

MANAGING THE STATE'S FISCAL CHALLENGES

- During the past 18 months Connecticut has been buffeted by the economic storms that have hit the nation and the entire world.
- State tax revenues have plummeted, forcing decision makers to determine what the state can continue to support.
- Unemployment has risen to 8.9%.
- Participation levels in social services programs that provide health care, nutrition and heating assistance continue to increase.

MANAGING THE STATE'S FISCAL CHALLENGES

- The economic news continues to disappoint.
- As recently as January 15, 2010 the Office of Policy and Management (OPM) and the Office of Fiscal Analysis (OFA) agreed upon new revenue estimates that in total were \$342.9 million less than those included in the adopted budget for FY2009-2010 only four and one half months earlier.

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WHY ADJUST THE ENACTED BUDGET?

Current Services versus Proposed Budget (in millions)

General Fund	Fiscal 2010-2011				
	Adopted Budget	Changes	Current Services	Changes	Proposed Budget
Revenues	\$ 17,596.8	\$ (452.6)	\$ 17,144.2	\$ 422.3	\$ 17,566.5
Expenditures	17,594.7	233.8	17,828.5	(262.4)	17,566.1
Surplus/(Deficit)	\$ 2.1	\$ (686.4)	\$ (684.3)	\$ 684.7	\$ 0.4

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PROPOSED BUDGET ADJUSTMENTS

Enacted versus Proposed Budget (In millions)

Fiscal 2010-2011

General Fund	Adopted Budget	Proposed Budget	Changes
Revenues	\$ 17,596.8	\$ 17,566.5	\$ (30.3)
Expenditures	17,594.7	17,566.1	(28.6)
Surplus/(Deficit)	\$ 2.1	\$ 0.4	\$ (1.7)

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WHY ADJUST THE ENACTED BUDGET?

Revenue Decline

Decline in General Fund Revenue
From the Adopted Fiscal Year 2011 Budget
(In millions)

	Adopted Budget	Latest Estimate	Change	Percent Change
Personal Income Tax	\$ 6,654.7	\$ 6,442.5	\$ (212.2)	-3.2%
Sales Tax	3,095.4	3,165.8	70.4	2.3%
Corporation Tax	731.9	694.9	(37.0)	-5.1%
Cigarettes	403.1	386.5	(16.6)	-4.1%
Refunds of Taxes	(983.3)	(1,033.3)	(50.0)	5.1%
Indian Gaming Payments	391.7	353.3	(38.4)	-9.8%
Miscellaneous Revenue	218.5	171.5	(47.0)	-21.5%
Federal Grants	3,770.4	3,634.1	(136.3)	-3.6%
All Other	3,314.4	3,328.9	14.5	0.4%
Total	\$ 17,596.8	\$ 17,144.2	\$ (452.6)	-2.6%

Note: Latest estimate includes \$268.0 million in additional revenue derived from the elimination of the sales tax reduction from 6.0% to 5.5% that was scheduled to take effect January 1, 2010.

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PROPOSED ADJUSTMENTS

Revenue

Governor Rell's FY2011 Midterm Budget Adjustments includes:

- No Tax Increases
- No Fee Increases
- Continued Maximization of Federal Revenue

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PROPOSED ADJUSTMENTS

Revenue Changes

in millions

▪ Anticipated extension of ARRA		\$365.6
Medicaid and IV-E FMAP	\$266.5	
State Fiscal Stabilization Fund	\$99.1	
▪ Keno		\$20.0
▪ Transfers		\$15.0
▪ All other		\$21.7
Total		\$422.3

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PROPOSED ADJUSTMENTS

Revenue

Federal Recovery and Reinvestment Funds
Anticipated in the Governor's Proposed Budget
(in millions)

	FY2009	FY2010	FY2011 Forecast			Grand Total
	Actual	Estimated	Adopted	Additional Anticipated	Total	
Medicaid	\$403.3	\$ 538.8	\$ 292.4	\$ 263.5	\$ 555.9	\$ 1,498.0
Title IV-E	4.4	6.0	3.0	3.0	6.0	16.4
Stabilization		271.0	271.0	99.1	370.1	641.1
Total	\$407.7	\$ 815.8	\$ 566.4	\$ 365.6	\$ 932.0	\$ 2,155.5

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WHY ADJUST THE ENACTED BUDGET?

