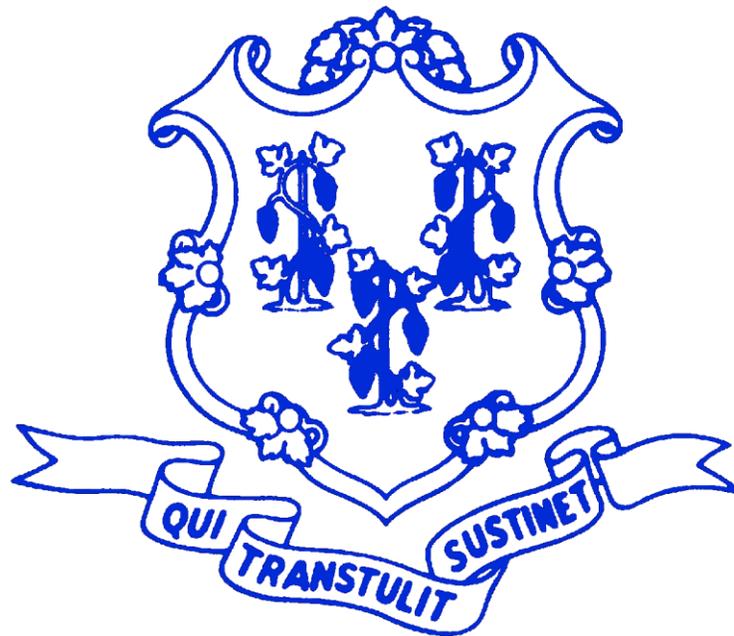


**Analysis of the Governor's
Proposed Revisions
to the Fiscal Year 1998-1999 Budget**



Connecticut General Assembly

Office of Fiscal Analysis

February 25, 1998

Analysis of the Governor's Proposed Revisions to the Fiscal Year 1998-1999 Budget

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Analysis of the Governor's Proposed Revisions to the Fiscal Year 1998-1999 Budget

General Fund

Introduction

The Governor has recommended a net budget increase of \$405.1 million from the original 1998-99 General Fund appropriations authorized by the 1997 General Assembly. However, adjusting for items moved on/off budget and other funding changes, the net increase is \$357.4 million. The increase consists of net technical revisions of \$220.1 million, which provide funds mainly for Medicaid, Temporary Family Assistance, the HUSKY program and the Home Care Program (all in the Department of Social Services). Net policy revisions of \$185.0 million (including major new and expanded programs totaling \$116.6 million) are mainly for expanded services in the Department of Social Services totaling \$41.3 million, and in the Department of Education, \$39.0 million. (Listings of these changes begin on page 19.) The technical revisions represent those items of adjustment, which were anticipated to be made to the budget in the off-year. The policy initiatives are beyond the technical revisions necessary to sustain present services through the remainder of the biennial budget period.

The General Fund budget enacted by the General Assembly for the 1998-99 fiscal year is \$9,495.9 million, which represents an increase of \$153.7 million, or 1.65%, over the budget enacted for FY 1997-98. OFA's calculation of the Governor's proposed revisions to the FY 1998-99 budget shows an increase of \$309.1 million, or 3.2%, over estimated expenditures for FY 1997-98. (The calculation is adjusted to permit comparison with the prior year - see page 12.) When the Transportation Fund and other appropriated funds are included, the growth rate for the Governor's proposed FY 1998-99 revisions is 3.4%, compared to 1.4% for the original FY 1998-99 budget.

OFA General Fund revenue projections for FY 1998-99, including the Governor's proposed changes, are \$28.5 million higher than the Governor's estimates. OFA considers this potential revenue difference to be insignificant because it is within the margin of error for revenue estimation. (See page 5.)

The Governor's proposed revisions for expenditures appear to underestimate spending needs by \$19.3 million. Most of this amount is due to the Retired State Employees Health insurance account and is the result of not achieving anticipated savings in a Medicare Risk Program. When higher revenues are combined with the underfunding of expenditures and the remaining balance of \$0.6 million, the potential budget surplus is \$9.8 million.

The Governor has proposed net increases of \$26.6 million for Grants to Towns. The largest increase is \$33.9 million for the Department of Education, which is spread over 12 programs. (See pages 37-40.)

A total of 3,439 employees, paid from appropriated funds, took advantage of the Early Retirement Incentive Program (ERIP). The projected FY 1998-99 annual salary savings for these employees is \$175.9 million. However, the Governor's revised budget indicates that \$57.1 million will be saved because the total position count for all appropriated funds has only been reduced by 1,029. (See pages 32-36.)

Other changes to budgeted positions are relatively minor. In addition to the ERIP reduction in budgeted positions, the Governor's proposed budget shows a further net reduction of 192 positions for all appropriated funds. The Department of Children and Families (DCF) would add a net total of 111 new positions, at a cost of \$4.2 million. This total includes 66 positions to meet consent decree staffing agreements and 50 positions to expand staffing at Long Lane School. The Department of Transportation (DOT) would add 105 positions, thereby restoring some of positions lost as a result of the ERIP. The Governor's budget indicates that the DOT positions would be funded from "current resources", meaning no additional funding would be provided.

The largest position count revision occurs in the Department of Correction (DOC), where a reduction of 641 General Fund positions is made to reflect their transfer to the UConn Health Center, to provide medical services to inmates. Since the positions at the Health Center are funded through the clinical operations account (an off-budget fund), they do not show up in the Health Center's position count.

When an adjustment is made for the position count change for DOC, the Governor's proposed budget shows a net increase of 449 positions.

Please see the following pages for summaries and highlights of the significant budgetary changes made in the Governor's proposed revisions to the 1998-99 budget.

Revenues

As the attached schedule indicates, OFA's base General Fund revenues are \$150.5 million above the Governor's projections for FY 1997-98, and \$27.5 million higher for FY 1998-99. With the Governor's proposed tax and revenue changes, the OFA projections for FY 1998-99 are \$28.5 million higher than the Governor's projections. (See page 5.)

The difference between OFA's FY 1997-98 base revenue estimates and the Governor's are in four main areas: the Personal Income Tax (\$83 million); the Inheritance and Estate Tax (\$13 million); and the Insurance Companies Tax (\$15 million); Refunds of Taxes (\$22 million). The difference in Personal Income Tax revenue is due to assumptions regarding the growth rate for non-withheld income (estimated and final payments). The current year-to-date growth rate for non-withheld income is over 20% and our estimate assumes that non-withheld income will grow by a total of 23% in the current fiscal year. The Governor's estimate assumes 14% growth for the same period. Collections for the Inheritance and Estate Tax and Insurance Companies Tax have been robust over the previous seven months and our estimates assume a continuation of this pattern for the rest of the year. The Governor's estimates for these taxes assume weaker collections.

The difference of only \$6.5 million between OFA's FY 1998-99 Personal Income Tax (PIT) estimate and the Governor's is a combination of two factors. The OFA's FY 1998-99 Personal Income Tax estimate applies a growth rate of -13% for revenue from non-withheld income to a higher non-withheld base from FY 1997-98. The Governor's estimate applies a growth rate of -5% to a lower non-withheld income base from FY 1997-98. The FY 1998-99 growth rates for both estimates are based on the projection that the high growth rate for the number and value of stock transactions of prior years (22% in FY 1995-96, 13% in FY 1996-97, and 23% in FY 1997-98) will not be sustained in FY 1998-99.

The difference in Refunds of Taxes for both FY 1997-98 and FY 1998-99 is primarily due to the amount and timing of Personal Income Tax refunds.

The OFA federal grant revenue estimate exceeds the Governor's estimate by \$15.3 million in FY 1997-98, and by \$28.7 million in FY 1998-99. This is primarily due to differences in Medicaid reimbursement. OFA has estimated a higher rate of Medicaid claims eligible for federal funds participation than the Governor.

**FY 1997-98 and FY 1998-99 General Fund Revenue Estimates
Comparison of OFA and Governor's Base Estimates
as of February 20, 1998
(in thousands)**

	OFA FY 1997-98 Estimate	Governor's FY 1997-98 Estimate	OFA Over/Under Governor	OFA FY 1998-99 Estimate	Governor's FY 1998-99 Estimate	OFA Over/Under Governor
Taxes						
Personal Income	\$3,478,500	\$3,395,500	\$83,000	\$3,395,000	\$3,389,500	\$5,500
Sales and Use	2,750,000	2,755,000	(5,000)	2,883,500	2,895,000	(11,500)
Corporations	626,100	626,100	0	576,200	572,000	4,200
Inheritance and Estate	248,000	235,000	13,000	215,000	202,000	13,000
Hospital Gross Receipts	147,500	142,600	4,900	127,600	121,800	5,800
Public Service Corporations	169,200	173,000	(3,800)	172,900	174,700	(1,800)
Insurance Companies	193,000	178,000	15,000	198,800	180,200	18,600
Cigarettes	122,600	125,300	(2,700)	119,500	124,700	(5,200)
Oil Companies	77,400	76,500	900	60,400	63,200	(2,800)
Real Estate Conveyance	88,000	87,000	1,000	88,000	88,000	0
Alcoholic Beverages	37,700	39,400	(1,700)	37,700	39,400	(1,700)
Miscellaneous	25,500	25,200	300	26,400	24,800	1,600
Admissions, Dues and Cabaret	25,900	26,000	(100)	26,400	26,500	(100)
Total Taxes	\$7,989,400	\$7,884,600	\$104,800	\$7,927,400	\$7,901,800	\$25,600
Refunds of Taxes	(\$615,500)	(\$637,500)	\$22,000	(\$674,000)	(\$639,500)	(\$34,500)
Taxes Less Refunds	\$7,373,900	\$7,247,100	\$126,800	\$7,253,400	\$7,262,300	(\$8,900)
Other Revenue						
Transfer Special Revenue	\$260,500	\$257,600	\$2,900	\$273,400	\$270,000	\$3,400
Indian Gaming Payments	238,000	235,000	3,000	248,200	250,000	(1,800)
Licenses, Permits and Fees	106,000	110,700	(4,700)	116,200	116,000	200
Sales of Commodities and Services	31,000	32,600	(1,600)	32,000	32,700	(700)
Rentals, Fines and Escheats	35,000	32,000	3,000	35,000	32,700	2,300
Investment Income	50,000	48,200	1,800	56,000	45,800	10,200
Miscellaneous	109,000	105,000	4,000	163,000	168,900	(5,900)
Total Other Revenue	\$829,500	\$821,100	\$8,400	\$923,800	\$916,100	\$7,700
Other Sources						
Federal Grants	\$1,846,600	\$1,831,300	\$15,300	\$1,884,800	\$1,856,100	\$28,700
To Other Funds	(\$180,000)	(180,000)	0	(90,000)	(90,000)	0
Total - Other Sources	\$1,666,600	\$1,651,300	\$15,300	\$1,794,800	\$1,766,100	\$28,700
Total General Fund Revenue	\$9,870,000	\$9,719,500	\$150,500	\$9,972,000	\$9,944,500	\$27,500

**FY 1997-98 and FY 1998-99 General Fund Revenue Estimates
Including Estimates of the Governor's Proposed Changes
as of February 20, 1998
(in thousands)**

	OFA FY 1997-98 Estimate	Governor's FY 1997-98 Estimate	OFA Over/Under Governor	OFA FY 1998-99 Estimate	Governor's FY 1998-99 Estimate	OFA Over/Under Governor
Taxes						
Personal Income	\$3,478,500	\$3,395,500	\$83,000	\$3,321,000	\$3,314,500	\$6,500
Sales and Use Corporations	2,750,000	2,755,000	(5,000)	2,883,500	2,895,000	(11,500)
Inheritance and Estate	623,300	623,300	0	572,200	568,000	4,200
Hospital Gross Receipts	248,000	235,000	13,000	215,000	202,000	13,000
Public Service Corporations	147,500	142,600	4,900	127,600	121,800	5,800
Insurance Companies	169,200	173,000	(3,800)	172,900	174,700	(1,800)
Cigarettes	191,600	176,600	15,000	194,300	175,700	18,600
Oil Companies	122,600	125,300	(2,700)	119,500	124,700	(5,200)
Real Estate Conveyance	77,400	76,500	900	60,400	63,200	(2,800)
Alcoholic Beverages	88,000	87,000	1,000	88,000	88,000	0
Miscellaneous	37,700	39,400	(1,700)	37,700	39,400	(1,700)
Admissions, Dues and Cabaret	25,500	25,200	300	26,400	24,800	1,600
Total Taxes	\$7,985,200	\$7,880,400	\$104,800	\$7,844,900	\$7,818,300	\$26,600
Refunds of Taxes	(\$615,500)	(\$637,500)	\$22,000	(\$674,000)	(\$639,500)	(\$34,500)
Taxes Less Refunds	\$7,369,700	\$7,242,900	\$126,800	\$7,170,900	\$7,178,800	(\$7,900)
Other Revenue						
Transfer Special Revenue	\$260,500	\$257,600	\$2,900	\$273,400	\$270,000	\$3,400
Indian Gaming Payments	238,000	235,000	3,000	248,200	250,000	(1,800)
Licenses, Permits and Fees	106,000	110,700	(4,700)	116,200	116,000	200
Sales of Commodities and Services	31,000	32,600	(1,600)	32,000	32,700	(700)
Rentals, Fines and Escheats	35,000	32,000	3,000	35,000	32,700	2,300
Investment Income	50,000	48,200	1,800	56,000	45,800	10,200
Miscellaneous	109,000	105,000	4,000	163,000	168,900	(5,900)
Total Other Revenue	\$829,500	\$821,100	\$8,400	\$923,800	\$916,100	\$7,700
Other Sources						
Federal Grants	\$1,846,600	\$1,831,300	\$15,300	\$1,925,400	\$1,896,700	\$28,700
To Other Funds	(180,000)	(180,000)	0	(90,000)	(90,000)	0
Total - Other Sources	\$1,666,600	\$1,651,300	\$15,300	\$1,835,400	\$1,806,700	\$28,700
Total General Fund Revenue	\$9,865,800	\$9,715,300	\$150,500	\$9,930,100	\$9,901,600	\$28,500

