaos in the financial market and the worst economic downturn since the WWII.
- Beginning in late FY 2008, collections started to weaken as the housing market deteriorated with prices declining and foreclosure rates increasing.
- Without the federal stimulus packages, FY 2009 and FY 2010 would have been worse.
- Collections in late FY 2011 showed some signs of improvement as employment and personal income increased.
- A 1.0% increase in the sales and use tax growth rate results in a revenue gain of more than $30 million.

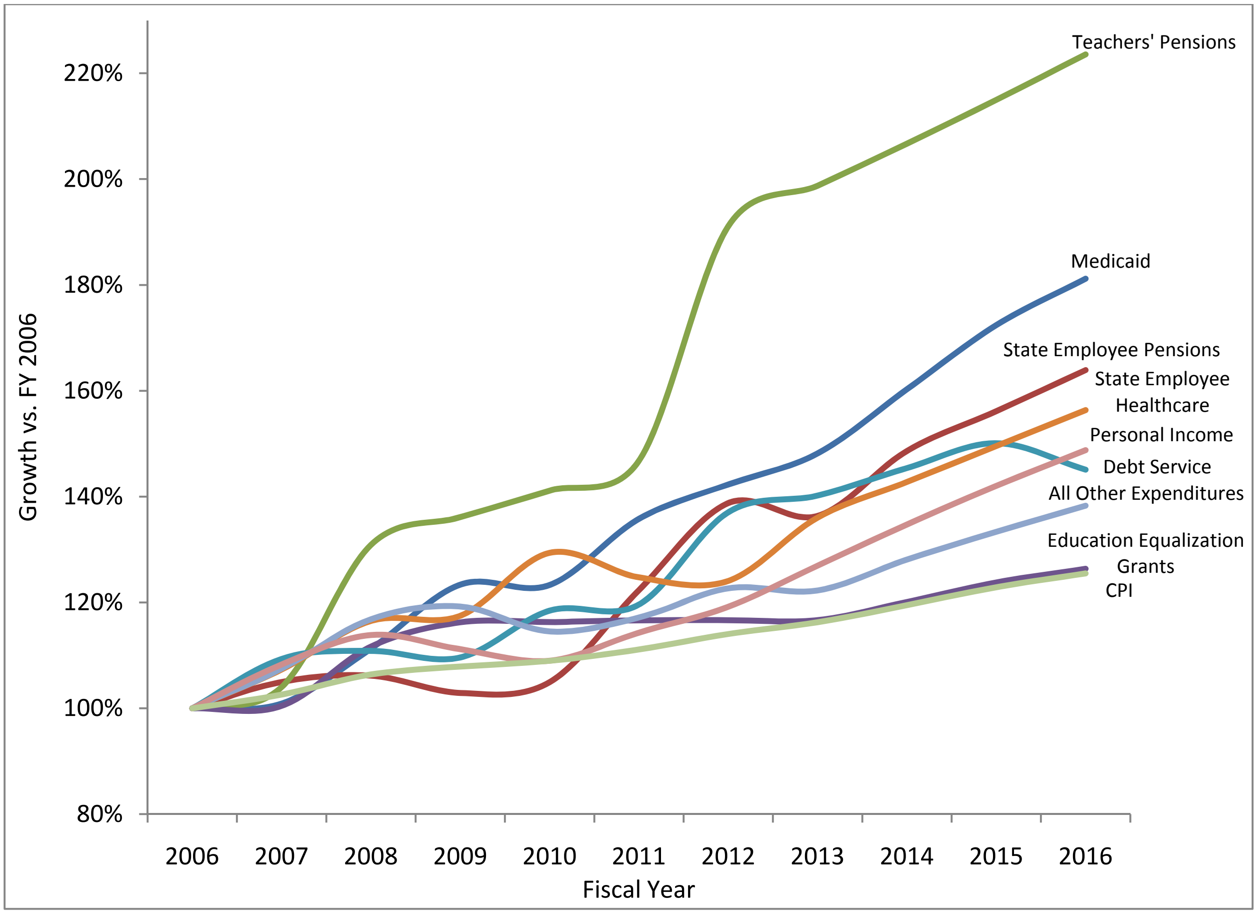
MOTOR FUELS TAX TRENDS AND THE SPECIAL TRANSPORTATION FUND

ECONOMIC GROWTH RATES OF THE MOTOR FUELS TAX

- Consumers began to curtail consumption as prices began to rise.
- By the summer of 2008, record high gasoline prices and the onset of a severe national recession forced consumers to significantly alter their driving habits and/or mode of transportation in an effort to reduce their gasoline bill in the short term.
- Gasoline consumption rose in FY 2010 but the decline in FY 2011 consumption, again due to rising prices, more than offset the one year of positive growth.
- In FY 2011, Motor Fuels tax revenue equaled 41% of the total revenue of the Special Transportation Fund.