Current Services Expenditure Increases

	<u>in millions</u>
▪ DSS entitlement cost/caseload growth	\$150.8
▪ Rollout DDS and DMHAS caseload deficiencies	\$21.6
▪ Rollout non-caseload/entitlement deficiencies	\$18.7
▪ Update employee health plan self-insurance cost	\$10.0
▪ Statutory changes (e.g., Raise the Age)	\$ 4.4
▪ Other current services changes	<u>\$28.3</u>
Total	\$233.8

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PROPOSED ADJUSTMENTS

Expenditure Reductions

	<u>in millions</u>
▪ Deferral of SERS contribution	\$100.0
▪ Cancel MCO payment delay	(\$72.5)
▪ Other reduction proposals	<u>\$234.9</u>
Total	\$262.4

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MANAGING THE STATE'S FISCAL CHALLENGES

- During FY2008-2009 the Governor, consistent with her authority, issued five rounds of rescissions and proposed four different deficit mitigation packages.
- The General Assembly adopted four mitigation packages totaling \$481.7 million.
- FY2008-2009 ended with a deficit in the General Fund of \$948 million and the General Assembly authorized the State Treasurer to issue Economic Recovery Notes to finance the same.
- Governor Rell continues to offer deficit mitigation plans to close the 2010 deficit and is preparing a plan to deal with the most recent projected deficit.

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MANAGING THE BIENNIAL BUDGET

- The adopted budget included an unprecedented \$473 million in lapses for FY2009-2010 and \$530 million in lapses in FY2010-2011.
- The Governor has allocated these savings to the various agencies and boards on a proportionate basis dependent upon the nature of the lapse.
- For FY2010-2011, \$296.3 million of these reductions remain budgeted as "below the line" lapses, but certain lapses have been distributed within agency budgets (RIP, DOIT and management savings).

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2009 SEBAC AGREEMENT

The savings associated with this agreement for FY2010-2011

Increase in prescription drug co-pays from \$3/\$5 to \$5/\$10/\$25	(\$17,898,000)
Increase active employee health premium share by \$350 per year	(\$19,192,800)
Preventative care visit co-pays reduced to \$5	\$753,600
Employees with less than five years of service contribute 3% of pay for retiree health cost until they reach ten years of employment	(\$15,278,600)
Salary freeze and furlough days in all bargaining units except correctional officers and correctional supervisors	(\$150,289,700)
Retirement incentive program	(\$143,411,985)
Subtotal:	(\$345,317,485)
Deferral of SERS contribution	(\$100,000,000)
TOTAL:	(\$445,317,485)

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2009 SEBAC AGREEMENT SAVINGS

- In return, the State agreed to job security provisions for all bargaining units except for the two Correctional bargaining units which had not reached agreement with the State on wage concessions.
- The restrictions on layoffs do not prevent the State from eliminating or reducing programs – they require that the displaced employees be offered comparable employment elsewhere in the State.

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MANAGING THE BIENNIAL BUDGET

- Governor Rell has instructed agencies to revise the way they do business, including, where necessary, eliminating certain programs and combining institutions.
- The result is that the number of full time, permanent state employees has been reduced by 3,889—nearly 7%—in the past eight months, from 57,006 to 53,117.

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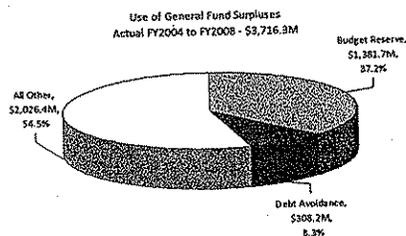
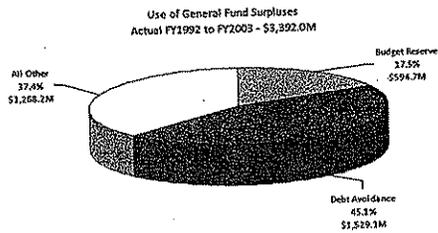
BUDGET REFORM

- Budget Reserve Fund
- Enhanced Rescission Authority
- Bond Reform

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BUDGET REFORM

Budget Reserve Fund



50% of
Comptroller's
projected surpluses
to be transferred
immediately to
Budget Reserve
Fund in January
and May.