Governor's Proposed Revenue Changes

<u>Bill</u>	<u>Proposal</u>	<u>Effective Date</u>	FY 1997-98		FY 1998-99	
			OFA	Governor	OFA	Governor
			(in millions)		(in millions)	
<u>General Fund Changes</u>						
Personal Income Tax						
SB 60	3% rate is expanded to the following thresholds for the 1998 income year.	1/1/98	-	-	(32.0)	(32.0)
	<u>Filer</u>	<u>Amount</u>				
	Single	\$9,000				
	H. House	\$14,500				
	Joint	\$18,000				
	3% rate is expanded to the following thresholds for the 1999 income year and thereafter.	1/1/99	-	-	(42.0)	(43.0)
	<u>Filer</u>	<u>Amount</u>				
	Single	\$24,000				
	H. House	\$38,000				
	Joint	\$48,000				
SB 64	Provides for a one-time tax rebate of \$125 million from the FY 1997-98 surplus to qualified taxpayers. Rebates will be the lesser of taxpayers liability the net of property tax credit or:	7/1/98	-	-	-	-
	<u>Filer</u>	<u>Amount</u>				
	Single	\$100				
	H. House	\$150				
	Joint	\$200				
Corporation Business Tax						
SB 51	Application of the tax is eliminated on private water companies.	1/1/98	(2.8)	(2.8)	(4.0)	(4.0)

<u>Bill</u>	<u>Proposal</u>	<u>Effective Date</u>	FY 1997-98		FY 1998-99	
			OFA	Governor	OFA	Governor
			(in millions)		(in millions)	
Insurance Companies Tax						
SB 50	Application of the tax is eliminated on premiums received from policies written for Medicaid Managed Care and HUSKY plans.	4/1/98	(1.4)	(1.4)	(4.5)	(4.5)
Total - General Fund Changes			(4.2)	(4.2)	(82.5)	(83.5)
 <u>Transportation Fund Changes</u>						
SB 55	Accelerates the 3-cent reduction from July 1, 1998 to April 1, 1998 and reduces the tax by an additional 1-cent on April 1, 1998.	4/1/98	(12.5)	(13.4)	(13.1)	(13.4)

Governor's Proposed Tax Rebate Plan

Senate Bill 64, An Act Creating A Taxpayer Relief Fund, provides for the use of up to \$125 million of the projected FY 1997-98 surplus to fund the Governor's proposed tax rebate plan. The proposal funnels the surplus into the Budget Reserve (Rainy Day) Fund first, and then transfers the \$125 million to a special fund for expenditure. This methodology circumvents the spending cap, since expenditures from the Budget Reserve Fund are exempt from the cap. Spending cap estimates in the Governor's budget show that the budget is under the cap by \$91.2 million in FY 1997-98 and \$69.3 million in FY 1998-99.

The bill permits taxpayers meeting the criteria outlined below, to receive a maximum rebate of \$100 for Single; \$150 for Head of Households; \$200 for Joint filers. If the cost of the rebate plan exceeds \$125 million, the bill provides for a downward adjustment in the maximum rebate limits.

Based on our analysis of income tax data, the total cost of the Governor's rebate plan with the maximum rebate amounts would be \$128.0 million, including administrative costs of \$0.5 million. Since this exceeds \$125.0 million, the maximum rebate would have to be adjusted downward to \$97.50 for Single; \$146.25 for Head of Household; \$195.00 for Joint Filers, under provisions of the bill. Increasing the available funding to \$128 million would allow for the payment of the rebates at the maximum levels proposed in the bill.

The OFA estimate assumes: (1) that the number of returns for the 1997 income year will grow by 1.43%, based on actual growth in the number of returns filed for 1996, and (2) that all returns that qualify for the property tax credit also qualify for a rebate.

In order to qualify for a rebate, taxpayers must meet all of the following conditions:

1. The taxpayer must have filed a Connecticut tax return for the 1997 income year on or before October 15, 1998.
2. The taxpayer must have paid Connecticut property taxes in 1997 on an automobile and/or primary residence.
3. The taxpayer's final 1997 Connecticut tax liability must exceed his/her property tax credit allowance.

Taxpayers meeting the criteria outlined above will receive the **lesser** of the amount by which their liability exceeds the credit for property tax allowed, or the maximum amount of the credit for their filing status.

The bill does not require taxpayers to apply for the rebate. Rebates will automatically be issued by the Department of Revenue Services to qualified taxpayers.

Disposition of Projected FY 1997-98 Surplus

The constitutional amendment adopted November 25, 1992 provides that “any unappropriated surplus shall be used to fund a budget reserve fund or for the reduction of bonded indebtedness; or for any other purpose authorized by at least three-fifths of the members of each house of the general assembly”. Under current law (CGS Sec. 4-30a), unappropriated surplus goes first to the Budget Reserve (Rainy Day) Fund, then to the State Employees Retirement Fund, and lastly to retire debt. Since the constitutional amendment does not mention the State Employee’s Retirement Fund, a conflict with CGS Sec. 4-30a appears to exist and a legal clarification may be required.

The Governor’s proposes the following uses for his estimated \$186.5 million surplus: (1) \$7.0 million to fund deficits in three special funds, (2) \$125 million for an income tax rebate, and (3) \$54.5 million for the Budget Reserve Fund. This would bring the Budget Reserve Fund to about 4% (\$391.4 million) of the bottom line of the Governor’s recommended General Fund budget for the 1998-99 fiscal year, which is about \$103.7 million less than the statutory limit of 5% (\$496 million).

Pursuant to CGS Sec. 4-30a, the OFA projected surplus of \$343.2 million would be sufficient to: (1) bring the Budget Reserve Fund to its 5% limit (estimated at \$495.1 million, with a payment of \$158.2 million, and (2) contribute \$185.0 million to the Retirement Fund. (The Retirement Fund contribution represents 5% of the latest unfunded liability estimate of \$3.7 billion.) Using the entire surplus for the Budget Reserve Fund and the Retirement Fund would leave none available to retire debt. If the Personal Income Tax rebate plan is enacted, less would remain for deposit to the Retirement Fund. Deposit of funds into the Retirement Fund may depend on a legal resolution of the conflict between the constitutional amendment and CGS Sec. 4-30a, or a three-fifths vote of the legislature. Such a legislative vote may be based on the fact that the Retirement Fund can be viewed as the best investment of taxpayer dollars because it has earned an average return of almost 11% over the last ten years.

Another fiscally prudent use of the surplus is to defease or retire outstanding debt prior to maturity, because this would lower future debt service costs and make more operating budget funds available. (OFA has requested the Treasurer’s office to provide data that will indicate the potential savings at various levels of debt reduction.)

The table below shows the use of surplus based on current law and on the Governor’s proposal. Both the Governor’s surplus estimate and the OFA estimate are shown for each scenario.

I. Current Law

Amounts, in Millions

	<u>Governor's Estimate</u>	<u>OFA's Estimate</u>
Projected Surplus	\$186.5	\$343.2
Less:		
Transfer to Budget Reserve Fund (based on Governor's General Fund Recommended for FY 1998-99)	<u>(158.2)</u>	<u>(158.2)</u>
Remaining Surplus	\$28.3	\$185.0
Less:		
Transfer to State Employees Retirement Fund or to Debt Retirement[1]	<u>(28.3)</u>	<u>(185.0)</u>
Ending Balance	\$0.0	\$0.0

II. Governor's Proposal

Amounts, in Millions

	<u>Governor's Estimate</u>	<u>OFA's Estimate</u>
Projected Surplus	\$186.5	\$343.2
Less:		
Funding of deficits in three special funds:		
Nautilus Committee Loan Fund	(2.0)	(2.0)
Educational Excellence Trust Fund	(2.5)	(2.5)
Bureau of Public Works Service Fund	<u>(2.5)</u>	<u>(2.5)</u>
Remaining Surplus	\$179.5	\$336.2
Less:		
Tax Rebate Proposal (funded via the Budget Reserve Fund)	<u>(125.0)</u>	<u>(125.0)</u>
Remaining Surplus	\$54.5	\$211.2
Less:		
Transfer to Budget Reserve Fund	<u>(54.5)</u>	<u>(158.2)</u>
Remaining Surplus	\$0.0	\$53.0
Less:		
Transfer to State Employees Retirement Fund or to Debt Retirement[1]	—	<u>(53.0)</u>
Ending Balance	\$0.0	\$0.0

[1] Depends on interpretation of constitutional and statutory provisions.

**Status of Budget Reserve (Rainy Day) Fund
(Sec. 4-30a; Limit on Fund Balance is 5% of Net Appropriations)**

	Governor's Estimate (in millions)	OFA's Estimate (in millions)
Fund Balance, 9/1/97	\$336.9	\$336.9
Addition to Fund, 9/1/98:		
Based on Governor's Proposal	54.5	--
Based on OFA's Estimate (Current Law)	--	158.2
Total, 9/1/98	\$391.4	\$495.1
Percent of Net General Fund for FY 1998-99		
Based on Governor's Recommended	3.95%	5.00%

**Revised Current Services Estimates and Utilization
of Available Excess Revenue**

In late January 1998, OFA projected that revenues would exceed expenditures on a current services basis for the 1998-99 fiscal year. While a specific current services estimate is not shown in the Governor's document, OFA has estimated one based on an analysis of his proposals from a technical vs. policy perspective. The following table displays projected revenues and expenditures for the 1998-99 budget as enacted, with updated current services estimates for both the Governor and OFA.

	General Fund (in millions)	Governor's Current Services FY 1998-99	OFA's Current Services FY 1998-99
	Original FY 1998-99		
Revenues (projected at current rates)	\$9,496.0	\$9,985.1	\$9,972.0
Expenditures	9,495.9	9,716.0	9,773.6
Balance	\$0.1	\$269.1	\$198.4

The Governor's proposals for the \$269.1 million of projected extra revenue include additional spending of \$185.0 million and tax cuts of \$83.5 million. On the expenditure side, two agencies receive the major portion of the funding. The Department of Social Services would get \$96.3 million, while the Department of Education would get \$39.0 million, both for a variety of programs. A breakout of these increases can be found under the heading "Increasing Policy Revisions" beginning on page 24.

The tax cuts take place in three areas. The largest is in the Personal Income Tax, where the proposal is to expand the income range to which the 3% tax rate applies. This is estimated to result in a revenue loss of \$75.0 million.

**FY 1998-99
Budget Growth Rates
Based on OFA Adjustments
(in millions)**

	FY 1997-98 Estimated Expenditures (OFA) [1]	FY 1998-99 Governor's Recommended	Amount of Change from FY 1997-98	Percent Change (Adjusted)
General Fund				
Base	\$ 9,526.8	\$ 9,901.0		
Adjustments [2]	124.5	59.4		
Total	\$ 9,651.3	\$ 9,960.4	\$ 309.1	3.2%
Transportation Fund				
Base	\$ 820.3	\$ 817.6		
Adjustments [3]	-	45.0		
Total	\$ 820.3	\$ 862.6	\$ 42.4	5.2%
Other Appropriated Funds [4]				
Base	\$ 202.5	\$ 208.4		
Adjustments [5] [6]	0.3	0.3		
Total	\$ 202.8	\$ 208.7	\$ 5.9	2.9%
Combined Totals	\$ 10,674.3	\$ 11,031.7	\$ 357.4	3.4%

[1] General Fund estimates are as of January 30, 1998. Transportation Fund estimates are as of February 3, 1998.

[2] The following are adjustments to the General Fund for purposes of comparability with prior years:

	Estimated FY 1997-98	Governor's Recommended FY 1998-99
(a) ERF Payment (from FY 1996-97 surplus)	\$ 85.8	\$ 80.9
(b) Debt Service - reflects use of FY 1996-97 surplus	22.0	22.0
(c) UConn - fund FY 1997-98 Endowment match with FY 1996-97 surplus	9.1	-
(d) Transfers of General Fund Costs to Other Funds or Off-Budget for:		
Equipment purchases to Capital Equipment Purchase Fund (Bond Funds) - for FY 1997-98 and FY 1998-99, the increase is over 1996-97 level of \$9.8 million	9.1	5.3
Department of Public Safety - transfer three positions to the E-911 Fund	0.2	0.2
Misc. Comptroller - Emergency Communications to the E-911 Fund	1.0	0.9
Department of Information Technology - fund seven positions from pay phone revenue	-	0.4

	Estimated FY 1997-98	Governor's Recommended FY 1998-99
(e) Transfers to the General Fund of costs previously paid by other funds:		
Department of Public Works - 39 Bond Fund positions and related costs	(1.7)	(1.7)
Department of Public Safety - 726 Highway Patrol positions and related costs from the Transportation Fund	-	(47.3)
Military Department - firing squad funds from Soldiers', Sailors' and Marines' Fund	(0.2)	(0.2)
Regional Market (DOA) - transfer two positions	(0.1)	(0.1)
Department of Education - lease costs from Bond Funds	(0.7)	(1.0)
Total - General Fund	\$ 124.5	\$ 59.4

	Estimated FY 1997-98	Governor's Recommended FY 1998-99
[3] Transfer of Transportation Fund Costs to Other Funds or Off-Budget for:		
Department of Public Safety - 726 Highway Patrol positions and related costs to the General Fund	\$ -	\$ 47.3
Transfer to the Transportation Fund of Costs Previously Paid by Other Funds:		
Motor Vehicles Department - Transfer funding of contractual safety inspections from the Emissions Fund to the Transportation Fund	-	(2.3)
Total - Transportation Fund	\$ -	\$ 45.0

[4] Includes the following: Banking, Insurance, DPUC/Consumer Counsel, Workers' Compensation, Regional Market, Soldiers', Sailors' and Marines', Criminal Injuries Compensation and Mashantucket Pequot Funds.