GROWTH IN SIGNIFICANT STATE EXPENDITURES

Fiscal Year 2006 through Estimated FY 2016

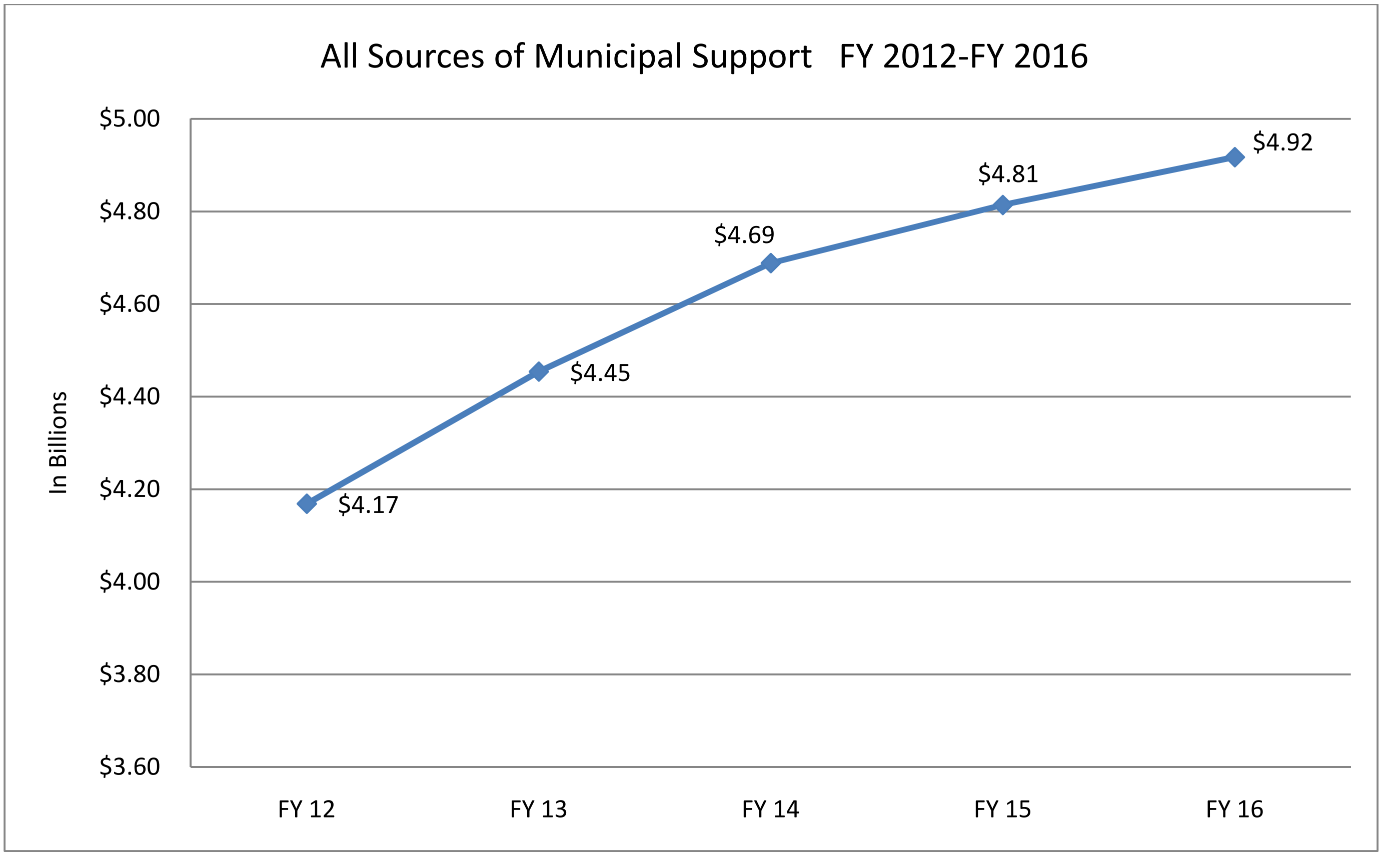


- Significant cost drivers include health and pension costs for active and retired state employees and teachers, and expenditures related to the Medicaid program. Debt service will continue to consume a significant portion of the budget.

- Pension and health benefits for state employees and teachers, and Medicaid have grown at annual rates that are significantly higher than either the Consumer Price Index or the growth in personal income and are anticipated to continue to be the principal cost drivers for the foreseeable future.

- The above figures reflect actual General Fund and Special Transportation Fund expenditures through FY 2011 and estimated expenditures for FY 2012 through FY 2016, net of holdbacks in FY 2012 and including FY 2013 budgeted lapses from FY 2013 through FY 2016. The above figures do not reflect amortization of Other Post Employment Benefits (OPEB) obligations.