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BUDGET REFORM

ENHANCED RESCISSION AUTHORITY			
	Amount of General Fund Deficit as Projected by Comptroller	Governor's Rescission	
		Per Appropriation	Per Fund
Current Law:	1% and above	5%	3%
Proposed:	1% to 3%	5%	3%
	3% to 5%	10%	6%
	5% and above	15%	10%

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BUDGET REFORM

Bonding Reform

- Currently, bond authorizations stay on the books indefinitely and oftentimes the projects or programs involved are no longer valid.
- Therefore, the Governor is proposing that all bond authorizations that have not been allocated within five years of authorization be automatically repealed.

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GOVERNMENT FOR THE 21ST CENTURY

Government for the Twenty-first Century Commission (24 appointments by Governor, Chief Justice, President, Speaker, Minority Leader)

Study structure and delivery systems of state government including overlapping missions of state agencies, mergers, overhead, and efficiency of state government.

Make recommendations to Twenty-first Century Review Board by September 1, 2010.
Four members appointed by Governor, Chief Justice, 2 parties.
Public hearing by October 15 held by review board.
Review board amends or rejects recommendations; review board will draft legislation to implement the approved recommendations.

File recommendations in drafted form by December 1, 2010.

Not later than 45 days after opening of regular session the General Assembly will vote on the recommended legislation without amendment.

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JOB

Loans For Small And Medium Business

- State's small and medium businesses are vital to our economy and job creation and retention.
- Proposing a \$100 million bond authorization to address continued tight credit availability for small and medium size businesses.

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JOB

Loans For Small And Medium Business

- The program will assist small and medium size businesses.
- Loan guarantees in the amount of \$75 million will provide access to loans of \$500,000 to \$3 million.

The State's pledge of \$75 million in guarantees will leverage private capital from our banking community in excess of \$400 million.

- The remaining \$25 million will be set aside for direct loans of up to \$500,000 to assist small and medium sized businesses.

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JOB CREATION TAX CREDIT PROGRAM

- Small businesses eligible for the expanded and simplified credit.
- The credit may be used for three years, beginning in income year 2010, and will be worth \$2,500 per year per new job created.
- Credit available to corporations and also pass-through entities which are typical of today's business enterprises.
- In order to safeguard the state budget, the credit will be subject to the existing annual cap of \$10 million for the Jobs Creation Tax Credit program.

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RENEWABLE ENERGY SALES TAX EXEMPTION

To further bolster job creation, the Governor is proposing an enhanced sales tax exemption for green energy-type industries in order to encourage the research and production of such equipment in Connecticut.

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LOAN FORGIVENESS PROGRAM

- In order to meet the workforce demands of the global economy, the Governor is proposing a Loan Forgiveness Program.
- Aimed at those who earn degrees in “green” technology, life sciences or health related information technology.
- Will forgive a portion of school loans if – and only if – that person remains in the state after graduation and works in one of these three fields.

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LOAN FORGIVENESS PROGRAM

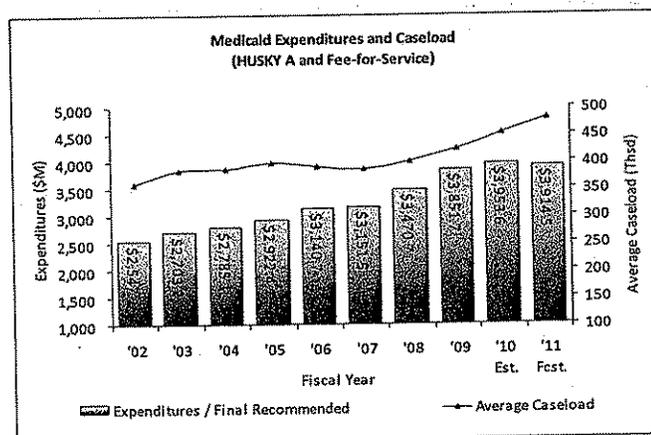
How It Works

- A person graduating from a Connecticut school with a bachelor's degree in one of the three target fields who works and lives in the state for at least 2 years will have 5% of any school loans forgiven
- After 3 years, the forgiveness increases to 10%
- After 4 years, 15%
- After 5 years, 20%
- The maximum amount that can be forgiven in any one year would be \$2,500, with a cumulative maximum of \$10,000
- A commensurate program for associate degrees will also be available