	Estimated FY 1997-98	Governor's Recommended FY 1998-99
[5] Transfer from Soldiers', Sailors' and Marines' Fund to the General Fund: Military Department - firing squad funds	\$ 0.2	\$ 0.2
[6] Transfer from Regional Market (DOA) two positions to the General Fund	\$ 0.1	\$ 0.1

Comparison of Original Appropriation and Governor's Recommendation for FY 1998-99

	Actual Expenditure FY 1996-97	Estimated Expenditure FY 1997-98	Original Appropriation FY 1998-99	Governor's Recommended FY 1998-99	Difference Orig. - Gov.	% Chg. Orig./Gov.
Legislative						
Legislative Management	33,552,348	36,223,755	38,953,882	38,953,882	-	-
Auditors of Public Accounts	5,725,970	6,714,595	7,274,226	7,274,226	-	-
Commission on the Status of Women	354,445	399,700	442,710	442,710	-	-
Commission on Children	268,121	319,873	354,115	354,115	-	-
Commission on Latino and Puerto Rican Affairs	156,710	196,910	215,605	215,605	-	-
African-American Affairs Commission	-	193,822	196,501	196,501	-	-
Total Legislative	40,057,594	44,048,655	47,437,039	47,437,039	-	-
General Government						
Governor's Office	2,100,027	2,153,225	2,299,627	2,253,239	(46,388)	(2.0)
Secretary of the State	2,623,481	3,054,964	3,262,897	3,221,662	(41,235)	(1.3)
Lieutenant Governor's Office	190,114	200,555	237,764	237,764	-	-
Elections Enforcement Commission	537,082	576,993	648,714	662,764	14,050	2.2
Ethics Commission	566,846	624,107	645,686	645,686	-	-
Freedom of Information Commission	791,122	862,604	922,881	890,239	(32,642)	(3.5)
Judicial Selection Commission	67,403	71,946	75,193	75,193	-	-
State Properties Review Board	357,559	379,825	403,407	413,136	9,729	2.4
State Treasurer	2,855,245	3,061,113	3,230,030	3,123,270	(106,760)	(3.3)
State Comptroller	15,800,301	14,816,409	16,444,556	16,376,556	(68,000)	(0.4)
Department of Revenue Services	48,801,488	49,011,334	52,840,626	51,237,133	(1,603,493)	(3.0)
Division of Special Revenue	8,977,147	8,419,082	10,645,314	9,281,633	(1,363,681)	(12.8)
State Insurance Purchasing Board	8,301,409	7,047,132	7,395,662	7,395,662	-	-
State Insurance Purchasing Board - TF	2,417,146	1,877,500	2,204,017	2,204,017	-	-
Gaming Policy Board	1,768	4,000	4,000	4,000	-	-
Office of Policy and Management	140,536,360	150,250,247	176,088,433	173,325,816	(2,762,617)	(1.6)
Department of Veterans Affairs	215,091	270,000	290,000	290,000	-	-
Department of Veterans Affairs - SF	25,742,694	25,856,916	26,978,359	25,824,780	(1,153,579)	(4.3)
Department of Administrative Services	30,028,934	27,571,955	30,961,026	28,185,181	(2,775,845)	(9.0)
Department of Information Technology	-	2,246,000	3,646,728	3,362,958	(283,770)	(7.8)
Department of Public Works	29,950,068	35,221,850	34,690,830	35,252,006	561,176	1.6
Attorney General	18,019,718	20,855,520	22,045,319	21,896,388	(148,931)	(0.7)
Office of the Claims Commissioner	244,070	339,026	311,714	311,714	-	-
Division of Criminal Justice	26,604,499	28,757,402	29,414,387	29,414,387	-	-
Criminal Justice Commission	902	1,195	1,195	1,195	-	-
Total General Government	365,730,474	383,530,900	425,688,365	415,886,379	(9,801,986)	(2.3)

	Actual Expenditure FY 1996-97	Estimated Expenditure FY 1997-98	Original Appropriation FY 1998-99	Governor's Recommended FY 1998-99	Difference Orig. - Gov.	% Chg. Orig./Gov.
Regulation and Protection						
Department of Public Safety	48,423,955	49,233,046	97,966,908	101,286,850	3,319,942	3.4
Department of Public Safety - TF	41,461,808	42,634,000	-	-	-	-
Police Officer Standards and Training Council	1,713,092	2,070,000	2,321,110	2,291,037	(30,073)	(1.3)
Board of Firearms Permit Examiners	77,403	92,750	98,552	98,552	-	-
Motor Vehicle Department	44,363,980	43,320,210	44,877,363	46,557,956	1,680,593	3.7
Military Department	4,463,386	4,712,000	4,769,986	4,943,386	173,400	3.6
Military Department - SF	199,982	-	-	-	-	-
Commission on Fire Prevention and Control	1,592,354	1,726,800	1,772,367	1,811,419	39,052	2.2
Department of Banking - BF	11,852,119	13,584,291	15,396,083	14,499,950	(896,133)	(5.8)
Department of Insurance - IF	11,380,221	13,149,912	13,890,610	15,564,918	1,674,308	12.1
Office of Consumer Counsel - CF	1,344,022	1,792,830	1,721,471	1,798,365	76,894	4.5
Department of Public Utility Control - CF	10,820,460	12,195,326	13,117,433	13,454,172	336,739	2.6
Department of Consumer Protection	8,731,750	8,736,093	10,023,746	9,620,137	(403,609)	(4.0)
Department of Labor	16,258,132	20,927,567	39,280,548	39,280,548	-	-
Department of Labor - WF	-	623,510	637,850	637,850	-	-
Commission on Human Rights and Opportunities	5,097,337	5,201,153	5,464,858	5,892,132	427,274	7.8
Office of Protection and Advocacy for Persons with Disabilities	1,938,250	2,219,669	2,373,754	2,373,754	-	-
Office of the Child Advocate	112,712	167,006	167,585	187,190	19,605	11.7
Workers' Compensation Commission - WF	19,796,592	20,326,000	21,188,814	21,188,814	-	-
Total Regulation and Protection	229,627,555	242,712,163	275,069,038	281,487,030	6,417,992	2.3
Conservation and Development						
Department of Agriculture	3,265,992	3,677,031	3,875,847	3,926,264	50,417	1.3
Department of Agriculture - RF	644,875	626,330	639,403	639,403	-	-
Department of Environmental Protection	36,973,483	35,376,629	37,596,790	37,047,175	(549,615)	(1.5)
Council on Environmental Quality	98,721	103,246	106,988	108,388	1,400	1.3
Connecticut Historical Commission	826,629	886,948	940,610	940,610	-	-
Department of Economic and Community Development	16,212,154	17,989,899	18,817,425	25,003,309	6,185,884	32.9
Agricultural Experiment Station	4,283,293	4,635,853	4,726,219	4,594,951	(131,268)	(2.8)
Total Conservation and Development	62,305,147	63,295,936	66,703,282	72,260,100	5,556,818	8.3
Health and Hospitals						
Department of Public Health	57,092,594	57,412,183	60,175,461	62,138,929	1,963,468	3.3
Office of Health Care Access	2,044,509	2,073,741	2,616,229	2,534,200	(82,029)	(3.1)
Office of the Medical Examiner	3,942,785	4,354,517	4,318,894	4,113,709	(205,185)	(4.8)
Department of Mental Retardation	514,367,644	545,615,931	541,797,767	548,646,054	6,848,287	1.3

	Actual Expenditure FY 1996-97	Estimated Expenditure FY 1997-98	Original Appropriation FY 1998-99	Governor's Recommended FY 1998-99	Difference Orig. - Gov.	% Chg. Orig./Gov.
Department of Mental Health and Addiction Services	184,685,942	229,476,224	232,027,467	239,014,407	6,986,940	3.0
Psychiatric Security Review Board	213,090	251,601	248,049	254,799	6,750	2.7
Total Health and Hospitals	762,346,564	839,184,197	841,183,867	856,702,098	15,518,231	1.8
Transportation						
Department of Transportation - TF	295,823,627	290,620,406	302,118,676	296,229,451	(5,889,225)	(1.9)
Total Transportation	295,823,627	290,620,406	302,118,676	296,229,451	(5,889,225)	(1.9)
Human Services						
Department of Social Services	3,277,043,994	3,325,006,987	3,079,200,734	3,356,317,172	277,116,438	9.0
Soldiers', Sailors', and Marines' Fund - SF	2,853,443	3,103,211	3,177,848	3,177,848	-	-
Total Human Services	3,279,897,437	3,328,110,198	3,082,378,582	3,359,495,020	277,116,438	9.0
Education Museums Libraries						
Department of Education	1,507,613,748	1,558,204,928	1,608,772,979	1,640,168,675	31,395,696	2.0
Board of Education and Services for the Blind	13,395,768	13,652,297	14,012,182	15,072,648	1,060,466	7.6
Commission on the Deaf and Hearing Impaired	880,371	925,987	874,207	1,038,423	164,216	18.8
State Library	11,645,381	12,215,582	12,267,484	12,294,091	26,607	0.2
Department of Higher Education	23,887,078	30,888,197	31,447,673	36,237,915	4,790,242	15.2
University of Connecticut	156,896,631	152,239,488	153,852,425	155,352,425	1,500,000	1.0
University of Connecticut Health Center	59,494,643	64,577,639	64,731,067	64,731,067	-	-
Charter Oak College	832,336	888,227	965,643	965,643	-	-
Teachers' Retirement Board	152,781,381	184,530,572	193,988,461	197,608,447	3,619,986	1.9
Regional Community - Technical Colleges	94,295,854	96,384,445	93,954,201	93,954,201	-	-
Connecticut State University	109,619,593	112,860,692	107,686,183	107,686,183	-	-
Total Education Museums Libraries	2,131,342,784	2,227,368,054	2,282,552,505	2,325,109,718	42,557,213	1.9
Corrections						
Department of Correction	401,163,537	392,022,869	388,808,462	393,223,077	4,414,615	1.1
Board of Pardons	22,099	31,515	34,141	34,141	-	-
Board of Parole	6,435,906	6,332,820	6,353,631	6,306,340	(47,291)	(0.7)
Department of Children and Families	329,676,352	350,846,724	353,178,509	373,745,940	20,567,431	5.8
County Sheriffs	20,048,630	21,141,066	22,189,647	25,199,781	3,010,134	13.6
Total Corrections	757,346,524	770,374,994	770,564,390	798,509,279	27,944,889	3.6

	Actual Expenditure FY 1996-97	Estimated Expenditure FY 1997-98	Original Appropriation FY 1998-99	Governor's Recommended FY 1998-99	Difference Orig. - Gov.	% Chg. Orig./Gov.
Judicial						
Judicial Department	197,379,100	211,879,041	228,847,870	236,758,986	7,911,116	3.5
Judicial Department - CF	1,499,979	1,900,000	1,900,000	1,900,000	-	-
Public Defender Services Commission	19,706,796	21,267,326	22,567,386	22,455,153	(112,233)	(0.5)
Total Judicial	218,585,875	235,046,367	253,315,256	261,114,139	7,798,883	3.1
Non-Functional						
Miscellaneous Appropriations to the Governor	-	18,000	18,000	18,000	-	-
Debt Service - State Treasurer	725,478,547	772,501,015	857,774,803	855,013,950	(2,760,853)	(0.3)
Debt Service - State Treasurer - TF	358,590,519	381,196,821	414,876,710	404,190,062	(10,686,648)	(2.6)
Debt Service - State Treasurer - RF	207,122	201,879	194,000	194,000	-	-
Reserve for Salary Adjustments	-	42,536,329	109,930,100	109,930,100	-	-
Reserve for Salary Adjustments - TF	-	1,925,057	15,846,000	15,846,000	-	-
Workers' Compensation Claims - Department of Administrative Services	10,759,764	11,000,000	11,862,111	12,122,111	260,000	2.2
Judicial Review Council	114,580	140,391	202,719	202,719	-	-
Refunds of Payments	290,827	2,219,042	450,000	450,000	-	-
Refunds of Payments	1,683,078	1,657,296	1,810,000	1,810,000	-	-
Fire Training Schools	309,300	334,300	334,300	334,300	-	-
Maintenance of County Base Fire Radio Network	21,000	21,000	21,000	21,000	-	-
Maintenance of Statewide Fire Radio Network	14,000	14,000	14,000	14,000	-	-
Equal Grants to Thirty-Four Non Profit General Hospitals	34	34	34	34	-	-
Connecticut State Police Association	36,036	45,856	63,000	178,000	115,000	182.5
Connecticut State Firemen's Association	35,861	49,376	100,000	200,000	100,000	100.0
Emergency Communications	1,017,920	-	-	-	-	-
Interstate Sanitation Commission	3,333	3,333	3,333	3,333	-	-
Reimbursements to Towns for Loss of Taxes on State Property	30,360,283	33,112,258	35,008,000	34,068,355	(939,645)	(2.7)
Grants to Towns - MF	85,000,000	135,000,000	135,000,000	135,000,000	-	-
Reimbursements to Towns for Loss of Taxes on Private Tax- Exempt Property	68,520,537	82,320,537	85,120,537	85,120,537	-	-
Unemployment Compensation	5,649,620	4,618,091	7,113,000	6,113,000	(1,000,000)	(14.1)
Unemployment Compensation - TF	255,592	278,487	475,000	475,000	-	-
State Employees Retirement Contributions	228,072,482	227,610,361	256,161,788	199,304,785	(56,857,003)	(22.2)
State Employees Retirement Contributions - TF	33,469,400	25,740,000	31,700,000	28,419,000	(3,281,000)	(10.4)
Higher Education Alternative Retirement System	11,036,314	11,850,000	11,415,000	12,415,000	1,000,000	8.8