SUMMARY OF LOCAL AID



- Amounts include appropriations, revenue intercepts, Teachers' Retirement Fund contributions, state share of school construction costs, and other bonding programs in support of municipalities.
- LoCIP, STEAP, Local School Construction and Teachers' Retirement Debt Service are funded with General Obligation bonds.
- Regional Performance Incentive Grants, as well as the Manufacturing Transition & Revenue Sharing Grants are funded through revenue intercepts.
- The provisions that cap the Public School Transportation, Non-Public School Transportation, Adult Education, and Special Education Student Based grants expire at the end of the 2012-2013 biennium, therefore the grants are fully funded at statutory formulas for FYs 2014-16.
- Assumes standard inflationary rate for ECS, School Based Health clinics, Early Childhood, Extended School Building Hours, and School Accountability.
- Estimates for Magnet Schools and Open Choice grants are based on anticipated enrollment.
- Assumes level funding for Town Aid Road, municipal PILOT programs, LoCIP and STEAP and the statutory transfer amount for the Mashantucket Pequot and Mohegan Grant.
- Support to municipalities constitutes 22.3% of the FY 2012 General Fund Budget.
- Support to municipalities will be approximately $4.45 billion in FY 2013 which is a 6.8% increase over the FY 2012 level.

STATE AID TO OR ON BEHALF OF LOCAL GOVERNMENTS

(in millions)

GRANT	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
State Owned PILOT	$ 78.1	$ 78.1	$ 78.1	$ 78.1	$ 78.1
College & Hospital PILOT	115.4	115.4	115.4	115.4	115.4
Mashantucket Pequot & Mohegan Grant	61.8	61.8	135.0	135.0	135.0
Town Aid Road Grant	30.0	30.0	30.0	30.0	30.0
LoCIP	30.0	30.0	30.0	30.0	30.0
Regional Performance Incentive Grants	7.2	7.4	7.7	7.9	8.1
Manufacturing Transition & Municipal Revenue Sharing Grants	93.3	99.1	103.6	107.1	110.9
STEAP	20.0	20.0	20.0	20.0	20.0
Miscellaneous General Government Grants	13.3	13.3	13.6	14.0	14.2
Subtotal - General Government	**$ 449.2**	**$ 455.2**	**$ 533.4**	**$ 537.5**	**$ 541.6**
Public School Transportation	$ 25.8	$ 24.9	84.5	86.8	89.1
Non-Public School Transportation	3.6	3.6	4.6	4.6	4.7
Adult Education	20.6	20.6	20.7	20.9	21.0
Education Cost Sharing	1,889.6	1,899.6	1,945.4	2,005.1	2,047.0
Magnet Schools	214.8	234.2	254.5	263.6	267.7
Special Education - Student Based	139.8	139.8	184.8	196.0	207.9
Local School Construction Debt Service	400.0	575.0	500.0	500.0	500.0
Miscellaneous Education Grants	159.8	161.6	173.8	180.6	185.1
Subtotal - Education	**$ 2,854.0**	**$ 3,059.3**	**$ 3,168.3**	**$ 3,257.5**	**$ 3,322.4**
Teachers' Retirement Contributions, Retiree Health Service Cost & Debt Service	$ 865.3	$ 939.5	$ 995.8	$ 1,019.0	$ 1,053.3
Subtotal - Teachers' Retirement	**$ 865.3**	**$ 939.5**	**$ 995.8**	**$ 1,019.0**	**$ 1,053.3**
Total - Aid to Municipalities	**$ 4,168.5**	**$ 4,454.0**	**$ 4,697.5**	**$ 4,814.1**	**$ 4,917.4**

Notes:

