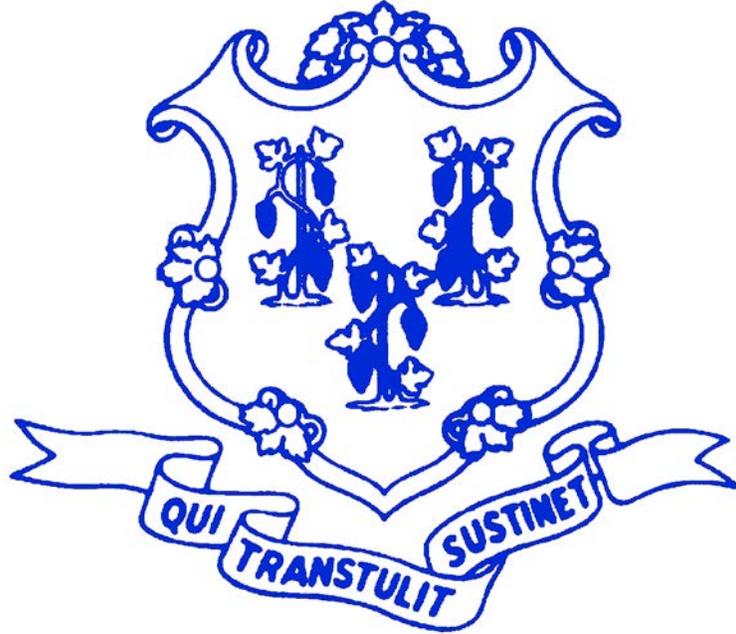


**Analysis of the
Governor's 1999-2001
Biennial Budget**



**Connecticut General Assembly
Office of Fiscal Analysis
March 15, 1999**

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Analysis of the Governor's General Fund Budget Recommendations for FY 00 and FY 01 and the Impact on the Out-Years

Overview

The surplus or shortfall in the General Fund based on our analysis of the governor's 1999-2001 biennial budget recommendations and the proposed nursing home agreement over the next five years is dependent on the ability to achieve significant savings in two key Medicaid programs and in privatization of state information technology (IT) systems. All of the following estimates include the impact of the proposed nursing home agreement.

	FY 00	FY 01	FY 02	FY 03	FY 04
(Shortfall) Per OFA Assuming Savings <u>Not</u> Achieved	\$(12.0)	\$(79.8)	\$(230.0)	\$(146.2)	\$(78.3)
Surplus/(Shortfall) Per OFA Assuming Savings Achieved	74.0	7.4	(141.9)	(56.9)	12.2
Governor's Estimate of Surplus/(Shortfall)	(33.6)	(40.1)	(125.0)	(39.0)	26.1

The nursing home agreement results in costs (net of federal reimbursement) of approximately \$40 million per year and the amount of savings needed each year in certain Medicaid programs and the computer privatization proposal total between \$80 million and \$90 million per year as follows:

	FY 00	FY 01	FY 02	FY 03	FY 04
Proposed Nursing Home Agreement	\$33.8	\$41.1	\$42.3	\$43.5	\$44.9
Potential Medicaid and Information Technology Savings	86.0	87.1	88.2	89.3	90.5

Revenues

Comparing OFA's revenue estimates with the governor's (before the governor's proposed changes) reveals that OFA's General Fund estimate is \$100.1 million above the governor's estimate in FY 00 and \$45.5 million above in FY 01. The difference after accounting for his proposed changes is \$105.1 million above in FY 00 and \$49.7 million in FY 01. The primary reason for the difference between OFA's estimates and the governor's is in the base estimates for Personal Income Tax.

The difference in OFA's and the governor's estimate for the Personal Income Tax in FY 00 is due to the growth rate assumptions for tax collections from withheld income (wages) and non-withheld income. The difference in growth rates for non-withheld income is on the capital gain portion.

OFA estimates that tax receipts from withholding will grow by 7% compared to the governor's estimate of 6.2% in FY 00. This difference results in OFA's estimate being approximately \$43 million higher than the governor's. The unemployment rate, currently at 3.1%, is not expected to significantly change during the upcoming fiscal year resulting in modest pressure on wages that translates into higher personal income. OFA estimates personal income to grow at a greater rate than the governor; 5% verses 3.8%. In income brackets representing 83% of taxpayers, an increase in personal income causes a taxpayer's marginal tax rate to increase due to the progressive structure of the state's Personal Income Tax. The result is tax receipts that grow at a rate greater than personal income growth.

OFA estimates tax receipts from non-withheld income will be flat compared to the governor's estimate of -5% in FY 00. This difference results in OFA's estimate being approximately \$62 million higher than the governor's. The forecast for modest growth in the economy plus continued advancements in computer technologies that are making it easier to gain access to financial markets are anticipated to keep market values and transaction volumes at their current levels. Therefore, our FY 00 estimate for tax receipts from non-withheld income is the same as the current FY 99 estimate.