	Actual Expenditure FY 1996-97	Estimated Expenditure FY 1997-98	Original Appropriation FY 1998-99	Governor's Recommended FY 1998-99	Difference Orig. - Gov.	% Chg. Orig./Gov.
Pensions and Retirements-Other Statutory	1,299,004	1,445,989	1,500,000	1,500,000	-	-
Judges and Compensation Commissioners Retirement	9,341,737	9,308,947	11,198,113	11,198,113	-	-
Insurance - Group Life	2,342,511	2,500,000	2,575,000	2,575,000	-	-
Insurance - Group Life - TF	120,006	118,087	133,000	133,000	-	-
Tuition Reimbursement - Training and Travel	2,134,744	4,184,625	925,625	925,625	-	-
Employers Social Security Tax	123,267,886	119,419,443	131,343,529	128,335,529	(3,008,000)	(2.3)
Employers Social Security Tax -TF	12,833,135	12,819,537	13,400,000	12,905,000	(495,000)	(3.7)
State Employees Health Service Cost	176,579,321	160,294,989	181,214,300	178,574,300	(2,640,000)	(1.5)
State Employees Health Service Cost - TF	18,143,341	16,503,360	19,723,000	18,815,000	(908,000)	(4.6)
Retired State Employees Health Service Cost	100,143,232	131,237,798	96,850,000	113,779,000	16,929,000	17.5
Total Non-Functional	2,007,131,066	2,192,226,238	2,434,356,002	2,370,183,853	(64,172,149)	(2.6)
Grand Total - Gross	10,150,194,647	10,616,518,108 [1]	10,781,367,002	11,084,414,106	303,047,104	2.8
Estimated Lapse/Adjustments						
General Fund						
Lapse/Savings	N/A	(31,800,000) [2]	(231,158,000)	(147,450,000)	83,708,000	N/A
ERIP Accrued Time Payment	N/A	(26,200,000)	-	-	-	N/A
Debt Service - Use of FY 1996-97 Surplus	N/A	22,000,000	22,000,000	22,000,000	-	N/A
UConn - Endowment - Use of FY 1996-97 Surplus	N/A	9,100,000	-	-	-	N/A
Net Total - General Fund	N/A	(26,900,000)	(209,158,000)	(125,450,000)	83,708,000	N/A
Transportation Fund						
Lapse/Savings	N/A	-	(18,315,000)	(10,000,000)	8,315,000	N/A
ERIP Accrued Time Payment	N/A	(6,700,000)	-	-	-	N/A
Net Total - Transportation Fund	N/A	(6,700,000)	(18,315,000)	(10,000,000)	8,315,000	N/A
Total Estimated Lapse	N/A	(33,600,000)	(227,473,000)	(260,900,000)	(33,427,000)	N/A
Grand Total - Net	10,150,194,647 [3]	10,556,018,108	10,344,736,002	10,698,064,106	353,328,104	3.4

[1] This amount includes the funding for the accrued time payouts for the ERIP in FY 1997-98. For the General Fund, this was \$26.2 million; for the Transportation Fund, \$6.7 million. Further adjustments are anticipated. These funds were available from appropriations made in FY 1996-97 that were carried forward for expenditure in FY 1997-98. Since they are of a one-time nature, they have been removed from the net total via an adjustment.

[2] This represents the as-yet-unidentified lapse, which is anticipated to occur in FY 1997-98.

[3] This amount does not include Appropriations made in FY 1996-97 that were carried forward for expenditure in FY 1997-98.

Technical vs. Policy Revisions in the FY 1998-99 Governor's Budget

The Governor's recommended changes for FY 1998-99 may be divided into technical and policy revisions. Technical revisions include: (1) increases or decreases resulting from caseload or uncontrollable cost changes, (2) changes required to correct errors in the original FY 1998-99 Appropriation, and (3) changes required as a result of existing mandates (e.g. due to legislation which did not pass, thereby not allowing savings to be achieved). Policy revisions include: (1) increases due to new or expanded programs, and (2) decreases due to programmatic reductions or eliminations resulting from new policy directions, including the movement of agencies or programs from appropriated to non-appropriated funds. OFA generally treats transfers as technical revisions.

The technical and policy revisions for the General Fund may be categorized as follows:

<u>Governor's Recommended Adjustments</u>	Amounts (in millions)
1. Decreasing Technical Revisions	\$ (91.3)
2. Increasing Technical Revisions	311.4
3. Decreasing Policy Revisions	(3.7)
4. Increasing Policy Revisions	188.7
Total Net Budget Changes	\$ 405.1

Major items within each of the above categories may be summarized as follows:

<u>Agency / Program</u>	<u>Amount (in millions)</u>
<u>1. Decreasing Technical Revisions</u>	
<u>Office of Policy and Management</u>	
Reduce Funding for the New Manufacturing Machinery and Equipment Grant to More Accurately Reflect the Level Necessary to Fund the Program in FY 1998-99	\$ (6.6)
<u>Department of Administrative Services</u>	
Remove Funding to Reflect the Transfer of the Office of Labor Relations to the Office of Policy and Management (OPM) in Accordance with Finance Advisory Committee (FAC) Action during FY 1997-98 [1]	(1.5)

<u>Agency / Program</u>	<u>Amount (in millions)</u>
<u>Department of Social Services</u>	
Remove Funding from Supplemental Assistance Programs Due to Cost and Caseload Changes	(2.1)
Remove Funding from the Child Care Service Program due To Cost and Caseload Changes	(2.9)
Transfer Funding for Medicaid Certification to the Department Of Public Health (\$3.0 million) and the Department of Mental Health and Addiction Services (\$.5 million) to Reflect the Actual Provision of Services by these Departments [1]	(3.5)
<u>Department of Education</u>	
Adjust Funding for Certain Grant Accounts based on More Recent Data	(5.1)
<u>Debt Service - State Treasurer</u>	
Reduce Funding for the Servicing of General Obligation Debt to Reflect Lower Interest Rates Achieved on 1998 Issues and Revised Issuance Assumptions	(1.8)
Reduce Funding for UConn 2000 Debt Service to Reflect Revised Issuance and Interest Rate Assumptions for FY 1997-98 and FY 1998-99 Bond Issues	(1.0)
<u>Unemployment Compensation</u>	
Reduce Funding to Reflect the Anticipated Requirements	(1.0)
<u>State Employee Retirement Contributions</u>	
Reduce Funding to Reflect the Certification in the Most Recent Valuation by the System's Actuary	(56.9)
<u>Employers Social Security Tax</u>	
Reduce Funding to Reflect the Overall Savings from the Early Retirement Incentive Plan (ERIP)	(3.0)
<u>State Employees Health Service Cost</u>	
Reduce Funding to Reflect the Overall Savings from the Early Retirement Incentive Plan (ERIP)	(2.6)
Total - Above Items	\$ (88.0)
All Others	(3.3)
Total - Technical Decreases	\$ (91.3)

<u>Agency / Program</u>	<u>Amount (in millions)</u>
<u>2. Increasing Technical Revisions</u>	
<u>Early Retirement Adjustment</u>	
Increase Funding to Reflect the Achievement of Lower Savings (\$48.9 million) than Anticipated in the Original FY 1998-99 Budget (\$83.9 million) from the Early Retirement Incentive Program (ERIP)	\$ 35.0
 <u>State Comptroller</u>	
Provide Funding for Positions Necessary to Implement the Agency's Reorganization Plans	1.2
 <u>Office of Policy and Management</u>	
Restore Funding because the Legislation Necessary to Implement the Elimination of Elderly Renters in Subsidized Housing Units from the Elderly Renters Grant Program Was Not Adopted	1.0
Provide Funding to Reflect the Transfer of the Office of Labor Relations from the Department of Administrative Services (DAS) in accordance with Finance Advisory Committee (FAC) Action during FY 1997-98 [1]	1.5
 <u>Department of Public Works</u>	
Increase Funding for the Management of State Properties	1.5
 <u>Department of Public Health</u>	
Transfer Funding for Medicaid Certification from the Department of Social Services to Reflect the Actual Provision of Services by the Department of Public Health [1]	3.0
 <u>Department of Mental Retardation</u>	
Provide Additional Funding to Continue Existing Services and Mandates and Meet the Wait List Service Demands as Established in the 1997-99 Biennial Budget	4.8
Restore Funding to Other Expenses to More Accurately Reflect the Anticipated Expenses of the Department	4.4

<u>Agency / Program</u>	<u>Amount (in millions)</u>
<u>Department of Mental Health and Addiction Services</u>	
Provide Funding to Expand General Assistance Behavioral Health Services to Include Basic Needs Wrap Around Services	5.0
Provide Additional Funding to Accommodate Caseload Increases that Have Resulted from the Statutory Changes in the Prosecution of Juvenile Offenders	1.2
Transfer Funding for Medicaid Certification from the Department of Social Services to Reflect the Actual Provision of Services by the Department of Mental Health and Addiction Services [1]	0.5
<u>Department of Social Services</u>	
Provide Additional Medicaid Funding to Cover Additional Costs and Utilization of Services	18.9
Restore Funding due to Anticipated Savings Not Materializing Regarding Pharmacy Services in the Medicaid Program	50.0
Increase Funding for the Connecticut Home Care Program	29.4
Provide Funding for the Healthcare for Uninsured Kids and Youths (HUSKY) Program in FY 1998-99	34.5
Provide Funding for the Temporary Family Assistance (TFA) Program to Reflect Cost and Caseload Increases	48.3
Provide Additional ConnPACE Funding to Reflect Cost and Caseload Increases	5.7
Provide Additional Funding for State Administered General Assistance (SAGA) due to Higher than Anticipated Medical Services Costs	3.9
Provide Increased Funding for a Variety of Technical Expenditure Updates	5.0
<u>Board of Education and Services for the Blind</u>	
Provide Funding for Annualization of Agency Relocation in FY 1997-98 and to Complete the Relocation in FY 1998-99	1.1
<u>University of Connecticut</u>	
Increase UConn 2000 Endowment Match to Reflect a Higher Level of Private Gifts (it is now projected that the cost will be \$1.7 million)	1.5

<u>Agency / Program</u>	<u>Amount (in millions)</u>
<u>Teachers' Retirement Board</u>	
Provide Funding for Retired Teachers on Municipal Health Insurance Plans to Meet Current Statutory Requirements	3.7
<u>Department of Children and Families</u>	
Provide Additional Funding to More Accurately Reflect Anticipated Personal Services Costs	2.3
Provide Funding for Annualization of Prior Year Personnel and Residential Program Costs	4.4
Provide Funding for Annualization of 66 Children's Protective Staff Hired in FY 1997-98 under a Staffing Agreement with the Court	2.9
Provide Funding for Annualization of Partial-Year Costs Incurred in FY 1997-98 Pursuant to a 1997 Resource Development Plan Required by the Consent Decree	1.6
Provide Funding for Board and Care for Children to More Accurately Reflect Anticipated Costs and Caseloads	3.9
<u>County Sheriffs</u>	
Provide Funding to Staff the Waterbury Courthouse (opens 5/1/98) and the New Britain Courthouse (opens 10/1/98)	2.5
<u>Judicial Department</u>	
Provide Funding for the Costs Associated with the Increased Use of Court-Appointed Attorneys in Juvenile Cases	2.3
<u>Higher Education Alternative Retirement System</u>	
Increase Funding to Reflect Updated Estimates of Requirements	1.0
<u>Retired State Employees Health Service Cost</u>	
Increase funding to Reflect the Higher Number of Retirees due to the ERIP (an additional \$19.1 million may be required because anticipated savings have not materialized from a Medicare Risk Program which has not been implemented)	16.9
Total - Above Items	\$ 298.9
All Others	12.5
Total - Technical Increases	\$ 311.4

<u>Agency / Program</u>	<u>Amount (in millions)</u>
<u>3. Decreasing Policy Revisions</u>	
<u>Department of Social Services</u>	
Reduce Long Term Dependence on Temporary Family Assistance (TFA) by Establishing a Diversion Program	\$ (1.8)
All Others	(1.9)
Total - Policy Decreases	\$ (3.7)

4. Increasing Policy Revisions

<u>Department of Administrative Services</u>	
Restore Funding for the Hospital Billing System from which Increased Annual Revenues of Between \$3 million to \$5 Million Will Be Achieved Beginning in FY 1999-2000	\$ 1.4
<u>Department of Public Safety</u>	
Operate the Permanent Weigh Stations More Often and Better Utilize the Portable Scale Operations	1.4
Provide Funding to Support the Department's FY 1998-99 Staffing and Operational Requirements	1.0
<u>Department of Environmental Protection</u>	
Re-open 8 State Parks and Open 3 New Facilities	1.6
<u>Department of Economic and Community Development</u>	
Develop an Industry Cluster Initiative for CT Businesses	5.0
<u>Department of Mental Retardation</u>	
Provide Funding to Cover the Annualized Costs of the Wage and Benefit Increases Granted to Private Providers in FY 1997-98 so that Funds Already Budgeted to OPM can be Used for an Additional 2.1% Increase in FY 1998-99	5.8
<u>Department of Mental Health and Addiction Services</u>	
Support Specialized Services for High Risk Youth Transitioning from DCF to DMHAS	3.5