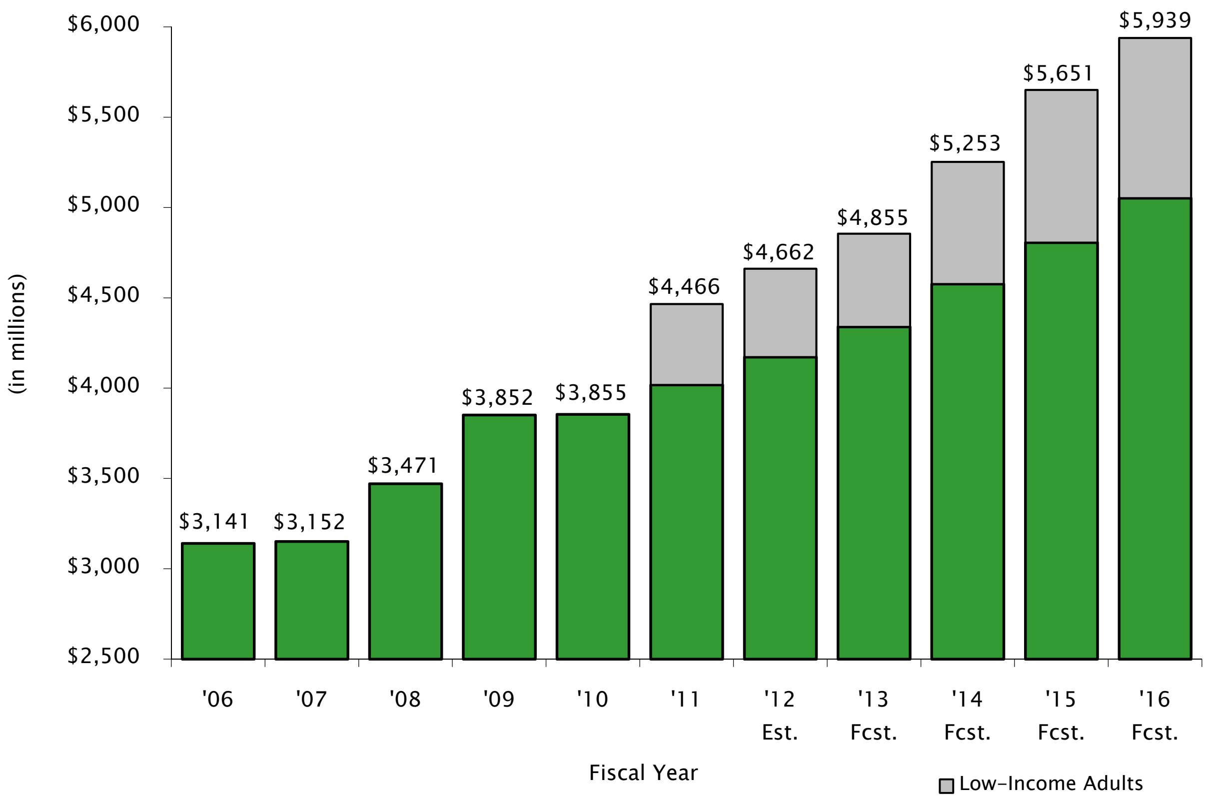
This does not include town specific revenue of $22.8 million in FY 12 nor $25.4 million in FY 13 derived from: 1) motor vehicle fines for un-registered vehicles; and 2) making permanent the 0.25% municipal real estate conveyance tax for all municipalities.

Also, this does not include $10.0 million in General Obligation Bond funds for municipal aid for Main Street iniatives authorized in PA 11-1 (October Special Session).

Figures for the State Owned PILOT includes annual transfers from the Bradley Enterprise Fund in an amount necessary to pay 20% of the PILOT for certain Bradley International Airport Property.

DEPARTMENT OF SOCIAL SERVICES

MEDICAID EXPENDITURES



- With expenditures increasing 89% from FY 2006 to FY 2016, growth in the Medicaid program is a major cost driver in the state budget.

- In FY 2011, Medicaid accounted for approximately 83% of DSS' budget.

- Medicaid growth since FY 2006 has been affected by utilization and rate increases for hospitals, nursing homes, physicians and other providers. Medicaid expenditures grew by only 0.35% from FY 2006 to FY 2007 due to the shift of pharmaceutical costs to the federal government under Medicare Part D and by only 0.1% from FY 2009 to FY 2010 largely as a result of increased pharmacy rebates and lower Medicare Part D clawback payments (due to enhanced reimbursement available under ARRA) and reduced nursing home expenditures.

- Expenditures for FY 2011 and projected expenditures for FY 2012 thru FY 2016 reflect the Medicaid expansion for low-income adults, which resulted in additional growth in Medicaid beginning in FY 2011. Projected expenditures also reflect the impact of federal health care reform, which expands Medicaid coverage under LIA by increasing income eligibility to 133% of the federal poverty level beginning January 1, 2014.

- Future growth will also be impacted by increased alternatives to nursing home care under the Money Follows the Person demonstration.

EFFORTS TO PRESERVE AND MAXIMIZE FEDERAL FUNDING

The administration continues to make federal revenue maximization efforts a priority. Numerous Medicaid state plan amendments and waivers have been submitted or are in the process of being submitted to the federal government. Initiatives not requiring federal approval are being operationalized by impacted state agencies. In the current fiscal year and next, millions of dollars could be gained in new federal revenue due to these initiatives – above and beyond normal increases in federal Medicaid revenue resulting from caseload growth.