Since OFA and the governor's growth rate assumptions for both withheld and non-withheld income are similar for FY 01, the difference in FY 01 of \$99.1 million (\$102.3 million accounting for changes) results from the carry forward of the difference in FY 00.

OFA estimates that the revenue loss from the governor's proposed credits for educational expenses will be less than his estimates in each year of the biennium. Based on our analysis, the proposal will result in a revenue loss of \$8 million in FY 00 and \$10 million in FY 01 versus the governor's estimates of \$15 million in FY 00 and FY 01. The differences in our estimates are: (1) awareness of tax changes are typically lower in the first year resulting in a lower level of participation, and (2) a lower level of total number of taxpayers that will have sufficient liability to absorb the credit.

The differences between OFA and the governor's federal revenue estimates are primarily contained within two categories: Medicaid and the Temporary Assistance to Needy Families (TANF) block grant. The OFA base year estimate and ongoing expenditure estimate for Medicaid medical services are significantly lower than that of the governor, which, through the 50% federal reimbursement, results in a lower revenue estimate. This lower estimate is offset by higher Medicaid revenue due to higher School Based Health and Mental Retardation Services reimbursements than the governor assumes. These differences result in the governor's estimate being approximately \$10 million higher in FY 00 and \$25 million higher in FY 01.

Although the TANF block grant is a fixed amount each year, the state has not claimed its entire allotment in the past two fiscal years and is not anticipated to claim its entire allotment in the current fiscal year. The balance of unclaimed TANF block grant funds can be carried forward each year. The governor is claiming the entire TANF allotment in each year of the biennium, as well as all additional block grant funds carried forward from previous fiscal years. To date, OFA has not received an accounting of unclaimed TANF revenue from previous years that has been carried forward. Therefore, OFA is projecting this revenue based only on the available block grant amounts. The governor's TANF revenue estimate is therefore approximately \$20 million higher than the OFA estimate in each year of the biennium.

The governor's proposal anticipates that \$165.8 million in FY 00 and \$133.5 million in FY 01 will be realized from the tobacco settlement and deposited as revenue in a new Tobacco Settlement Fund. There is concern that the initial funds may not be received until June 30, 2000. If the funds are received later than this date, it would be necessary to accrue the revenues to pay for the programs that are funded in FY 00.

The differences between OFA and the governor for the other revenue categories are within the margin of error of estimates for each item.

Expenditures

OFA's expenditure estimates include: an additional \$2 million beginning in FY 01 for the Department of Public Safety to adequately provide the level of funding required to conduct training classes to maintain a minimum level of 1,248 State Troopers in accordance with existing statute; \$2.4 million beginning in FY 01 plus inflation into the out-years for a rotavirus vaccine to be administered by the Department of Public Health; \$0.5 million beginning in FY 00 plus inflation into the out-years to provide sufficient funding for 15 additional Vocational-Technical School positions recommended by the governor; and a \$3 million reduction beginning in FY 00 for Debt Service due to using \$82.8

million of the \$151.2 million transferred from FY 98 surplus for debt retirement to cash defease bonds for Seaside Regional Center, Norwich Hospital and Fairfield Hills Hospital and retire high coupon-rate debt. These **areas of under funding/(over funding)** can be summarized as follows:

	FY 00	FY 01	FY 02	FY 03	FY 04
Provide Adequate Funding for Trooper Training Class	0.0	2.0	2.0	2.0	2.0
Provide Funding for Rotavirus Vaccine	0.0	2.4	2.4	2.5	2.6
Provide Sufficient Funding for New Vocational-Technical School Positions	0.5	0.5	0.5	0.6	0.6
Reduce Debt Service due to Cash Defeasance	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Add Funding to Pay Fringe Benefits for PS-Related Items	0.1	0.4	0.4	0.4	0.4
Total Expenditures Higher/(Lower) Than Governor's Budget	(2.4)	2.3	2.3	2.5	2.6

Costs and additional federal Medicaid reimbursements associated with the governor's **proposed nursing home agreement** have been included in our estimates. The proposed nursing home agreement results in costs (net of federal reimbursement) of approximately \$40 million per year.