<u>Agency / Program</u>	<u>Amount (in millions)</u>
Provide Funding to Cover the Annualized Costs of the Wage and Benefit Increases Granted to Private Providers in FY 1997-98 so that Funds Already Budgeted to OPM can be Used for an Additional 2.1% Increase in FY 1998-99	1.9
<u>Department of Social Services</u>	
Raise the Maximum Per Diem Rate Increase for Nursing Homes from 2% to 3%	25.2
Increase Personal Fund Allowance from \$30 to \$50 for Residents of Long term Care Facilities	5.5
Restore Funding due to Anticipated Savings Not Materializing Because of the Temporary Suspension of Efforts to Pursue the 1115 Waiver (Managed Care for the Elderly)	55.0
Reallocate Existing Funds and Add New Funds for the Personal Care Assistance and Acquired Brain Injury Programs	2.6
Provide Support to CT Children's Medical Center	8.0
<u>Department of Education</u>	
Increase State Commitment to Special Education for State Agency Placements	15.0
Augment the Student Achievement Grant	3.0
Expand the Extended School Hours Program	2.0
Encourage College Attendance by Establishing a Residential Summer School Program	2.0
Create an Education Innovation Grant	2.0
Develop New Summer School Program Grant	5.0
Improve Reading Skills by Hiring 300 New Teachers to Reduce Class Size	10.0
<u>Department of Higher Education</u>	
Provide Funding for Additional Financial Aid due to Reduced Tuition Set-Asides Which Enable Tuition to be Frozen at the 1997 Levels	4.4
<u>Department of Correction</u>	
Send 350 Inmates Out of State	7.4

<u>Agency / Program</u>	<u>Amount (in millions)</u>
<u>Department of Children and Families</u>	
Provide Funding for Half-Year Board and Care Costs Associated with Establishing 43 New Privately Operated Residential Treatment Beds for Juvenile Justice Clients	1.6
Provide Funding for the Children's Trust Fund to Increase Support for Voluntary Prevention Programs in the Community	2.0
Expand Community Services as Required by the Consent Decree by Implementing Performance Assessment and a Resource Allocation Plan	2.3
Restore Funding for 23 Privately Operated Residential Beds for Non-Juvenile Justice Clients	1.1
Provide Additional Training and Consulting Services	1.1
<u>Judicial Department</u>	
Contract for 30 Additional Beds for Females to Relieve Overcrowding in the Juvenile Detention Centers	2.5
Provide Additional Funding for Various Juvenile Justice Programs	4.6
Total - Above Items	\$ 183.9
All Others	4.8
Total - Policy Increases	\$ 188.7

[1] Denotes item which has an offset in another technical or policy revision section.

**Major New and Expanded Programs Recommended
by the Governor for FY 1998 99**

<u>Agency / Program</u>	<u>Amount (in millions)</u>
<u>Department of Public Safety</u> Operate the Permanent Weigh Stations More Often and Better Utilize the Portable Scale Operations	\$ 1.4
<u>Department of Environmental Protection</u> Re-open 8 State Parks and Open 3 New Facilities	1.6
<u>Department of Economic and Community Development</u> Develop an Industry Cluster Initiative for CT Businesses	5.0
<u>Department of Mental Retardation</u> Provide Funding to Cover the Annualized Costs of the Wage and Benefit Increases Granted to Private Providers in FY 1997-98 so that Funds Already Budgeted to OPM can be Used for an Additional 2.1% Increase in FY 1998-99	5.8
<u>Department of Mental Health and Addiction Services</u> Support Specialized Services for High Risk Youth Transitioning from DCF to DMHAS	3.5
Provide Funding to Cover the Annualized Costs of the Wage And Benefit Increases Granted to Private Providers in FY 1997-98 so that Funds Already Budgeted to OPM can be Used for an Additional 2.1% Increase in FY 1998-99	1.9
<u>Department of Social Services</u> Raise the Maximum Per Diem Rate Increase for Nursing Homes from 2% to 3%	25.2
Increase Personal Fund Allowance from \$30 to \$50 for Residents of Long term Care Facilities	5.5
Reallocate Existing Funds and Add New Funds for the Personal Care Assistance and Acquired Brain Injury Programs	2.6
Provide Support to CT Children's Medical Center	8.0

<u>Agency / Program</u>	<u>Amount (in millions)</u>
<u>Department of Education</u>	
Increase State Commitment to Special Education for State Agency Placements	15.0
Augment the Student Achievement Grant	3.0
Expand the Extended School Hours Program	2.0
Encourage College Attendance by Establishing a Residential Summer School Program	2.0
Create an Education Innovation Grant	2.0
Develop New Summer School Program Grant	5.0
Improve Reading Skills by Hiring 300 New Teachers to Reduce Class Size	10.0
<u>Department of Higher Education</u>	
Provide Funding for Additional Financial Aid due to Reduced Tuition Set-Asides Which Enable Tuition to be Frozen at the 1997 Levels	4.4
<u>Department of Children and Families</u>	
Provide Funding for Half-Year Board and Care Costs Associated with Establishing 43 New Privately Operated Residential Treatment Beds for Juvenile Justice Clients	1.6
Provide Funding for the Children's Trust Fund to Increase Support for Voluntary Prevention Programs in the Community	2.0
Expand Community Services as Required by the Consent Decree by Implementing Performance Assessment and a Resource Allocation Plan	2.3
Restore Funding for 23 Privately Operated Residential Beds for Non-Juvenile Justice Clients	1.1
Provide Additional Training and Consulting Services	1.1
<u>Judicial Department</u>	
Provide Additional Funding for Various Juvenile Justice Programs	4.6
Total - Major New and Expanded Programs	\$ 116.6

Major Issues

Information Technology

\$50 Million Statewide Agency Functional Consolidation (Privatizing/Outsourcing Information Technology)

FY 1998-99 and the three out-years each have a \$50 million bottom line General Fund expenditure reduction related to "Statewide Agency Functional Consolidation", which is actually the savings claimed from the privatization or outsourcing of the state's Information Technology (IT) operations. A 1996 KPMG Peat Marwick study of the state's IT operations (upon which the outsourcing proposal is based) estimates that the state spends between \$265 million to \$325 million per year to operate and maintain its IT business. Over 80 state agencies operate more than 1,500 information systems.

It is uncertain as to whether these savings will be achieved (especially in FY 1998-99) and what the associated contract costs will be, given that no specific implementation plan has been provided to the legislature at this time. Sec. 57 of SA 97-21 (the Appropriations Act) requires that the Governor's recommended budget revisions for FY 1998-99 include a report which details the recommendations for the distribution of the net savings by agency. This report has not been provided largely because final decisions regarding the selection of outsourcing vendor(s), which were anticipated by December 1997, will not likely be made until late in 1998. However, the Governor's proposed budget continues to claim \$50 million in savings for FY 1998-99 which in light of failure to report as indicated above, may cast doubt upon the achievability of this estimate. It is unlikely that this report will be available before the legislature makes final decisions regarding the Governor's proposals.

Given that the outsourcing vendor may not be chosen until late in 1998 and the contract must be submitted for a review process that could take up to 120 days (75 days for review by the State Auditors plus 45 days for potential General Assembly action), it could be difficult to fully achieve the \$50 million savings estimated by the Governor in the first year. Some portion of the \$50 million shown by the Governor as an expenditure reduction might actually involve the sale of state IT assets. The sale of assets would be a one-time revenue gain which should be reflected in the revenue estimates, and not as an expenditure reduction.

No funding is included in any of the budget years for the cost of the IT privatization contract. The actual cost is unknown at this time as negotiations with the bidders continue. Last year, published reports estimated that this outsourcing contract could be worth \$1.0 billion over 5 years or \$200 million per year. It is not possible to estimate the cost of the IT privatization contract at this time, but a figure of \$100 million per year would not be excessive. Only half year funding would likely be required for FY 1998-99 (\$50 million). Funding is to be obtained by reallocating funds with only Finance Advisory Committee (FAC) approval from other state agencies per Sec. 11 of HB 5021, which has been proposed by the Governor. The Governor's proposal would likely require a significant reallocation of as much as \$75 million in budgeted funds in FY 1998-99 with perhaps as much as \$150 million being required in the out-years.

If the contract is to be paid out of generated savings, only monies in excess of the General Fund bottom line reductions can be applied to the cost of the contract. The first \$50 million in each year has already been counted and removed from the General Fund budget. Other bottom line budget reductions that must be met before monies are made available to be reallocated for this purpose include \$12 million in Other Expenses, \$11 million in Personal Services and over \$73.5 million in unallocated lapses.

Year 2000 Century Date Compliance for the State's Information Technology Systems: \$119.5 Million in Bond Funds

The Governor's requested budget adjustments for FY 1998-99 include \$119.5 million in new bond authorizations to finance the Year 2000 conversion. This is in addition to the \$15 million authorized in SA 97-1, (June Special Session), which has already been allocated through action of the State Bond Commission. The \$15 million is to be used for the state's core financial and administrative systems and the \$119.5 million is for the conversion, replacement and/or testing of systems in 75 agencies. Over 95% of the \$119.5 million will be spent in only 19 state agencies.

HB 5040 authorizes \$50 million in General Obligation (GO) bonds. The Department of Information Technology (DoIT) would like this bill to be passed by both houses, signed into law by the Governor and allocated by the Bond Commission by the end of March of 1998. The agency plans on spending (or allotting) this money by the end of July 1998. HB 5039 authorizes an additional \$69.5 million in GO bonds, which the agency would like to have allocated in August 1998. DoIT plans to spend (or allot) this money by December 1998.

While \$119.5 million in new bond authorizations are being requested to fund the state's Year 2000 compliance needs, reports from DoIT indicate that there will be costs in addition to this amount. The bonding request includes funding to replace one half of the state's 18,000 Personal Computers (PC's) that are not Year 2000 compliant. DoIT indicates that other funding sources are available for the replacement of the remaining 9,000 PC's at a cost of \$23 million. Although DoIT has not identified these other sources, it is likely that Capital Equipment Purchase Funds (bond funds) would be used for a large portion of the funding.

DoIT has not yet provided information regarding the Year 2000 cost estimates for each agency. (It should be noted that the Governor's recommended budget revisions provide \$172,000 in additional General Fund monies to the State Comptroller for the Year 2000 project.) DoIT is compiling more detailed cost, prioritization and available funding information for each state agency, but the process will not be completed before March 31, 1998. By this date, DoIT would like the \$50 million in new bond funding from HB 5040 to be authorized by the General Assembly and allocated by the Bond Commission. Under this scenario, both the authorization and the allocation of the \$50 million would be made without the benefit of this detailed information.

Retirement Related Issues

State Employees Retirement System

Adjust Contribution Due to Recertification

FY 1998-99
(in millions)
GF (\$56.9)
TF (\$ 3.3)

The Consulting Actuaries made their annual actuarial valuation of the Connecticut State Employees Retirement System (SERS) as of June 30, 1997. The results of this valuation were used to determine the state contribution required for FY 1998-99. The actuarially determined contribution is approximately \$60 million lower than the original FY 1998-99 appropriation. [1] The state contribution to SERS is a function of many factors. The valuation indicated that the employer contribution reduction was primarily due to two factors: investment gains and a lower pay base due to the Early Retirement Incentive Program.

Investment Experience

Funding for state pension comes from three sources: (1) employer contributions, (2) employee contributions, and (3) investment income. The pension fund is invested in stocks, bonds, real estate, and other financial instruments under the overall management of the state treasurer. The more the fund is valued, the less the state has to contribute each year.

The investment performance of the fund was strong between June 30, 1996 and June 30, 1997. The actual return was 19.0% on a market value basis compared to 14.4% for the prior valuation. While the assumed rate of return is 8.5%, the rate of return on the actuarial value of assets was 12.9% compared to 10.7% for the prior valuation.

In terms of dollars, the expected total return on investments, based on an assumed rate of return of 8.5%, was \$388.9 million. However, the actual investment earnings, measured on a five year smoothing basis, at an approximate rate of 12.91% on the actuarial value of assets, was \$590.2 million. This resulted in an actuarial asset gain of \$201.3 million.

Early Retirement Incentive Program

The state's annual contribution to fund the State Employees Retirement System consists of two components: (1) normal cost and (2) past service cost. The "normal cost," is the actuarially determined amount required to fund pension liabilities incurred in the current year. The "unfunded accrued liability cost," is the amount allocated to pay the system's unfunded liabilities for past service over the established amortization period. The impact of the 1997 ERIP has been reflected in this valuation by treating all the employees whose retirements were effective July 1, August 1, and September 1 as retired.

The ERIP resulted in 3,439 SERS members shifting from active to retired status. This shift had cost implications to both the past service and the normal cost payments to the system. The additional liability due to the enhanced ERIP benefits was \$145 million. This will be

financed over the remaining 34-year amortization period and results in an additional past service cost of \$7 million per year beginning in FY 1998-99. The ERIP affected the normal cost in two ways: the overall normal cost rate dropped because most of the members retiring under the ERIP left the higher cost Tier I, and the pay base dropped by more than \$205 million. These two factors resulted in a \$31 million reduction in the normal cost payment. The net effect of the ERIP impact was a savings of \$24 million. These savings, which represent all funds, will not be carried forward to future years if positions vacated by ERIP retirees are refilled.