Some of the major revenue maximization efforts under development include:

- Serving existing clients of the Departments of Developmental Services, Mental Health and Addiction Services and Children and Families under three autism waivers, allowing the state to receive federal reimbursement for services currently being provided at 100% state cost;
- Billing for inpatient and outpatient care for certain offenders in the Department of Correction, allowing the state to receive federal reimbursement for services that are currently being supported at 100% 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% state cost;
- Developing a waiver that will allow Medicaid reimbursement for certain rehabilitation services being provided by the Department of Mental Health and Addiction Services that are currently at 100% state cost;
- Billing for costs in several state agencies associated with the administration of Medicaid services;
- Amending the comprehensive waiver operated by the Department of Developmental Services to allow for inclusion of continuous residential supports as a waiver service, thus qualifying those services for reimbursement;
- Providing nursing home care for individuals currently being cared for in infirmaries in the Department of Correction and Connecticut Valley Hospital. Providing these services in the community will permit reimbursement for care that is currently at 100% state cost;
- Developing a limited new waiver for individuals with acquired brain injury to allow Medicaid reimbursement for services supported by DMHAS' state-funded TBI Community Services account;
- Exploring the potential for enhanced reimbursement of the costs for administrative services organizations (ASOs) in DSS, DCF and DMHAS; and
- Reviewing the impact of including coverage of various independent practitioners providing services to individuals 21 years of age and over as an optional service under Medicaid.

While much effort goes into maximizing revenue, equal or greater effort goes into preserving existing sources of federal reimbursement. The Centers for Medicare and Medicaid Services 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 is hiring additional staff to oversee projects and analyze the fiscal implications and OPM has, through a new legislative appropriation, dedicated contractual resources toward revenue maximization efforts.

Until Congress acts on the federal budget, final funding levels for many of the state's federally funded discretionary programs are unknown. In addition, it is not known how the work of the federal Joint Select Committee on Deficit Reduction and other federal budget efforts will ultimately affect the state's discretionary grants, as well as the entitlement programs that are supported with federal dollars. Perhaps of greater significance is the potential impact of federal budget reductions on the state's economy, particularly in areas such as defense spending.

RACE TO THE TOP – EARLY LEARNING CHALLENGE

Governor Malloy recently submitted Connecticut's application for the federal Race to the Top – Early Learning Challenge competitive grant program, in which the state could be awarded up to $50 million in funds for a grant period from 12/31/2011 to 12/31/2015.

The purpose of the Race to the Top – Early Learning Challenge (RTT-ELC) program is to improve the quality of early learning and development and close the achievement gap for children with high needs. Specifically, Connecticut will seek to achieve a dramatic increase in the percentage of Children with High Needs who enter Kindergarten ready to succeed, and to cut in half the percentage of children unprepared for school by accelerating ongoing efforts to strengthen state systems and support communities to work collaboratively to better meet the needs of high-need children and families through improved service coordination and quality improvements.

To ensure the leadership necessary to change the culture of early childhood systems in Connecticut, Governor Malloy issued Executive Order 11 to establish a State Early Childhood Office, which will coordinate the efforts of many state agencies and many more stakeholders who have committed to work together to integrate the transformative RTT-ELC projects into the existing efforts outlined in Public Act No. 11-181, which mandates the continued development of a coordinated system of early care, education and child development through increased collaboration among State agencies. Governor Malloy also committed to fund one thousand new early childhood education slots targeted to high need children.

HEALTH CARE REFORM

The Patient Protection and Affordable Care Act, P.L. 111-148, and the Health Care and Education Reconciliation Act of 2010, P.L. 111-152, were both signed into law in March of 2010 and together they are referred to as the Affordable Care Act. This act includes a wide variety of health care provisions and requirements. Key points of the health care reform law:

- Requires most US citizens and legal residents to obtain health coverage.
- Encourages employers to offer health care coverage to their employees by providing tax credits to small businesses who purchase health insurance for their employees; taxes employers who do not provide health care coverage for their employees.
- Creates a state-based Health Insurance Exchange which allows individuals and small businesses to purchase health insurance coverage. These exchanges include premium and cost-sharing credits to individuals and families within specific income brackets.
- Establishes an office of health insurance consumer assistance or an ombudsman program to serve as an advocate for people with private coverage in the individual and small group markets.
- Prohibits lifetime limits on coverage, and prohibits pre-existing condition exclusions for children. Insurance rating rules allow variation based solely on age, area, family composition, and tobacco usage.
- Establishes a temporary high-risk pool to provide health coverage to individuals with pre-existing medical conditions. This pool has limited federal funding for qualified States.
- Establishes reporting requirements regarding medical loss ratios and premium rate increases.
- Creates a website to assist consumers in finding and understanding health care coverage options.
- Makes many Medicare and Medicaid enhancements and changes.

DEPARTMENT OF SOCIAL SERVICES

Medicaid Eligibility
Allows states the option of covering childless adults up to 133% FPL under a Medicaid state plan amendment beginning 4/1/10. Effective 1/1/14, states will be required to provide Medicaid coverage to parents, children age 6 and older, and all childless adults up to 133% FPL.
Impact: To reflect the extension of Medicaid benefits to individuals who would have otherwise been eligible for the State Administered General Assistance program, the enacted budget assumed a net revenue gain to the state of $53 million for the 15-month period ending 6/30/11. Program expenditures in both DSS and DMHAS have been higher than budgeted, however, due to significant caseload growth.