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HUMAN SERVICES

Governor Rell includes necessary funding for caseload growth in Human Services programs



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SOCIAL SERVICES

Restructuring and Efficiency

- With administrative costs presently budgeted at more than \$98.3 million in FY2010-2011, it is time to reconsider Connecticut's current Medicaid managed care model.
- Propose to move the current managed care system to a non-risk arrangement under an administrative services organization (ASO).
- Anticipated FY2010-2011 savings of \$28.8 million.
- This restructuring will not impact the ability of Medicaid clients to receive necessary medical care.

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SOCIAL SERVICES

Restructuring and Efficiency

- Proposing to eliminate or restructure certain services for savings of \$26.4 million in FY2010-2011
- Savings initiatives include:
 - Eliminating coverage of most over-the-counter drugs to the extent allowed under federal law (\$7.7 million)
 - Requiring that all mental health prescriptions be subject to the preferred drug list (\$1.0 million)
 - Narrowing the vision care benefit for adults under Medicaid (\$4.6 million), all of which are optional services under Medicaid rules
 - Removing vision and most non-emergency medical transportation services under SAGA for a savings of \$1.4 million
 - Modify non-emergency transportation systems to include stretcher vans (\$5.9 million)

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SOCIAL SERVICES

Restructuring and Efficiency

- 45 states impose copayments under Medicaid.
- Nominal co-pays of up to \$3 per service under Medicaid and not to exceed 5% of family income on allowable medical services (\$9.0 million); co-pays for pharmacy services will be capped at \$20 per month.
- Vulnerable populations are exempted.

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SOCIAL SERVICES

Restructuring and Efficiency

- Increase the monthly maximum copay from \$15 to \$20 for dually eligible clients under Medicare Part D, for a savings of \$1.1 million.
- Increase the premium amounts under HUSKY B for individuals with income between 236% and 300% of the federal poverty level, which would save \$1.4 million.
- Adjust cost sharing requirements under HUSKY B to remain consistent with the co-pay requirements for state employees, resulting in savings of \$710,000.
- Suspend premium assistance to new Charter Oak enrollees, and phase in statutory premium costs to existing clients, for a savings of \$4.9 million.

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CHILDREN AND FAMILIES

- Funds are maintained to support a net increase of over 400 subsidized adoptions and subsidized guardianships in FY2010-2011.
- \$2.9 million to pay for transportation of foster care children to home school district as per new federal law.

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LABOR

- Governor Rell maintains funding for 21st Century Jobs, Incumbent Worker Training Program, Apprenticeship Program, the Connecticut Career Resource Network and Jobs First Employment Services.
- Due to projected deficit, budget suspends the funding for Opportunity Industrial Centers, Individual Development Accounts, STRIDE, STRIVE, and Connecticut Youth Employment.
- Federal funds may become available for youth employment.

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RESTRUCTURING SERVICES

- Funds are provided to annualize the conversion of 17 DDS group homes, which results in a net annual savings of \$3.7 million.
- \$1.2 million will be saved through the closure of two buildings at Southbury Training School made possible by declining client census.
- Funding is provided to create 40 DMHAS community placements necessary to support the closure of Cedarcrest Hospital, which results in the net annual savings of \$4.1 million.