[1] The June 30, 1996 valuation was revised per a provision in SEBAC V. This resulted in a \$9 million reduction in the FY1997-98 state contribution, which will be transferred to cover the shortfall in the Retired State Employee Health Service Cost account.

Other Fringe Benefits Accounts

	FY 1998-99 (in millions)
Employers Social Security	GF (\$3.0)
	TF (\$.5)
State Employees Health Service Costs	GF (\$2.6)
	TF (\$.9)

Funding is reduced in the Employer Social Security and State Employees Health Service Cost accounts to reflect the overall reduction in the workforce resulting from the Early Retirement Incentive Program.

	FY 1998-99 (in millions)
Retired State Employees Health Service Costs	\$19.1

Funding in this account was increased by \$16.9 million in the Governor's Midterm Budget Adjustments. This was done to reflect the increase in retirees as a result of the Early Retirement Incentive Program. The Governor's funding level anticipates significant savings from the July 1, 1998 implementation of a Medicare Risk Program. The State Comptroller's Office has indicated that there is disagreement between labor and management over the language pertaining to the Medicare Risk Program. At this time it is not anticipated that this issue will be resolved in time to achieve any savings in FY 1998-99. Therefore, an additional \$19.1 million is needed in the account and results in a total increase of \$36 million over the original FY1998-99 appropriation.

Early Retirement Incentive Plan (ERIP) Savings

The 1997-99 biennial budget included FY 1998-99 ERIP savings of \$92.2 million (\$83.9 million General Fund and \$8.3 million in the Transportation Fund). This reduction was taken as a single item off the bottom line of the budget and was not distributed by agency. The Governor's Midterm Budget Adjustments distributes a FY 1998-99 ERIP savings of \$56.5 million (\$48.9 General Fund and \$7.6 Transportation Fund) by agency. This results in a total loss of ERIP savings of \$35.7 million (\$35 million General Fund and .7 million Transportation Fund).

The decrease in the ERIP savings was anticipated because the budgeted amounts were based on all eligible state employees, including all eligible higher education employees. However, the ERIP legislation specifically excluded the higher education constituent units from contributing to those savings. With nearly 1,000 retirees, higher education represented approximately 25% of the ERIP participation. The Department of Higher Education has indicated that the ERIP resulted in about \$51 million for the state's public colleges to use at their discretion.

Analysis on an agency by agency basis indicates the General Fund ERIP savings may actually be \$5.8 million (GF) and \$1.2 (TF) lower than the Governor's Budget Adjustments indicate. Simultaneous ERIP budget reductions and general Personal Services increases reduce the ERIP savings sited for the following agencies:

Agency	ERIP Reduction	Personal Services Increase	Difference
General Fund			
State Comptroller	\$1,396,355	\$996,355	\$400,000
Department of Public Safety	1,000,000	1,000,000	0
Commission on Human Rights & Opportunities	122,726	500,000	(377,274)
Department of Labor	386,194	386,194	0
Department of Children & Families	3,186,750	2,917,532	269,218
Total – General Fund	\$6,092,025	\$5,800,000	\$291,944
Transportation Fund			
Department of Motor Vehicles	\$1,727,012	\$1,154,530	\$572,482
Total - Transportation Fund	\$1,727,012	\$1,154,530	\$572,482
Total - General and Transportation Funds	\$7,819,037	\$6,954,611	\$864,426

The following table shows, by agency, ERIP gross savings for FY 1997-99 and the budgeted savings for FY 1998-99. In accordance with section 56 of Special Act 97-21, the Office of Policy and Management will be submitting a second update of the results of the ERIP on April 1, 1998. At that time, the FY 1997-98 budgetary impact by agency should be complete.

Early Retirement Incentive Program (ERIP) Savings

Agency	<u>Actual Retirements</u>			<u>Gov. Rec. Adjustments</u>		
	Full Time Positions	FY 1997-98 Gross Savings	FY 1997-98 Projected Net Savings	FY 1998-99 Gross Savings	Positions Eliminated	FY 1998-99 Budgeted Savings
General Fund						
Legislative Management	16	677,667	247,796	788,995	4	0[1]
Auditors of Public Accounts	3		0	220,000	0	0
Governor's Office	1	41,780	41,780	49,376	1	46,388
Secretary of State	1	37,156	37,156	41,235	0	41,235
Lieutenant Governor's Office	0	0	0	0	0	0
State Elections Enforcement Commission	2	101,020	0	112,135	0	0
Ethics Commission	0	0	0	0	0	0
Freedom of Information Commission	1	29,179	29,179	35,642	1	35,642
Judicial Selection Commission	0	0	0	0	0	0
State Properties Review Board	0	0	0	0	0	0
State Treasurer	2	87,199	87,199	106,760	2	106,760
State Comptroller	21	1,396,355	1,396,355	1,396,355	10	1,396,355
Department of Revenue Services	44	2,210,892	1,778,315	2,403,895	33	1,603,493
Division of Special Revenue	14	513,401	429,252	577,169	11	477,720
State Insurance Purchasing Board	0	0	0	0	0	0
Office of Policy and Management	12	803,069	803,069	888,625	12	888,625
Department of Veterans' Affairs	48	2,085,895	1,191,813	2,292,920	20	1,153,579
Department of Administrative Services	39	1,842,243	1,842,243	2,173,889	61	2,173,889
Department of Information Technology	5	338,644	0	398,548	0	0
Department of Public Works	18	785,150	785,150	935,224	18	935,224
Attorney General	18	974,807	550,000	1,108,582	0	348,931
Office of the Claims Commissioner	1	41,766	0	49,600	0	0
Division of Criminal Justice	24	1,329,498	735,496	1,503,113	6	0
Department of Public Safety	59	1,940,860	1,940,860	4,900,015	0	1,000,000
Police Office Standards and Training Council	3	132,382	66,908	164,591	0	45,073
Board of Firearms Permit Examiners	0	0	0	0	0	0
Military Department	4	181,860	122,805	208,999	0	0
Commission on Fire Prevention	1	57,102	12,742	69,801	0	0

Agency	Actual Retirements			Gov. Rec. Adjustments		
	Full Time Positions	FY 1997-98 Gross Savings	FY 1997-98 Projected Net Savings	FY 1998-99 Gross Savings	Positions Eliminated	FY 1998-99 Budgeted Savings
Department of Consumer Protection	11	546,634	477,910	590,632	8	403,609
Department of Labor	12	590,932	244,525	658,636	0	386,194
Commission on Human and Rights and Opportunities	5	195,342	132,049	220,619	3	122,726
Office of Protection and Advocacy	0	0	0	0	0	0
Office of the Child Advocate	0	0	0	0	0	0
Department of Agriculture	2	102,996	0	118,780	1	73,741
Department of Environmental Protection	55	2,671,358	2,140,454	2,975,195	34	2,219,675
Council on Environmental Quality	0	0	0	0	0	0
Connecticut Historical Commission	0	17,586	14,550	17,586	0	0
Department of Economic and Community Development	0	0	0	0	0	0
Agricultural Experiment Station	3	192,237	132,921	230,438	1	149,268
Department of Public Health	60	2,774,409	798,240	3,096,436	35	2,016,293
Office of Health Care Access	4	165,455	110,620	168,138	1	82,029
Office of the Medical Examiner	3	80,499	51,151	101,900	1	48,200
Department of Mental Retardation	333	13,347,479	8,773,275	15,156,576	122	7,991,878
Department of Mental Health and Addiction Services	305	13,916,462	1,000,000	16,314,914	125	5,400,000
Psychiatric Security Review Board	1	41,814	0	49,417	0	0
Department of Social Services	145	6,603,500	5,471,534	7,502,249	105	6,132,811
Department of Education	175	8,880,026	2,433,000	9,623,936	28	2,526,000
Board of Education and Services for the Blind	7	233,674	105,600	277,374	2	85,334
Commission on the Deaf and Hearing Impaired	2	94,543	94,543	112,351	2	112,351
State Library	2	86,344	86,344	91,948	2	91,948
Department of Higher Education	1	78,765	30,000	94,758	0	14,758
Teachers' Retirement Board	3	141,484	80,213	175,871	2	80,014
Department of Correction	182	8,581,930	4,309,810	9,326,065	29	3,227,743
Board of Parole	4	182,609	131,787	212,419	1	47,291
Department of Children and Families	123	6,178,727	2,645,000	6,910,653	66	3186740
County Sheriffs	2	60,500	32,601	66,313	0	16715
Judicial Department	139	6,754,594	4,781,609	7,417,036	50	4158492
Division of Public Defenders Services	8	398,459	245,837	460,697	0	112233
Judicial Review Council	0	0	0	0	0	0

Agency	Actual Retirements			FY 1998-99 Gross Savings	Gov. Rec. Adjustments	
	Full Time Positions	FY 1997-98 Gross Savings	FY 1997-98 Projected Net Savings		Positions Eliminated	FY 1998-99 Budgeted Savings
Total - General Fund (Not Including Higher Education Constituent Units-see below)	1,924	88,526,283	46,421,691	102,396,406	797	48,938,957
Transportation Fund						
Department of Public Safety	55	2,090,452	2,090,452	0	0	0
Department of Motor Vehicles	85	3,542,404	2,335,848	3,971,444	30	1,727,012
Department of Transportation	359	9,849,829	6,160,736	11,028,782	184	5,889,225
Total - Transportation Fund	499	15,482,685	10,587,036	15,000,226	214	7,616,237
Special Funds - Appropriated						
Department of Banking	15	1,208,865	1,208,865	1,244,986	15	348,853
Department of Insurance	2	227,745	0	253,880	0	0
Office of Consumer Counsel	0	0	0	0	0	0
Department of Public Utility Control	8	529,897	243,695	592,979	3	233,002
Workers' Compensation Commission	7	284,155	243,695	308,642	0	0
Soldiers', Sailors', and Marines' Fund	3	136,573	0	152,292	0	0
Total - Special Funds - Appropriated	35	2,387,235	1,696,255	2,552,779	18	581,855
Higher Education Constituent Units						
University of Connecticut	380	19,211,311	1,364,368	20,589,470	0	0
University of Connecticut Health Center	123	6,800,192	-	7,606,841	0	0
Charter Oak State College	1	77,200	-	77,200	0	0
Regional Community-Technical Colleges	249	13,767,571	1,176,716	14,847,591	0	0
Connecticut State University	228	12,013,877	1,150,233	12,768,879	0	0
Total - Higher Education (All Funds)	981	51,870,151	3,691,317	55,889,981	0	0
Total - All Appropriated Funds	3,439	158,266,354	62,396,299	175,839,392	1,029	57,137,049

[1] The Governor has reflected a \$200,000 ERIP savings as a lapse in the back of the budget.

Grants to Towns FY 1998-99

The Governor recommended that FY 1998-99 assistance to towns through various General Fund grant programs be increased by \$39.2 million, or 2.1%, above the original appropriations for all funds. The figures do not including adjustments for data changes. The funding increases occur primarily in the Department of Education. Based on the Governor's recommendations, total state assistance via appropriated grants would be 17.4% of the budget.

The Governor has recommended four new grant programs: (1) \$200,000 for Grants for Interlocal Agreements, (2) \$10,000,000 for Grants to Reduce Class Size, (3) \$5,000,000 for Grants for Summer School, and (4) \$2,000,000 for Innovation Grants. The Grants for Interlocal Agreements Program is administered by the Office of Policy and Management and the remaining three programs are administered by the Department of Education. The Governor's largest recommendation for a non-data grant adjustment is an increase of \$15,000,000 in the Excess Cost – Student Based Grant for special education.

Grant Payments to Towns FY 1998-99

<u>Appropriated Grants</u>	<u>FY 1997-98 Estimated Expenditure</u>	<u>FY 1998-99 Original Appropriation</u>	<u>FY 1998-99 Governor's Recommendation</u>	<u>Difference Gov. Recommended and Original Approp</u>	<u>Difference Gov. Recommended and FY 1997-98</u>
Office of Policy and Management					
Reimbursement Property Tax - Disability Exemption	389,096	419,021	419,021	0	29,925
Distressed Municipalities	2,966,539	3,850,000	3,850,000	0	883,461
Property Tax Relief Elderly Circuit Breaker	22,493,973	27,500,000	27,500,000	0	5,006,027
Property Tax Relief Elderly Freeze Program	6,496,692	6,000,000	6,000,000	0	(496,692)
Property Tax Relief for Veterans	8,655,839	10,100,000	10,100,000	0	1,444,161
Drug Enforcement Program	14,320,000	13,548,337	13,548,337	0	(771,663)
P.I.L.O.T. - New Manufacturing Machinery and Equipment [1]	62,851,753	73,950,000	67,400,000	(6,550,000)	4,548,247
Interlocal Agreements [2]	0	0	200,000	200,000	200,000
Total Agency	118,173,892	135,367,358	129,017,358	(6,350,000)	10,843,466
Department of Economic and Community Development					
Tax Abatement	2,243,276	2,243,276	2,243,276	0	0
Payment in Lieu of Taxes	2,900,000	2,900,000	2,900,000	0	0
Total Agency	5,143,276	5,143,276	5,143,276	0	0
Department of Public Health					
Local and District Departments of Health	2,698,774	2,956,077	2,956,077	0	257,303
Venereal Disease Control	222,275	222,275	222,275	0	0
School Based Health Clinics	3,837,129	3,662,129	3,662,129	0	(175,000)
Total Agency	6,758,178	6,840,481	6,840,481	0	82,303
Department of Transportation					
Aircraft Registration	1,454,000	873,000	873,000	0	(581,000)
Town Aid Road Grants	20,000,000	20,000,000	20,000,000	0	0
Total Agency	21,454,000	20,873,000	20,873,000	0	(581,000)