Maintenance of Effort (MOE)
Prohibits states from reducing eligibility standards, methodologies, or procedures for (1) adults on Medicaid until 12/31/13 or (2) children until 9/30/19 (both Medicaid and the Children's Health Insurance Program (CHIP)). Between 1/1/11 and 12/31/13, a state can be exempt from MOE for optional non-pregnant non-disabled adult populations above 133% FPL if the state certifies that it is currently experiencing a budget deficit or projects a budget deficit in the following fiscal year.
Impact: Reduces state's flexibility to make certain reductions.

Federal Payments for Newly Eligible Individuals
Provides federal Medicaid matching payments for the costs of services to newly eligible individuals at the following rates for non-expansion states such as Connecticut: 100% in 2014, 2015, and 2016; 95% in 2017; 94% in 2018; 93% in 2019; and 90% thereafter.
Impact: Gross costs are estimated at $270 million. These costs will be fully reimbursed thru 2016, after which federal reimbursement will be reduced each year, stabilizing at 90% in 2020. Because Connecticut fully appropriates Medicaid expenditures, this will affect the state spending cap.

Definition of Medical Assistance
Redefines medical assistance to include not only payment for medical care and services, but also the care and services themselves.
<u>Impact</u>: Could increase litigation against states, particularly lawsuits claiming delays in the delivery of services due to access issues.

Legal Immigrants
Makes legal immigrants with income under 133% FPL, who are not eligible for Medicaid by virtue of the 5 year waiting period, eligible for the basic health program.
<u>Impact</u>: Expands federal reimbursement for non-citizens beyond the Children's Health Insurance Program Reauthorization Act (CHIPRA), which extended federal reimbursement to children and pregnant women. Would result in additional federal reimbursement after 2014.

Incentives for States to Provide Home & Community-Based Services (HCBS)
Creates financial incentives for states to shift Medicaid beneficiaries out of nursing homes and into the community by extending the Money Follows the Person (MFP) Rebalancing Demonstration through FFY 2016 and reducing the six month requirement for institutionalization to three months.
<u>Impact</u>: Will result in enhanced federal reimbursement with more individuals leaving skilled nursing facilities through the MFP program.

Medicaid Disproportionate Share Hospital (DSH) Payments
Reduces federal DSH payments by $500 million in FFY 2014, increasing to $4 billion in FFY 2020. Directs HHS to develop a methodology for reducing federal DSH allotments to all states in order to achieve the mandated reductions, imposing larger reductions to states with lower percentages of uninsured.
<u>Impact</u>: In FY 2012, the state will receive approximately $200 million in DSH. By 2019, the state's DSH amount will be reduced by at least 50%. Because Connecticut is a "high DSH" state, the actual reduction is expected to be larger.

Tobacco Cessation
Requires states to provide coverage under Medicaid for tobacco cessation services for pregnant women.
<u>Impact</u>: Potential short term costs and long term savings.

Fraud, Waste and Abuse
Reduces waste, fraud, and abuse in public programs by strengthening efforts in this area.
<u>Impact</u>: Should help in the state's ongoing efforts.

STATE OF CONNECTICUT EMPLOYEE HEALTH PLAN

Early Retiree Reinsurance Program (ERRP)
The ERRP provides financial relief for employers, unions and state and local governments to help them maintain coverage for early retirees age 55 and older who are not yet eligible for Medicare, and their spouses, surviving spouses, and dependents. The amount of reimbursement to the employer is 80% of medical claims costs for health benefits between $15,000 and $90,000. The Affordable Care Act provides $5 billion in financial assistance.
<u>Impact</u>: The state's application to participate in the ERRP has been approved by the U.S. Department of Health and Human Services. The program ends on January 1, 2014.

INSURANCE DEPARTMENT

Regulation Enhancements
Insurance policy forms and rates will need to conform to the requirements of the federal law and be filed for approval. Claims payment policies, enrollment and disenrollment data, financial disclosures, claims denials, rating practices, out-of-network payments and other information must be filed with DOI and available for public inspection. DOI must annually review unreasonable rates for group and individual plans.

UNEMPLOYMENT COMPENSATION FUND

The Unemployment Compensation Fund ("Trust Fund") is established pursuant to Connecticut General Statutes Section 31-261 for the purpose of paying benefits to unemployed workers. The Trust Fund is funded through payroll tax contributions paid by employers, and is not a budgeted fund of the state. The recent high unemployment rates in Connecticut will have an effect on Connecticut businesses for the next several years.