A **significant potential for under funding exists in Medicaid** as currently presented by the governor's 1999-2001 proposed budget, totaling \$72 million (\$36 million net of federal reimbursement) in FY 00. The budget includes two reductions in Medicaid expenditures that may be difficult to achieve given the magnitude of the savings. The first is a savings initiative in the Medicaid pharmacy program of \$18 million. Pharmacy savings have been anticipated in previous budgets and have not been achieved. The second major reduction is based upon a change medical provider reimbursement for clients who are eligible for both Medicaid and Medicare benefits. The state has been paying the co-payment on Medicare bills for clients where the state pays the premium for Medicare insurance. These are often elderly clients eligible for Medicaid, as well as Medicare, by virtue of their low-income. It is advantageous for the state to pay the Medicare premium for these clients who are generally referred to as dual eligibles. The Department of Social Services no longer intends to pay the Medicare co-payment but will now only pay up to the Medicaid rate for health services not covered by the Medicare payment. This change in payment is estimated to save \$54 million in a variety of fee-for-service categories including hospital outpatient, transportation, nursing homes, physicians, and durable medical equipment. While the department was granted statutory authority to make this change in 1991, implementation was prevented as a result of a federal court case. However, the federal Balanced Budget Act of 1997 superseded the court decision by specifically permitting states to limit payments on behalf of Medicare clients whose premiums are paid for by the state. Though no legislative change is required to make this savings reduction, its implementation will have a significant economic impact on medical providers.

FY 00 and FY 01 and the three out-years each have a \$50 million bottom line General Fund expenditure reduction related to **"IT Savings"**, which is the savings claimed from the privatization or outsourcing of the state's Information Technology (IT) operations. Several factors cast doubt on the ability to realize the full level of savings in each year. Such savings were anticipated in the FY 99 budget but will not be achieved. A reduced portion of the state's IT business will be outsourced from the level previously assumed. Since the administration now plans to have the contract take effect on September 1, 1999, it could be difficult to fully achieve the \$50 million savings contained in the governor's budget in the first year. In addition, an unknown portion of the \$50 million shown by the governor as an expenditure reduction involves 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 ongoing General Fund expenditure reduction.

No specific appropriations are 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 EDS continue. Department of Information Technology officials estimate that this outsourcing contract would be worth \$1 billion over seven years. If the contract is to be paid out of reallocated resources from agency budgets, 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 in each year before monies are made available to be reallocated for this purpose include \$14 million in Personal Services, \$10 million in Other Expenses and \$75 million in unallocated lapses.

Since the realization of the Medicaid and IT savings are doubtful but not unachievable, our estimates reflect two scenarios: one which assumes these savings are not achieved, and one which assumes these savings are achieved.

Medicaid Capitation Payments

The governor has recommended using \$70.1 million from anticipated FY 99 surplus to make one monthly medicaid capitation payment for managed care in each of FY 00 and FY 01, leaving 11 payments to be made from agency appropriations in each of those years. The governor's out-year projections assume that full 12-month payments will resume through agency appropriations beginning in FY 02.

Generally Accepted Accounting Principles (GAAP)

The cumulative GAAP deficit as of June 30, 1998 is \$694.3 million as indicated in the latest report issued by the State Comptroller dated March 1, 1999. Under current law, implementation of Generally Accepted Accounting Principles (GAAP) is required to begin on July 1, 1999. However, the governor has recommended that the implementation of GAAP be further delayed until July 1, 2003 as provided in SB 1123. The governor's out-year budget estimates, which accompanied his 1999-2001 biennial budget recommendations, assume that implementation will be further postponed beyond FY 04. If GAAP were implemented on schedule, costs would include an operating budget impact of \$27 million associated with GAAP conversion beginning in FY 00 (primarily due to the incremental costs of being on an accrual basis for expenditures). An additional \$36 million for the amortization of the \$694.3 million GAAP deficit (reduced by \$155 million based on the governor's recommendations to pay \$90 million for the 27th payroll and \$65 million for outstanding health insurance liabilities from FY 99 projected surplus) over 15 years beginning in FY 01, results in a total of \$63 million in each of those years. The governor has proposed funding \$90 million from FY 99 projected surplus (or \$63 million more than the level that would be required if GAAP were implemented) to pay in FY 00 an additional state employee payroll which occurs approximately every 11 years. A normal fiscal year contains 26 biweekly payrolls. FY 00 will contain 27. This item would not need to be budgeted if GAAP were implemented for FY 00 in accordance with current law. The governor has recommended that the accrual period for the Corporation Business Tax be permanently changed from August 15th to July 31st, with a corresponding revenue loss of \$6 million, to be more consistent with GAAP.

**OFA's Preliminary Estimate of the Governor's Proposed
General Fund Budget Recommendations for FY 00 and FY 01
and the Out-Year Impact Including the
Proposed Nursing Home Agreement
as of March 15, 1999
(in millions)**