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EDUCATION

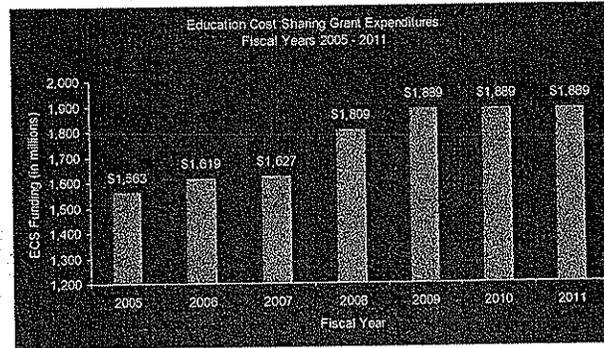
Maintain Funding for Major Programs

- Education Cost Sharing Grant
- Preschool School Readiness Slots
- Student Financial Aid

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EDUCATION

Maintain Education Cost Sharing Funding

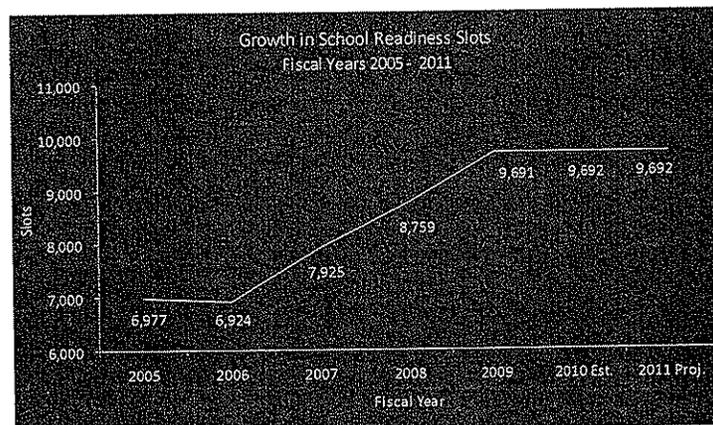


The Education Cost Sharing grant has increased over \$300 million, or 21%, since 2005.

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EDUCATION

Preserve School Readiness Slot Funding

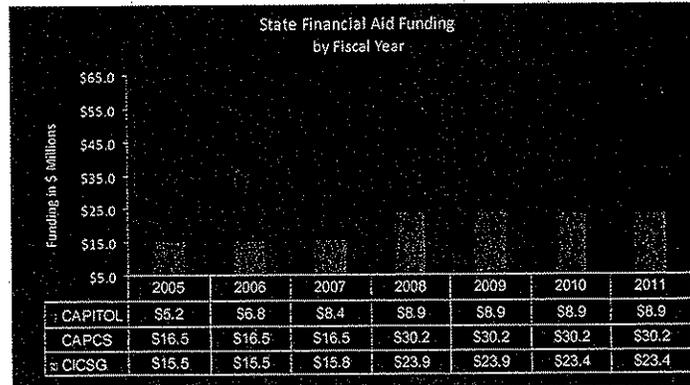


Since 2005, the number of School Readiness slots has increased about 40%.

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EDUCATION

Sustain Financial Aid Growth



Major financial aid programs have increased by over \$25 million, or 68%, since 2005.

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EDUCATION

Race to the Top

- Governor Reil and SDE have filed an application for \$192 million in federal funding (50% directly to academically challenged school systems)
- If approved, this could fund transformational educational changes
- Program elements include:
 - Tougher, uniform learning standards
 - Improved data systems to guide education decision-making
 - Better teachers and great leaders
 - Extensive programs for targeted schools

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TRANSPORTATION

Department of Transportation

- Transportation has been a priority in each of Governor Rell's proposed budgets
- Progress on initiatives over the past year includes:
 - New Haven – Hartford – Springfield line
 - New Haven Rail Yard
 - Beginning delivery of new and improved rail cars
 - Train station improvements

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TRANSPORTATION

Shore Line East Expansion

- Governor Rell is including \$1.6 million in the budget adjustments to expand service to New London.
 - Weekday service will begin February 16th.
 - Weekend service will begin during the 2010-2011 fiscal year.

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GENERAL GOVERNMENT

Department of Motor Vehicles

- The federal compliance date for the REAL ID Act (RIA) is May 10, 2011.
- All applications and renewals for licenses will require verified identity documents.
- \$250,000 for 20 Motor Vehicle License Examiners beginning April 1, 2011 for additional transaction time due to federal requirement.