- As of September 2011, the Connecticut seasonally adjusted unemployment rate was 8.9%, leading to a sustained high level of claims against the fund.
- The maximum weekly benefit rate is currently $573 per employee. Connecticut also pays $15 per dependent child up to a maximum of $75. Connecticut ranks 8th in the nation as to the maximum amount of benefits provided.
- In 2010, increases in job losses resulted in benefit payouts of approximately $1.3 billion from the trust fund, while only $700 million in taxes were collected. Although not to the same degree as in 2010, it is expected benefit payouts will outpace revenues in 2011 as well.
- Even with the fund solvency tax generating its maximum revenue annually, the trust fund became insolvent in October 2009.
- To continue making unemployment payments, Connecticut, like other states, has been borrowing from the federal government. The American Recovery and Reinvestment Act provided interest free borrowing through calendar year 2010, however, states with loans outstanding at the beginning of 2011 are subject to interest on these loans.
- Since Connecticut was unable to repay borrowed funds within two years, in January 2012 the federal government will increase federal unemployment taxes on employers by increasing the current federal unemployment tax by 0.3% increments annually until the loan is fully repaid.
- Current projections*, which are based on existing statutory provisions (both state and federal), indicate the need for continued borrowing until at least CY 2015. It is anticipated that final repayment of the loans will occur in CY 2015.

Projected Cash Flow - Federal Unemployment Insurance *

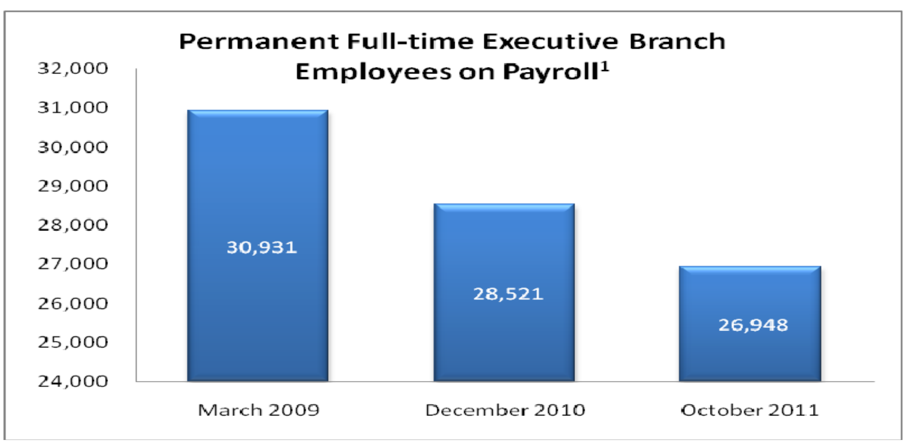
Calendar Year	Amount Borrowed	Repaid by State UI Taxes	Repaid by Increased Federal UI Taxes
2009	$180,000,000	$0	$0
2010	$345,000,000	$0	$0
2011	$285,000,000	$0	$0
2012	$100,000,000*	$100,000,000*	$30,000,000
2013	$100,000,000*	$330,000,000*	$60,000,000
2014	$100,000,000*	$500,000,000*	$90,000,000
2015	$100,000,000*	$100,000,000*	$0
Totals	$1,210,000,000	$1,030,000,000	$180,000,000

*The figures above are based on current statutory provisions as well as projections of many variables such as unemployment benefit payouts, tax revenues, growth in wages and growth in labor force. Changes in these variables could result in changes in the borrowing amounts and also in the repayment schedule. Loan repayments by state taxes are estimated after payment of benefits. Please note that while borrowing is anticipated in calendar years 2012 to 2015, amounts borrowed in those years are anticipated to be paid back in the year borrowed and are classified as "cash flow loans" which may not be subject to interest.

REDUCING THE SIZE OF STATE GOVERNMENT

As a result of the enacted budget and through the efforts of Governor Malloy's administration, during calendar year 2011 the size of state government has been reduced. This reduction applies to the number of state agencies, which experienced a number of significant consolidations and mergers, as well as to the size of the state workforce, which saw substantial attrition during the year.

- **State agencies**
  - Reduced the number of budgeted state agencies by 27%, from 81 to 59.
  - Major consolidations include:
    - Higher education - Creation of the Board of Regents for Higher Education and the Office of Financial and Academic Affairs for Higher Education (affecting DHE, CSU, CTCs, Charter Oak State College).
    - Department of Administrative Services (combining DAS, DOIT, portions of DPW).
    - Department of Economic and Community Development (merging DECD, OWC, CCT).
    - Department of Emergency Services and Public Protection (consolidating DPS, DEMHAS, POST, FPC).
    - Office of Governmental Accountability (merging watchdog agencies and various other offices and commissions).
- **State workforce** (not including Legislative or Judicial branches, or higher education)
  - Executive Branch vacancies 3,226
  - Positions held vacant
    - Through holdbacks based on SEBAC accord 1,592
    - Not requested for refill by agencies 228
    - Not approved for refill by OPM, Oct. 2011 416
    - Total positions held vacant 2,236 69%
  - Positions approved for refill 990 31%