	FY 00	FY 01	FY 02	FY 03	FY 04 [1]
Assuming Medicaid and IT Savings Below Are <u>Not</u> Achieved					
OFA Revenues	\$ 10,717.2	\$ 11,186.0	\$ 11,541.6	\$ 12,071.7	\$ 12,663.7
OFA Expenditures	10,729.2	11,265.8	11,771.6	12,217.9	12,742.0
Surplus / (Shortfall) Per OFA Assuming Savings <u>Not</u> Achieved	\$ (12.0)	\$ (79.8)	\$ (230.0)	\$ (146.2)	\$ (78.3)
Assuming Medicaid and IT Savings Below Are Achieved					
OFA Revenues	\$ 10,681.2	\$ 11,149.0	\$ 11,503.4	\$ 12,032.3	\$ 12,623.2
OFA Expenditures	10,607.2	11,141.6	11,645.3	12,089.2	12,611.0
Surplus / (Shortfall) Per OFA Assuming Savings Are Achieved	\$ 74.0	\$ 7.4	\$ (141.9)	\$ (56.9)	\$ 12.2
<hr/>					
Governor's Revenues	\$ 10,542.3	\$ 11,058.2	\$ 11,475.7	\$ 12,004.1	\$ 12,589.7
Governor's Expenditures	10,542.1	11,057.2	11,558.4	11,999.6	12,518.7
Original Surplus / (Shortfall) Per Governor's Budget	\$ 0.2	\$ 1.0	\$ (82.7)	\$ 4.5	\$ 71.0
Governor's Proposed Nursing Home Agreement					
Cost Above Governor's Budget [2]	\$ 67.5	\$ 82.1	\$ 84.6	\$ 87.1	\$ 89.7
Additional Fed. Medicaid Reimb. Revenue Increase	33.8	41.1	42.3	43.5	44.9
Net Expenditure Increase	33.8	41.1	42.3	43.5	44.9
Surplus / (Shortfall) Per Governor including Nursing Home Agreement	(33.6)	(40.1)	(125.0)	(39.0)	26.1
OFA Revenues Higher / (Lower) Than Governor	\$ 105.1	\$ 49.7	\$ (14.6)	\$ (15.3)	\$ (11.4)
OFA Expenditures Higher / (Lower) Than Governor	(2.4)	2.3	2.3	2.5	2.6
Potential Unrealized Savings Resulting in Costs Above Governor's Budget					
Medicaid Pharmacy Program	\$ 18.0	\$ 18.5	\$ 19.1	\$ 19.7	\$ 20.3
Medicare Rate Discontinuation for Clients Eligible under Medicaid Additional Fed. Medicaid Reimb. Revenue Increase	54.0	55.6	57.3	59.0	60.8
Net Expenditure Increase	36.0	37.1	38.2	39.3	40.5
Information Technology (IT)	50.0	50.0	50.0	50.0	50.0
Total Potential Unrealized Savings	86.0	87.1	88.2	89.3	90.5

[1] Does not include impact of the conversion to Generally Accepted Accounting Principles (GAAP) in FY 04.

[2] It is anticipated that sufficient funds exist within the FY 99 Medicaid account to pay the estimated \$12.5 million for wage and benefit enhancements which become effective on 4/1/99.

**FY 00 AND FY 01 GENERAL FUND REVENUE ESTIMATES
INCLUDING ESTIMATES OF GOVERNOR'S PROPOSED CHANGES
AS OF MARCH 15, 1999
(\$'S IN THOUSANDS)**

	OFA FY 00 Estimate	Governor's FY 00 Estimate	OFA Over/(Under) Governor	OFA FY 01 Estimate	Governor's FY 01 Estimate	OFA Over/(Under) Governor
Taxes						
Personal Income	\$ 3,988,900	\$ 3,879,300	\$ 109,600	\$ 4,138,500	\$ 4,036,200	\$ 102,300
Sales and Use Corporations	3,021,100	3,017,900	3,200	3,157,700	3,155,800	1,900
Inheritance and Estate	564,500	549,500	15,000	529,200	531,400	(2,200)
Hospital Gross Receipts	197,800	211,000	(13,200)	213,200	238,000	(24,800)
Public Service Corporations	96,600	101,800	(5,200)	90,000	96,900	(6,900)
Insurance Companies	170,300	160,600	9,700	173,500	164,600	8,900
Cigarettes	196,300	193,000	3,300	206,300	194,900	11,400
Oil Companies	119,800	113,900	5,900	116,800	113,000	3,800
Real Estate Conveyance	32,300	26,500	5,800	33,800	23,000	10,800
Alcoholic Beverages	93,500	102,000	(8,500)	95,400	102,000	(6,600)
Miscellaneous	39,700	39,300	400	39,700	39,300	400
Admissions, Dues and Cabaret	27,300	26,500	800	28,300	27,100	1,200
Total Taxes	\$ 8,575,000	\$ 8,447,300	\$ 127,700	\$ 8,849,800	\$ 8,748,700	\$ 101,100
Refunds of Taxes	(706,500)	(703,200)	(3,300)	(716,000)	(732,000)	16,000
Net General Fund Taxes	\$ 7,868,500	\$ 7,744,100	\$ 124,400	\$ 8,133,800	\$ 8,016,700	\$ 117,100
Other Revenue						
Transfer Special Revenue	250,400	258,300	(7,900)	252,900	262,400	(9,500)
Indian Gaming Payments	306,500	294,000	12,500	313,000	308,700	4,300
Licenses, Permits and Fees	125,000	129,000	(4,000)	123,000	120,500	2,500
Sales of Commodities and Services	32,000	29,300	2,700	32,000	29,200	2,800
Rentals, Fines and Escheats	35,000	37,700	(2,700)	35,900	38,600	(2,700)
Investment Income	70,000	55,300	14,700	55,000	55,800	(800)
Miscellaneous	113,400	117,300	(3,900)	125,600	132,400	(6,800)
Total Other Revenue	\$ 932,300	\$ 920,900	\$ 11,400	\$ 937,400	\$ 947,600	\$ (10,200)
Other Sources						
Federal Grants	1,951,400	1,982,100	(30,700)	1,978,500	2,035,700	(57,200)
Transfer from Tobacco Settlement Fund	80,200	80,200	-	143,200	143,200	-
Net Statutory Transfers To Other Funds	(185,000)	(185,000)	-	(85,000)	(85,000)	-
Total Other Sources	\$ 1,846,600	\$ 1,877,300	\$ (30,700)	\$ 2,059,200	\$ 2,116,400	\$ (57,200)
Total Revenue	\$ 10,647,400	\$ 10,542,300	\$ 105,100	\$ 11,107,900	\$ 11,058,300	\$ 49,700