<u>Appropriated Grants</u>	<u>FY 1997-98 Estimated Expenditure</u>	<u>FY 1998-99 Original Appropriation</u>	<u>FY 1998-99 Governor's Recommendation</u>	<u>Difference Gov. Recommended and Original Approp</u>	<u>Difference Gov. Recommended and FY 1997-98</u>
Department of Social Services					
General Assistance	31,223,535	0	0	0	(31,223,535)
Child Day Care	5,710,200	5,862,659	5,862,659	0	152,459
Human Resource Development	239,385	239,385	239,385	0	0
Human Resource Development-Hispanic Programs	11,678	11,678	11,678	0	0
Teenage Pregnancy Prevention Block Grant	620,000	1,000,000	1,000,000	0	380,000
Vocational Rehabilitation Transition Plan	39,000	39,000	39,000	0	0
Traumatic Brain Injury[1]	109,000	109,000	54,500	(54,500)	(54,500)
Total Agency	37,952,798	7,261,722	7,207,222	(54,500)	(30,745,576)
Department of Education					
School Building Grants and Interest Subsidy	42,500	25,500	25,500	0	(17,000)
Vocational Agriculture	2,567,800	2,621,700	2,621,700	0	53,900
Transportation of School Children [1]	39,430,000	42,000,000	41,355,000	(645,000)	1,925,000
Adult Education [1]	13,227,160	16,039,027	13,734,000	(2,305,027)	506,840
Health and Welfare Services Pupils					
Private Schools	3,148,709	3,400,000	3,400,000	0	251,291
Education Equalization Grants [1]	1,262,896,301	1,277,170,000	1,275,000,000	(2,170,000)	12,103,699
Bilingual Education	2,226,000	2,252,000	2,252,000	0	26,000
Priority School Districts	18,500,000	19,000,000	19,000,000	0	500,000
Young Parents Program	238,592	244,080	244,080	0	5,488
Interdistrict Cooperation [2]	21,204,600	22,082,301	24,082,301	2,000,000	2,877,701
School Breakfast Program	1,524,736	1,559,805	1,559,805	0	35,069
Excess Cost - Student Based [2]	24,500,000	28,000,000	43,000,000	15,000,000	18,500,000
Excess Cost - Equity	11,500,000	11,500,000	11,500,000	0	0
Medicaid Coordination	6,000,000	6,500,000	6,500,000	0	500,000
Student Achievement Grant [2]	500,000	500,000	3,500,000	3,000,000	3,000,000
Non-Public School Transportation [1]	4,235,000	4,450,000	4,550,000	100,000	315,000
Celebration of Excellence	25,000	25,000	25,000	0	0
School to Work Opportunities	250,000	250,000	250,000	0	0
Extended School Hours and Support Programs [2]	1,300,720	1,340,867	3,340,867	2,000,000	2,040,147
Youth Service Bureaus	2,733,398	2,748,398	2,748,398	0	15,000

<u>Appropriated Grants</u>	<u>FY 1997-98 Estimated Expenditure</u>	<u>FY 1998-99 Original Appropriation</u>	<u>FY 1998-99 Governor's Recommendation</u>	<u>Difference Gov. Recommended and Original Approp</u>	<u>Difference Gov. Recommended and FY 1997-98</u>
Project Concern - Receiving District	241,956	277,769	219,492	(58,277)	(22,464)
OPEN Choice Program	0	1,600,000	1,600,000	0	1,600,000
Lighthouse Schools	100,000	400,000	400,000	0	300,000
Special Education Overburden	425,000	225,000	225,000	0	(200,000)
Reduce Class Size [2]	0	0	10,000,000	10,000,000	10,000,000
Summer School [2]	0	0	5,000,000	5,000,000	5,000,000
Innovation Grant [2]	0	0	2,000,000	2,000,000	2,000,000
Total Agency	1,416,817,472	1,444,211,447	1,478,133,143	33,921,696	61,315,671
Board of Education and Services for the Blind					
Services for Persons with Impaired Vision	238,760	242,672	242,672	0	3,912
Tuition and Services-Public School Children	660,400	671,220	671,220	0	10,820
Total Agency	899,160	913,892	913,892	0	14,732
State Library					
Grants to Public Libraries	453,776	453,776	453,776	0	0
Connecticard Payments	697,835	697,835	697,835	0	0
Total Agency	1,151,611	1,151,611	1,151,611	0	0
Miscellaneous Appropriations					
Reimbursements to Towns for Loss of Taxes on State Property [1]	33,112,258	35,008,000	34,068,355	(939,645)	956,097
Mashantucket Pequot and Mohegan Fund	135,000,000	135,000,000	135,000,000	0	0
Reimbursements to Towns for Loss of Taxes on Private Tax-Exempt Property	82,320,537	85,120,537	85,120,537	0	2,800,000
Total Agency	250,432,795	255,128,537	254,188,892	(939,645)	3,756,097
Total Appropriated Grants to Towns	1,858,783,182	1,876,891,324	1,903,468,875	26,577,551	44,685,693

[1] The difference between the Governor's recommended level for FY 1998-99 and the original appropriation for FY 1998-99 is attributed to changes in data.

[2] The difference between the Governor's recommended level for FY 1998-99 and the original appropriation for FY 1998-99 is reflective of policy changes.

Analysis of the Out-Year's Impact of the Governor's General Fund Budget Revision Proposals for FY 1998-99

After estimating revenues based on the Governor's proposals and reflecting revised funding requirements, OFA estimates current services shortfalls amounting to \$515.8 for FY 1999-2000, \$456.9 million in FY 2000-01 and \$441.3 million in FY 2001-02. These amounts are greater than the shortfalls projected by the Governor by \$78.3 million in FY 1999-2000, \$157.7 million in FY 2000-01 and \$239.3 million in FY 2001-02. (See table on page 42.)

The difference is largely due to OFA's revenue estimates, which are lower than those of the Governor by \$58.7 million in FY 1999-2000, \$137.2 million in FY 2000-01 and \$216.9 million in FY 2001-02. The differences in our estimates from the Governor's are mainly due to variances in the Personal Income Tax, Sales Tax, Corporation Tax, and related refunds. Our estimates assume between 1.0% and 1.5% lower growth in these taxes in FY 1999-00 than the Governor's estimates. These differences become greater in FY 2000-01 and FY 2001-02 when historical growth rates are applied to FY 1999-2000 revenues. OFA's expenditure estimates include an additional \$19.1 million in FY 1998-99 plus inflation into the out-years because it is unlikely that a Medicare Risk Program will be implemented to achieve savings in the Retired State Employees Health Service account as anticipated by the Governor. OFA's expenditure estimates include an additional \$1.0 million in FY 2001-02 to reflect the impact on the Teacher's Retirement Contributions account from the Governor's proposal to improve reading skills by hiring 300 new teachers to reduce class size as well as other minor changes.

Under current law, implementation of Generally Accepted Accounting Principles (GAAP) is required to begin on July 1, 1999. However, the Governor's estimates assume that implementation will be further postponed beyond FY 2001-02. If GAAP were implemented on schedule, costs would include an operating budget impact of \$37.0 million associated with GAAP conversion in FY 1999-2000 plus an additional \$44.7 million for the amortization of the GAAP deficit over 15 years beginning in FY 2000-01 for a total of \$81.7 million in each of those years. The Governor has included \$83.6 million in his FY 1999-00 estimates (or \$46.6 million more than the level that would be required if GAAP were implemented) to pay an additional state employee payroll which occurs approximately every 11 years. This item would not need to be budgeted if GAAP were implemented for FY 1999-2000 in accordance with current law.

Although the Governor's FY 2000-02 estimates include savings for Statewide Agency Functional Consolidations based on the \$50.0 million reduction included in the FY 1998-99 budget, it is uncertain as to the manner in which these savings will be achieved or what the associated contract costs will be, given that no specific implementation plan has been provided to the legislature at this time. Sec. 57 of SA 97-21 (the Appropriations Act) requires that the Governor's recommended budget revisions for FY 1998-99 include a report which details the recommendations for the distribution of the net savings by agency. This report has not been provided largely because final decisions regarding the selection of outsourcing vendor(s), which was anticipated by December 1997, will not likely be made until late in 1998.

**OFA's Preliminary Estimate of the Out-Year
Impact of the Governor's Proposed
General Fund Budget Revisions
(in millions)**

	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
Governor's Revenues	\$9,901.6	\$10,048.6	\$10,462.0	\$10,897.2
Governor's Expenditures	9,901.0	10,486.1	10,761.2	11,099.2
Surplus / (Shortfall) Per Governor	\$0.6	\$(437.5)	\$(299.2)	\$(202.0)
OFA Revenue Higher / (Lower) Than Governor	\$28.5	\$(58.7)	\$(137.2)	\$(216.9)
OFA Expenditures (Higher) Than Governor	\$(19.3)	\$(19.6)	\$(20.5)	\$(22.4)
Surplus / (Shortfall) Per OFA	\$9.8	\$(515.8)	\$(456.9)	\$(441.3)
Surplus / (Shortfall) Per OFA Difference From Governor	\$9.2	\$(78.3)	\$(157.7)	\$(239.3)

**Out-Year Revenue Projections
Including Governor's Proposed Revenue Changes
as of February 20, 1998
(in thousands)**

	OFA FY 1997-98 Estimate	OFA FY 1998-99 Estimate	OFA FY 1999-00 Estimate	OFA FY 2000-01 Estimate	OFA FY 2001-02 Estimate
Taxes					
Personal Income	\$3,478,500	\$3,321,000	\$3,439,000	\$3,594,000	\$3,774,000
Sales and Use	2,750,000	2,883,500	3,020,800	3,167,400	3,321,400
Corporations	623,300	572,200	509,900	484,100	468,800
Inheritance and Estate	248,000	215,000	177,200	163,400	138,800
Hospital Gross Receipts	147,500	127,600	107,700	102,700	102,700
Public Service Corporations	169,200	172,900	176,400	179,700	183,300
Insurance Companies	191,600	194,300	202,300	212,600	223,500
Cigarettes	122,600	119,500	116,500	113,600	110,800
Oil Companies	77,400	60,400	46,300	48,600	51,400
Real Estate Conveyance	88,000	88,000	85,700	87,400	89,100
Alcoholic Beverages	37,700	37,700	37,700	37,700	37,700
Miscellaneous	25,500	26,400	27,300	28,300	29,300
Admissions, Dues and Cabaret	25,900	26,400	26,900	27,400	27,900
Total Taxes	\$7,985,200	\$7,844,900	\$7,973,700	\$8,246,900	\$8,558,700
Refunds of Taxes	(\$615,500)	(\$674,000)	(\$715,500)	(\$736,500)	(\$757,500)
Taxes Less Refunds	\$7,369,700	\$7,170,900	\$7,258,200	\$7,510,400	\$7,801,200
Other Revenue					
Transfer Special Revenue	\$260,500	\$273,400	\$275,400	\$280,700	\$283,400
Indian Gaming Payments	238,000	248,200	253,000	266,000	280,000
Licenses, Permits and Fees	106,000	116,200	107,200	116,200	108,200
Sales of Commodities and Services	31,000	32,000	32,000	32,000	32,000
Rentals, Fines and Escheats	35,000	35,000	35,000	35,900	35,900
Investment Income	50,000	56,000	27,000	27,000	27,000
Miscellaneous	109,000	163,000	109,000	109,000	109,000
Total Other Revenue	\$829,500	\$923,800	\$838,600	\$866,800	\$875,500
Other Sources					
Federal Grants	\$1,846,600	\$1,925,400	\$1,978,100	\$2,032,600	\$2,088,600
Transfers - Other Funds					
To Other Funds	(180,000)	(90,000)	(85,000)	(85,000)	(85,000)
Total - Other Sources	\$1,666,600	\$1,835,400	\$1,893,100	\$1,947,600	\$2,003,600
Total General Fund Revenue	\$9,865,800	\$9,930,100	\$9,989,900	\$10,324,800	\$10,680,300

Transportation Fund

Revenues

The Governor's budget adjustments include altering the 3-cent gasoline tax reduction scheduled to take effect on July 1, 1998. The Governor proposes (1) moving the effective date of the 3-cent reduction from July 1, 1998 to April 1, 1998, (2) reducing the tax by an additional 1-cent on April 1, 1998. The impact of the plan is shown below. In addition, the figures below are included in Table B, which presents the Transportation Fund projections based on the Governor's recommended changes.

Fiscal Year	Acceleration of 3 cent Reduction (in millions)	Additional 1 cent Decrease on 4/1/98 (in millions)	Total Revenue Loss (in millions)
FY 1997-98	(9.4)	(3.1)	(12.5)
FY 1998-99	-	(13.1)	(13.1)
FY 1999-00	-	(13.1)	(13.1)
FY 2000-01	-	(13.2)	(13.2)
FY 2001-02	-	(13.3)	(13.3)
FY 2002-03	-	(13.3)	(13.3)
FY 2003-04	-	(13.3)	(13.3)

Expenditures

To achieve the FY 1998-99 \$7.6 million Early Retirement Incentive Plan (ERIP) savings, in accordance with SA 97-21 (the Appropriations Act, as amended), the Governor recommended a reduction of \$1,727,012 in Personal Services funding for the Department of Motor Vehicles (DMV). Although the agency experienced a reduction of 30 full-time employees due to the ERIP, the Governor restored 30 positions and \$1,154,530 for a net reduction of \$572,482. As a result, the agency's FY 1998-99 Permanent Full-Time (PFT) position count remains at 658. Full-time DMV employees retired at an estimated FY 1997-98 annualized salary of \$42,614.