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GENERAL GOVERNMENT

In an effort to streamline state government, Governor Rell is proposing to eliminate the following advocacy commissions:

Commission on Aging, Commission on the Status of Women, Commission on Children, Latino and Puerto Rican Affairs Commission, African-American Affairs Commission, Asian Pacific American Affairs Commission.

In addition, the following agencies are being merged:

<u>Agency</u>	<u>Destination</u>
Board of Firearms Permit Examiners	→ Department of Public Safety
Commission on the Deaf & Hearing Impaired	→ Department of Social Services

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Municipal Mandate Relief

Governor Rell understands that state imposed mandates cost municipalities and their taxpayers money.

Accordingly, she is proposing to:

- Allow posting certain public notices on the internet
- Facilitate transmittal of certain required information to state agencies electronically
- Eliminate municipal requirement to store possessions of evicted tenants
- Postpone requirement of in-school suspensions
- Review and recommend reductions to municipalities' obligation to retain certain records

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Municipal Mandate Relief

- Modify treble damages provision regarding zoning enforcement officers issuance of zoning violations
- Provide for municipal pension reform through development of an alternative benefits plan
- Prohibit enactment of any new unfunded mandates without a 2/3 vote of the General Assembly

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MUNICIPAL AID

Maintain Funding for Major Programs

- Education Cost Sharing Grant
- Pequot Grant
- Major PILOT grants

Increase Magnet & Charter School Funding

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MUNICIPAL AID

Summary Of Local Aid ESTIMATED FORMULA GRANTS TO MUNICIPALITIES (in Millions)

GRANT	FY 2009	FY 2010	FY 2011	Change FY 10 to FY11
State Owned PILOT	76.0	76.5	77.4	0.9
College & Hospital PILOT	115.4	115.4	115.4	0.0
Pequot Grant	86.3	61.8	61.8	0.0
Town Aid Road Grant	22.0	30.0	30.0	0.0
LoCIP	30.0	30.0	30.0	0.0
Miscellaneous General Grants	21.4	20.7	19.9	-0.8
Machinery & Equipment	57.3	57.3	52.9	-4.4
Subtotal - General Government	408.4	391.7	387.4	-4.3
Public School Transportation	48.0	48.0	43.2	-4.8
Non-Public School Transportation	4.0	4.0	3.6	-0.4
Adult Education	19.6	20.6	20.6	0.0
Education Cost Sharing	1,882.9	1,889.6	1,889.2	-0.4
Magnet Schools	128.6	148.1	173.1	25.0
Special Education - Student Based	140.0	120.5	120.5	0.0
Miscellaneous Education Grants	146.5	147.1	145.9	-1.2
Subtotal - Education	2,369.6	2,377.9	2,396.1	18.2
Total - Formula Grants	2,778.0	2,769.6	2,783.5	13.9

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MUNICIPAL AID

Major New Funding for Charter Schools

- \$5 million more in FY 2010-2011
- Over 500 new charter school slots
- Rates maintained at \$9,300 per student

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MUNICIPAL AID - REGIONALIZATION

Municipal Capital Assistance Fund

- Governor Rell provides \$10 million to assist municipalities who jointly cooperate in acquiring equipment for shared usage.
- Two or more municipalities that wish to acquire capital equipment ranging from data processing equipment to dump trucks can apply for a grant up to 25% of the cost not in excess of \$250,000.
- This will provide immediate assistance and promote long term cooperation and shared services.

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CAPITAL INVESTMENTS

Debt Limit

- The debt limit is 1.6 times General Fund tax receipts.
- Current consensus revenue estimates for FY 2010-2011, if adopted, will trigger the cancellation requirement.
- \$242 million in cancellations will be required.

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CAPITAL INVESTMENTS

Proposed Midterm Adjustments

- \$388.7 million in cancellations of prior bond authorizations to meet debt limit requirements
- \$100 million for loans to small and medium size businesses
- \$21 million to relocate the state data center
- \$10 million for regional municipal shared equipment purchases
- \$4.825 million for additional environmental remediation at DOT facilities

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CONCLUSION

Though this year and next year will be among the most financially challenging in many decades, through prudent management and strategic planning, Governor Rell seeks to position Connecticut so it can maximize opportunities for growth and vitality in the 21st century.

Working together, we are sure to achieve success.