**FY 00 AND FY 01 GENERAL FUND REVENUE ESTIMATES
COMPARISON OF OFA AND GOVERNOR'S BASE ESTIMATES
AS OF MARCH 15, 1999
(\$'S IN THOUSANDS)**

	OFA FY 00 Estimate	Governor's FY 00 Estimate	OFA Over/(Under) Governor	OFA FY 01 Estimate	Governor's FY 01 Estimate	OFA Over/(Under) Governor
Taxes						
Personal Income	\$ 3,995,500	\$ 3,890,700	\$ 104,800	\$ 4,176,700	\$ 4,077,600	\$ 99,100
Sales and Use	3,030,200	3,027,000	3,200	3,166,700	3,165,000	1,700
Corporations	564,500	549,500	15,000	529,200	531,400	(2,200)
Inheritance and Estate	197,800	211,000	(13,200)	213,200	238,000	(24,800)
Hospital Gross Receipts	102,800	108,200	(5,400)	97,800	105,500	(7,700)
Public Service Corporations	170,300	160,600	9,700	173,500	164,600	8,900
Insurance Companies	196,300	193,000	3,300	206,300	194,900	11,400
Cigarettes	119,800	113,900	5,900	116,800	113,000	3,800
Oil Companies	32,300	26,500	5,800	33,800	23,000	10,800
Real Estate Conveyance	93,500	102,000	(8,500)	95,400	102,000	(6,600)
Alcoholic Beverages	39,700	39,300	400	39,700	39,300	400
Miscellaneous	27,300	26,500	800	28,300	27,100	1,200
Admissions, Dues and Cabaret	26,900	26,000	900	27,400	26,500	900
Total Taxes	\$ 8,596,900	\$ 8,474,200	\$ 122,700	\$ 8,904,800	\$ 8,807,900	\$ 96,900
Refunds of Taxes	(706,500)	(703,200)	(3,300)	(716,000)	(732,000)	16,000
Net General Fund Taxes	\$ 7,890,400	\$ 7,771,000	\$ 119,400	\$ 8,188,800	\$ 8,075,900	\$ 112,900
Other Revenue						
Transfer Special Revenue	250,400	258,300	(7,900)	252,900	262,400	(9,500)
Indian Gaming Payments	306,500	294,000	12,500	313,000	308,700	4,300
Licenses, Permits and Fees	124,000	128,000	(4,000)	122,000	119,500	2,500
Sales of Commodities and Services	32,000	29,300	2,700	32,000	29,200	2,800
Rentals, Fines and Escheats	35,000	37,700	(2,700)	35,900	38,600	(2,700)
Investment Income	70,000	55,300	14,700	55,000	55,800	(800)
Miscellaneous	109,000	112,900	(3,900)	118,600	125,400	(6,800)
Total Other Revenue	\$ 926,900	\$ 915,500	\$ 11,400	\$ 929,400	\$ 939,600	\$ (10,200)
Other Sources						
Federal Grants	1,939,500	1,970,200	(30,700)	1,974,800	2,032,000	(57,200)
Transfer from Tobacco Settlement Fund	-	-	-	-	-	-
Net Statutory Transfers						
To Other Funds	(85,000)	(85,000)	-	(85,000)	(85,000)	-
GAAP Implementation	14,500	14,500	-	(22,500)	(22,500)	-
Total Other Sources	\$1,869,000	\$1,899,700	(\$30,700)	\$1,867,300	\$1,924,500	(\$57,200)
Total Revenue	\$10,686,300	\$10,586,200	\$100,100	\$10,985,500	\$10,940,000	\$45,500