The Department of Transportation (DOT) experienced a net reduction of 184 full-time employees as a result of ERIP savings in FY 1997-98. However, since the Governor restored 105 positions, within the agency's normal budgetary resources, there is a net reduction of 79 positions from the FY 1998-99 appropriation. Thus, the revised PFT position count for the DOT is 3,640, which is anticipated to save \$5.9 million. Full-time DOT employees retired at an estimated FY 1997-98 annualized salary of \$40,672.

The aforementioned savings are reflected in future years within the agencies' Personal Services funding levels.

The Governor also proposes to transfer the funding for contracted safety inspections from the Emissions Fund to the Transportation Fund. In October 1996, the DMV entered into a contract with Envirotest, the emissions contractor, to conduct safety inspections on ten-year-old vehicles when title is transferred and on out-of state motor vehicles whose states do not have reciprocal safety inspection programs. The cost of the contract is \$14.1 million over a 5 ½-year-period. Envirotest began conducting safety inspections in January 1997. Currently, these inspections are being paid through the Emissions Fund. The cost to the Transportation Fund for emissions tests in FY 1998-99 will be \$2.3 million.

Out-Year Projections

Table A presents OFA's out-year projections based on current law and Table B presents out-year projections based on the Governor's proposals. The estimates in both tables have been adjusted to include a modest level of inflation in the out-years. STO Debt Service has been reduced to reflect the use of Transportation Fund balances in excess of \$20.0 million, as provided in Section 3 of PA 97-309. The interest rate assumptions for the Debt Service projections are 6.3% for STO bonds issued in FY 1999 and 6.5% for bonds issued in FY 2000 through FY 2004.

The current law projections in Table A indicate that the cumulative balance for the Transportation Fund will remain positive through FY 2004. The projections in Table B for the Governor's proposed mid-term adjustments, indicate that the cumulative balance for the Transportation Fund will fall below \$20.0 million in FY 2000-2001, when the Fund will begin experiencing annual operating deficits. Therefore, the last year that debt service reductions will occur will be in FY 1999-2000 when the reduction will amount to \$12.0 million. The Fund's cumulative balance will be negative beginning in FY 2001-2002.

Please note that current law assumes the implementation of Generally Accepted Accounting Principles (GAAP) effective July 1, 1999. However, the Governor's proposal assumes postponement of GAAP through at least FY 2001-02 and therefore includes an additional payment in FY 1999-2000 totaling \$6.3 million for a 27th payroll which occurs approximately every 11 years.

Table A
Transportation Infrastructure Renewal Program
(Based on Current Law)

	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Projected Revenues								
Motor Fuels Tax, Motor Vehicle Receipts, and Licenses, Permits, and Fees	814.8	805.3	763.5	766.4	769.5	772.4	774.9	777.3
Federal Transportation Administration (FTA)	3.6	3.0	2.8	2.5	2.5	2.5	2.5	2.5
Interest Income	42.0	36.0	35.0	37.0	38.0	39.0	39.0	39.0
Petroleum Company Gross Earnings Transfer (PA 97-309)	0.0	0.0	20.0	36.0	36.0	36.0	36.0	36.0
Release from Debt Service	0.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to Conservation Fund (PA 95-160)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Total Revenues	860.1	847.1	821.0	841.7	845.7	849.6	852.1	854.5
Less: Refunds of Taxes	(6.0)	(5.9)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)
Total Net Revenues	854.2	841.2	815.4	836.1	840.1	844.0	846.5	848.9
Projected Expenses								
STF Operating Costs:								
DOT Budgeted Expenses	274.4	278.3	286.6	295.2	304.1	313.2	324.2	335.5
Non-Bonded Hwy and Bridge Projects	22.2	13.6	14.2	14.9	15.1	16.3	16.9	17.5
Airport Payment in Lieu of Taxes, (PA 93-433)	2.0	1.5	0.9	0.3	0.0	0.0	0.0	0.0
Subtotal - DOT Operating Costs	298.6	293.4	301.7	310.4	319.2	329.5	341.1	353.0
Debt Service:								
STO Debt Service[1]	313.6	334.4	325.5	329.8	316.1	318.4	335.1	387.1
GO Debt Service	45.0	46.8	45.8	31.6	30.2	20.8	17.7	14.5
Subtotal - Debt Service	358.6	381.2	371.3	361.4	346.3	339.2	352.8	401.6
DMV Budgeted Expenses	43.4	42.2	44.9	46.7	48.6	50.5	52.5	54.6
Hwy Motor Patrol Budgeted Expenses	41.7	42.6	0.0	0.0	0.0	0.0	0.0	0.0
STF Fringe Benefits	64.8	55.5	65.4	52.5	54.1	55.7	57.4	59.1
Reserve for Salary Adjustment	0.0	1.9	15.8	16.3	16.8	17.3	17.8	18.4
Other Budgeted Expenses	4.1	3.5	4.0	4.1	4.2	4.3	4.4	4.5
Total STF Operating Costs	811.2	820.3	803.1	791.4	789.2	796.5	826.0	891.2
GAAP Implementation	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0
Less: Estimated Lapse[2]	0.0	0.0	(10.0)	(14.0)	(16.0)	(18.0)	(20.0)	(22.0)
Less: Early Retirement Incentive Program[3]	0.0	0.0	(7.6)	(7.6)	(7.6)	(7.6)	(7.6)	(7.6)
Net STF Operating Costs	811.2	820.3	785.5	770.8	766.6	771.9	799.4	862.6

	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Actual/Projected Surplus (Deficit)	42.9	20.9	29.9	65.2	73.5	72.1	47.1	(13.7)
Cumulative Actual/Projected Surplus (Deficit)	114.6	40.9	49.9	85.2	93.5	92.1	67.1	6.3
Transfer to Debt Service Escrow Account	(84.9)	0.0						
Future Debt Service Payment (PA 97-309)	(9.7)	(20.9)	(29.9)	(65.2)	(73.5)	(72.1)	(47.1)	0.0
Cumulative Balance Net of Transfer	20.0	6.3						

[1] Beginning in FY 1998-99, STO Debt Service has been reduced to reflect the use of Transportation Fund balances in excess of \$20.0 million, as provided in Section 3 of PA 97-309.

[2] The lapse has been reflected in FY 1996-97 and FY 1997-98 estimates.

[3] Savings reflected in FY 1997-98 estimates.

Table B
Transportation Infrastructure Renewal Program
(Based on the Governor's Midterm Adjustments)
Including the Four Cent Gas Tax Reduction Effective 4/1/98)

	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Projected Revenues								
Motor Fuels Tax, MV Receipts, and Licenses, Permits, and Fees	814.8	792.8	750.5	753.3	755.4	759.2	761.6	763.9
Federal Transportation Administration (FTA)	3.6	3.0	2.8	2.5	2.5	2.5	2.5	2.5
Interest Income	42.0	36.0	35.0	37.0	38.0	39.0	39.0	39.0
Petroleum Company Gross Earnings Transfer (PA 97-309)	0.0	0.0	20.0	36.0	36.0	36.0	36.0	36.0
Release from Debt Service	0.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to the Conservation Fund (PA 95-160)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Total Revenues	860.2	834.6	808.0	828.6	831.6	836.4	838.8	841.1
Less: Refunds of Taxes	(6.0)	(5.9)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)
Total Net Revenues	854.2	828.7	802.4	823.0	826.0	830.8	833.2	835.6
Projected Expenses								
STF Operating Costs:								
DOT Budgeted Expenses	274.4	277.0	281.2	290.4	299.8	309.7	319.9	330.6
Non-Bonded Hwy and Bridge Projects	22.2	13.7	14.2	14.6	15.1	15.5	16.0	16.5
Airport Payment in Lieu of Taxes, (PA 93-433)	2.0	1.5	0.9	0.3	0.0	0.0	0.0	0.0
Subtotal - DOT Operating Costs	298.6	292.2	296.3	305.3	314.9	325.2	335.9	347.1
Debt Service:								
STO Debt Service(1)	313.6	334.4	337.9	354.5	369.3	391.9	407.1	434.2
GO Debt Service	45.0	46.8	45.8	31.6	30.2	20.8	17.7	14.5
Subtotal - Debt Service	358.6	381.2	383.7	386.1	399.5	412.7	424.8	448.7
DMV Budgeted Expenses	43.4	43.3	46.6	48.4	50.3	52.2	54.4	56.6
Hwy Motor Patrol Budgeted Expenses	41.7	42.6	0.0	0.0	0.0	0.0	0.0	0.0
STF Fringe Benefits	64.8	55.5	60.7	51.1	53.7	56.4	57.9	59.4
Reserve for Salary Adjustment	0.0	1.9	15.8	21.6	22.2	22.8	23.4	24.0
Other Budgeted Expenses	4.1	3.5	4.0	4.1	4.1	4.2	4.3	4.4
Total STF Operating Costs	811.2	820.2	807.1	816.6	844.7	873.5	900.7	940.2
Plus: 27th Payroll	0.0	0.0	0.0	6.3	0.0	0.0	0.0	0.0
Less: Estimated Lapse[2]	0.0	0.0	(10.0)	(12.0)	(14.0)	(16.0)	(18.0)	(20.0)
Net - TF Operating Costs	811.2	820.2	797.1	810.9	830.7	857.5	882.7	920.2

	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Actual/Projected Surplus (Deficit)	42.9	8.5	5.3	12.0	(4.7)	(26.7)	(49.5)	(84.6)
Cumulative Actual/Projected Surplus (Deficit)	114.6	28.5	25.3	32.0	15.3	(11.4)	(60.9)	(84.6)
Transfer to Debt Service Escrow Account	(84.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Future Debt Service Payment Beginning in FY 1998-99	(9.7)	(8.5)	(5.3)	(12.0)	0.0	0.0	0.0	0.0
Cumulative Balance Net of Transfer	20.0	20.0	20.0	20.0	15.3	(11.4)	(60.9)	(145.5)

[1] Beginning in FY 1998-99, STO Debt Service has been reduced to reflect the use of Transportation Fund balances in excess of \$20.0 million, as provided in Section 3 of PA 97-309.

[2] The lapse has been reflected in FY 1996-97 and FY 1997-98 estimates.

Transportation Fund Revenues
FY 1996-97 through FY 2003-04
Based on Current Law
as of February 20, 1998
(in thousands)

	Actual FY 97	Estimated FY 98	Estimated FY 99	Estimated FY 00	Estimated FY 01	Estimated FY 02	Estimated FY 03	Estimated FY 04
Taxes								
Motor Fuels Tax	\$550,600	\$525,000	\$484,700	\$487,100	\$490,550	\$491,850	\$494,500	\$496,900
Refunds of Taxes	(6,000)	(5,900)	(5,600)	(5,600)	(5,600)	(5,600)	(5,600)	(5,600)
Total - Taxes Less Refunds	\$544,600	\$519,100	\$479,100	\$481,500	\$484,950	\$486,250	\$488,900	\$491,300
Other Sources								
Motor Vehicle Receipts	\$175,900	\$178,000	\$176,500	\$177,000	\$176,600	\$178,200	\$178,000	\$178,000
Licenses, Permits and Fees	88,300	102,300	102,300	102,300	102,300	102,300	102,300	102,300
Interest Income	42,000	36,000	35,000	37,000	38,000	39,000	39,000	39,000
Federal Grants (FTA)	3,600	3,000	2,800	2,500	2,500	2,500	2,500	2,500
Earning Tax on Petroleum Products	0	0	20,000	36,000	36,000	36,000	36,000	36,000
Release from Debt Service	0	3,000	0	0	0	0	0	0
Transfer to Conservation Fund	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Total - Other Sources	\$309,550	\$322,050	\$336,350	\$354,550	\$355,150	\$357,750	\$357,550	\$357,550
Total Revenue	\$854,150	\$841,150	\$815,450	\$836,050	\$840,100	\$844,000	\$846,450	\$848,850

**Transportation Fund Revenues
FY 1996-97 through FY 2003-04
Based on Governor's Recommended Changes
as of February 20, 1998
(in thousands)**

	Actual FY 97	Estimated FY 98	Estimated FY 99	Estimated FY 00	Estimated FY 01	Estimated FY 02	Estimated FY 03	Estimated FY 04
Taxes								
Motor Fuels Tax	\$550,600	\$512,500	\$471,600	\$474,000	\$476,400	\$478,600	\$481,200	\$483,600
Refunds of Taxes	(6,000)	(5,900)	(5,600)	(5,600)	(5,600)	(5,600)	(5,600)	(5,600)
Total - Taxes Less Refunds	\$544,600	\$506,600	\$466,000	\$468,400	\$470,800	\$473,000	\$475,600	\$478,000
Other Sources								
Motor Vehicle Receipts	\$175,900	\$178,000	\$176,500	\$177,000	\$176,600	\$178,200	\$178,000	\$178,000
Licenses, Permits and Fees	88,300	102,300	102,300	102,300	102,300	102,300	102,300	102,300
Interest Income	42,000	36,000	35,000	37,000	38,000	39,000	39,000	39,000
Federal Grants (FTA)	3,600	3,000	2,800	2,500	2,500	2,500	2,500	2,500
Earning Tax on Petroleum Products	0	0	20,000	36,000	36,000	36,000	36,000	36,000
Release from Debt Service	0	3,000	0	0	0	0	0	0
Transfer to Conservation Fund	(250)	(250)	(250)	(250)	(250)	(250)	(250)	(250)
Total - Other Sources	\$309,550	\$322,050	\$336,350	\$354,550	\$355,150	\$357,750	\$357,550	\$357,550
Total Revenue	\$854,150	\$828,650	\$802,350	\$822,950	\$825,950	\$830,750	\$833,150	\$835,550