[1]Based on Executive Branch General Fund and Special Transportation Fund payroll data for 3/27/09, 12/30/10, and 10/21/11 payrolls, excludes constituent units of Higher Education.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

One of the hallmarks of Governor Malloy's administration has been to improve financial transparency and accountability. On January 5, 2011, immediately following his taking the oath of office, the Governor issued Executive Order No. 1 directing the state to initiate a process to reflect the use of Generally Accepted Accounting Principles (GAAP) for budgeting purposes. The legislative outgrowth of that directive was sections 43-49 of Public Act 11-48 which mandate the use of GAAP for budgeting purposes beginning July 1, 2013. Specifically, the law made the following changes:

1. Transition Years FY 2012 and FY 2013. Sets up FY 2012 and FY 2013 as transition years whereby GAAP principles are initiated on a state-wide basis, but not an agency specific basis. It achieves this by directing the Comptroller to reserve from unappropriated surplus a maximum of $75 million in fiscal year 2012 and a maximum of $50 million in FY 2013 to be applied toward any increase in the unreserved negative general fund balance on the theory that these amounts were the estimated increase in the GAAP annual deficits for those years. [Section 46]
2. GAAP Start Date FY 2014. Requires the implementation of GAAP for budgeting purposes beginning with FY 2014. [Sections 45, 47]
3. Amortization of Deferred Charge. Directs the Comptroller to establish a deferred charge for accrued and unpaid expenses on the balance sheet of the state as of June 30, 2013 and directs that such charge be amortized in equal increments over 15 years commencing with FY 2014. [Section 45]
4. Balanced Budget Definition and Prior Year Annual Deficits. Modifies the definition of what constitutes a balanced budget. Beginning with FY 2014, any prior year's deficit reported in the most recently published Comprehensive Annual Financial Report (CAFR) must be rolled into the balance calculation of the Governor's proposed and the Legislature's adopted budget. Revenues must exceed the sum of total appropriations plus any prior year deficit. Given the timing of the CAFR release this will typically mean any deficit two years prior to the budget in question. [Sections 43, 48]
5. Preliminary Comptroller's Report. Revises the date by which the Comptroller must release a preliminary, unaudited report on the most recently completed fiscal year from September 1st of each year to September 30th. [Section 44]
6. Future Surpluses. Dedicates, beginning with fiscal year 2014, any future unappropriated surpluses toward the annual amortization of the deferred charge. This would place the deferred charge ahead of the early repayment of the 2009 Economic Recovery Notes and deposits to the Budget Reserve Fund. [Section 46]
7. End of Year Payments. Removes the 30 day grace period after the close of the fiscal year for certain expenditures to be made if there is no succeeding appropriation in the new fiscal year. Because expenditures will accrue to the appropriate period under GAAP principles, this limitation no longer applies. [Section 49]

In addition, section 165 of Public Act 11-6 repealed the GAAP salary reserve account which was established to accommodate the 27th payroll that occurs approximately every 11 years. With the implementation of GAAP budgeting, this account will no longer be necessary. Lastly, efforts are underway to identify changes to the State's financial systems that are needed to implement GAAP, with any modifications anticipated to be completed concurrently with the State's migration to an upgraded version of the CORE-CT software, which is anticipated to be completed during FY 2013.

SECTION 7

ANALYSIS OF POSSIBLE USES OF SURPLUS FUNDS

ANALYSIS OF POSSIBLE USES OF SURPLUS FUNDS

Given the structural budget reforms enacted during the 2011 legislative session, surpluses are projected over the next several years. Under current law, these surpluses have already been committed. Specifically, the General Assembly passed Public Act 11-48, section 46 that modified the disposition of any future surplus for fiscal years 2012 through 2028. Should the state experience surpluses during those fiscal years, any surplus would be distributed as follows:

1. Reserve an amount not to exceed $75 million in FY 2012 and $50 million in FY 2013 in order to reduce the GAAP deficit. Starting in FY 2014 the amount to be reserved shall equal the annual amortization of the deferred GAAP charge, and then
2. Redeem any of the outstanding Economic Recovery Notes that were issued to finance the FY 2009 deficit of $947.6 million, and then
3. Deposit to the Budget Reserve Fund.

The current estimate of the GAAP deficit is $1.7 billion. Replenishment of the Budget Reserve Fund to the ten percent level would require approximately $2.0 billion. Beyond these commitments, other priorities could include:

- Reducing bonded indebtedness;
- Reducing the unfunded liability in the State Employees Retirement Fund;
- Reducing the unfunded liability in the Teachers Retirement Fund;
- Actuarially funding the unfunded liability for Other Post Employment Benefits; or
- Providing funds for Higher Education Matching Grants as per sections 10a-77a, 10a-99a, 10a-109c, 10a-109i and 10a-143a of the General Statutes.