GOVERNOR'S PROPOSED REVENUE CHANGES

<u>Bill</u>	<u>Proposal</u>	<u>Effective Date</u>	<u>FY 00</u>		<u>FY 01</u>	
			<u>OFA</u> (in millions)	<u>Governor</u> (in millions)	<u>OFA</u> (in millions)	<u>Governor</u> (in millions)
<u>GENERAL FUND CHANGES</u>						
PERSONAL INCOME TAX						
SB 1133	Increases the maximum personal income tax credit for property taxes paid from \$350 to \$400.	1/1/00	-	-	(30.0)	(30.0)
SB 1131	Provides a credit of 4% on annual deposits into the Connecticut Higher Education Trust (CHET).	1/1/99	(1.0)	(1.0)	(1.0)	(1.0)
SB 1132	Provides a state credit equaling 15% of the credit taken for the federal HOPE Scholarship Tax Credit and the Lifetime Learning Tax Credit.	1/1/99	(8.0)	(15.0)	(10.0)	(15.0)
HB 6762	Revenue change as a result of governor's appropriation changes to the Department of Revenue Services' budget.	7/1/99	2.4	4.6	2.8	4.6
SALES TAX						
HB 6772	Reduces the sales tax on hospital services from 6% to 5.75%.	7/1/99	(4.5)	(4.5)	(4.5)	(4.6)
SB 1172	Provides exemption for all non-prescription drugs, repair and replacements parts for vital life function equipment, and treats sale-leaseback transactions as a single transaction.	7/1/99	(4.6)	(4.6)	(4.6)	(4.6)

<u>Bill</u>	<u>Proposal</u>	<u>Effective Date</u>	FY 00		FY 01	
			OFA	Governor (in millions)	OFA	Governor (in millions)
HOSPITAL GROSS RECEIPTS TAX						
HB 6772	Reduces the rate from 6.25% to 5.75%. (Current law reduces the rate from 7.25% to 6.25%, effective 10/1/99).	10/1/99	(6.2)	(6.4)	(7.8)	(8.6)
LICENSES, PERMITS AND FEES						
SB 1139	Modifies the Pre-Trial Drug Intervention Program.	7/1/99	1.0	1.0	1.0	1.0
MISCELLANEOUS REVENUE						
SB 1119	Increase child support recovery efforts.	7/1/99	1.1	1.1	1.2	1.2
HB 6762	Revenue changes as a result of the governor's appropriation changes.	7/1/99	3.3	3.3	5.8	5.8
FEDERAL GRANTS						
HB 6762	Revenue changes as a result of the governor's appropriation changes.	7/1/99	11.9	11.9	3.7	3.7
TRANSFER FROM OTHER FUNDS						
SB 1134	Transfer from Tobacco Settlement Fund.	7/1/99	80.2	80.2	143.2	143.2

<u>Bill</u>	<u>Proposal</u>	<u>Effective Date</u>	<u>FY 00</u>		<u>FY 01</u>	
			<u>OFA</u>	<u>Governor</u>	<u>OFA</u>	<u>Governor</u>
			<u>(in millions)</u>		<u>(in millions)</u>	
TRANSFER TO OTHER FUNDS						
HB 6762	Increase transfers to Mashantucket and Mohegan Fund.	7/1/99	(100.0)	(100.0)	-	-
GAAP						
SB 1123	Defer GAAP until FY 04.	7/1/99	(14.5)	(14.5)	22.5	22.5
GENERAL FUND - TOTAL			(38.9)	(43.9)	[1] 122.3	118.2 [1]

[1] These figures differ from the governor's budget document because he treats certain policy options as current service adjustments.

TRANSPORTATION FUND REVENUE CHANGES

HB 6771	Transfers one-half on the emission late fee (\$10) into the Emission Enterprise Fund.	7/1/99	(2.5)	(2.5)	(2.5)	(2.5)
HB 6769	Increases the annual Conservation Fund revenue intercept from \$.5 million to \$1.2 million.	10/1/99	(0.7)	(0.7)	(0.7)	(0.7)
HB 6795	Reduction in safety inspections.	7/1/99	(3.7)	(3.4)	(3.7)	(3.4)
HB 6794	Transfer insurance enforcement function to the Transportation Fund from the Insurance Fund.	7/1/99	0.4	0.4	0.4	0.4
TRANSPORTATION FUND - TOTAL			(6.5)	(6.2)	(6.5)	(6.2)

Using the Projected FY 99 General Fund Surplus

The governor's proposals include several adjustments, primarily related to additional expenditures of the projected FY 99 surplus. The 16 items listed in the budget (see table below) total \$367.2 million.

The one revenue-related item pertains to a change in the accrual of the Corporation Business Tax. Currently, revenues received through August 15 are considered to be revenues of the fiscal year that ended on the prior June 30. The governor has proposed that revenues received through July 31 be accrued, reducing the time period for accrual from six weeks to four weeks. For FY 98, \$29.1 million was accrued. The governor estimates that for FY 99, the shortened accrual period will result in a revenue loss of \$6 million. OFA is in concurrence with this estimate.

The governor's proposals reduce his projected \$402 million surplus to \$28.8 million, just slightly above the amount needed (\$28.5 million) to keep the Budget Reserve Fund at its statutory "filled" level of 5% of the net General Fund budget. It should be noted that projected surplus amounts are current estimates (late January, early February 1999) and take into account the \$80 million appropriation made for the new stadium in December, 1998.

The expenditure proposals, listed in order of dollar magnitude, are as follows:

Item	Amounts (in millions)
Pre-fund the 27 th payroll that occurs every 11 years	\$90.0
Medicaid Capitation Payments	
Pre-fund Medicaid capitation payments (equal to one month's cost of about \$35 million) for both FY 00 and FY 01	70.1
Pre-fund Medicaid capitation incentive payments to be made over the biennium	7.9
Total - Medicaid Capitation Payments	78.0
Partially fund Rebate 99 (The carry forward of an additional \$13.3 million appropriated to the Department of Revenue Services for the Rebate 98 program is also proposed.) (Please see the next section for a description of last year's Tax Rebate Program and the governor's most recent proposal.)	70.0
State Employees Health Insurance	
Convert to fully insured plan from self-insured plan – some claims from old plan will need to be paid (the "tail")	35.0
Pay off deficit in Rate Stabilization Reserve Account with Anthem Blue Cross and Blue Shield	30.0
Total - State Employees Health Insurance	65.0
Pre-fund higher education endowment match for the biennium (\$9.1 million for FY 00; \$12.7 million for FY 01)	21.8
Fund additional Year 2000 costs	15.0

Item	Amounts (in millions)
Fund a portion of school construction costs with surplus rather than bonds (equals 2.4% of total FY 00 funding of \$424 million)	10.0
Pre-fund school library books grant (\$3.0 million in each year of the biennium)	6.0
Pre-fund certain per diem costs of private providers in DMR, DMHAS and DCF due to leap year (FY 00)	4.7
Fund payment of UConn Educational Properties, Inc., developer's claim	2.5
Fund moving costs for a portion of the State Library	2.0
Fund automated forms and licenses ("e-government") through DoIT	1.7
Fund aerial photo survey in DEP	0.3
Fund electronic filing system in the Ethics Commission	0.2
Total – All Items	\$367.2

It should be noted that these additional appropriations are contained in the "back of the budget" (Sections 44, 45, 48, and 49 of HB 6762). It is these additional appropriations which will cause the spending cap to be exceeded. As a result, the governor has issued a declaration of extraordinary circumstances, which means that the appropriations act will need to be passed by a three-fifths majority in both the House and Senate in order for these additional appropriations to take effect.

While these appropriations will take effect from passage, it is anticipated that the funds will be expended primarily in FY 00 (\$312.5 million) with the balance to be spent in FY 01 (\$54.7 million).

Governor's Proposed Rebate '99 Personal Income Tax Rebate Program

FY 1998-99 Personal Income Tax Rebate Program

The Personal Income Tax rebate plan provided state residents with a one-time payment. The plan was funded through the appropriation of \$116 million from the FY 98 budget surplus: \$115 million for rebates and \$1 million for agency administrative expenses.

To be eligible, residents had to: (1) file a 1997 Connecticut Personal Income Tax return by 5/1/98 or, if granted an extension, by 10/16/98, and (2) pay 1997 property tax on an automobile and/or a primary residence. Residents were not required to have a Personal Income Tax liability to receive a rebate.

The maximum rebate that single filers and married filing separately could receive was \$75, the maximum rebate for head of household filers was \$120 and the maximum rebate for joint filers was \$150. All filers received a minimum rebate of \$50. Qualified residents were not required to apply for the rebate because checks were automatically issued by the Department of Revenue Services (DRS).

A total of \$101.8 million was rebated for the 1997 income year. DRS issued 927,653 checks totaling \$98.4 million between July and December 1998. An additional \$3.4 million in liabilities on other taxes was offset for 35,809 taxpayers. Administrative costs to DRS for the rebate program were \$887,000.

Rebate '99 Proposal

House Bill 6758, An Act Implementing a Rebate Program, provides for a one-time payment to taxpayers for the 1998 income year. The governor's proposal is to fund the rebates and agency administrative expenses through the appropriation of \$70 million from the FY 1998-99 budget surplus and the carry forward of \$10 million from the FY 1998-99 appropriation for the 1997 income year rebate program. DRS indicates that the amount available for carry forward from the 1997 income year program is \$13.28 million.

The bill permits taxpayers meeting the criteria outlined below to receive a maximum rebate of \$75 for single filers and married filing separately, \$120 for head of household filers and \$150 for joint filers.

To be eligible, taxpayers must meet all of the following conditions:

- (1) The taxpayer must have filed a 1998 Connecticut Personal Income Tax return by 4/15/99 or, if granted an extension, by 10/15/99.
- (2) The taxpayer must have paid 1998 property tax on an automobile and/or a primary residence.
- (3) The taxpayer's final remaining 1998 Connecticut tax liability, after all credits, must be at least \$5.

Taxpayers meeting the above criteria will receive the **lesser** of the taxpayer's income tax liability as shown on their 1998 return, or the maximum amount of the rebate for their filing status. If the rebate amount is less than five dollars, the amount will be credited to the taxpayer's liability for the subsequent income year.

The bill does not require taxpayers to apply for the rebate. DRS will automatically issue rebates to qualified taxpayers. Rebates for returns filed by 4/15/99 must be issued by 7/31/99 and all other rebates must be issued by 12/15/99.

Based on our analysis of income tax data, the estimated cost of the governor's plan is \$85 million and it will provide rebates for approximately 750,000 taxpayers. The projected administrative cost to DRS is \$800,000.

Use of FY 99 Surplus for Items of an On-Going Nature

Several items that are funded with FY 99 surplus are of an on-going nature.

	FY 00	FY 01
	(in millions)	
Medicaid Capitation Payment	\$34.2	\$35.9
Reserve for Salary Adjustments	-	10.0
Higher Education Endowment Match	9.1	12.7
Department of Education – Library Books	<u>3.0</u>	<u>3.0</u>
Total	\$46.3	\$61.6

This method of funding may present a problem in FY 02, since these items will not have been part of the FY 01 budget, and thus will appear as "new spending" in FY 02.

Effect of FY 99 Appropriations Carried Forward into the 1999-2001 Biennium on OFA's Projected FY 99 Surplus

There are several sections in the "back of the budget" which allow for certain appropriations to be carried forward for use in the new biennium. Many of these accounts had been anticipated to lapse (and thus contribute to the surplus) in OFA's last surplus projection. It is estimated that these carry forward provisions, if approved, would result in some \$31 million not lapsing, and thus a reduction in the OFA surplus projection from \$480 million to \$449 million.

The major items in this category include the following:

	Amounts (in millions)
Department of Revenue Services – Tax Rebate	\$13.3
Department of Labor	
One-Stop Employment	4.7
Welfare to Work Grant	6.6
Office of Policy and Management – Property Tax Relief - Elderly Circuit Breaker (to be made available to meet expenses related to the Patriots stadium)	5.5

Expenditure Levels

In presenting his budget recommendations for the General Fund, the governor proposed an expenditure level that is almost \$200 million below the current services budget projections for FY 00, and almost \$115 million below projections for FY 01. (See table below.)

	FY 00	FY 01
General Fund Expenditures	(in millions)	
Net Current Services Projection	\$10,738.0	\$11,171.7
Governor's Recommended	<u>10,542.1</u>	<u>11,057.2</u>
Net Reductions to Current Services	\$ (195.9)	\$ (114.5)
Percentage Reduction	(1.8%)	(1.0%)

A listing of the major spending reductions will be found starting on page 35.

New or Expanded Services vs. Current Services

The following list presents the major items which are categorized as "New and Expanded Services" in the governor's recommended budget, but which we feel are more appropriately classified as "current services."

Agency/Item	FY 00 (in millions)	FY 01
Department of Mental Retardation		
Support Employment Opportunities and Day Services for Year 2000 and 2001 High School Graduates	\$ 1.4	\$ 4.2
Department of Education		
Increase Funding for ECS Grant - Enrollment Growth	31.0	62.0
Department of Correction		
Fund 116 Positions to Staff Housing for an Additional 567 Inmates	4.2	4.0
Department of Children and Families		
Add 88 Positions to Enhance Juvenile Staffing at Long Lane School	4.2	4.3
Implement Program Assessment and Resource Allocation (PARA) Plan and Improvements to Single Cost Accounting System	4.9	8.4

Agency/Item	FY 00 (in millions)	FY 01
Judicial Department		
Fund Various Programs Previously Supported by Federal Funds	2.7	3.2
Fund Judges Salary Increases	0.8	3.1
Add Seven Positions and Funds for Continued Court Services and Facility Costs at the Hartford Community Court	1.0	1.0
Public Defender Services Commission		
Fund Staff and Programs to Enhance Caseload Management	3.3	4.4
Total	\$53.5	\$94.6

Spending Cap

For the current fiscal year, the budget (including the \$80 million for a portion of the stadium costs) is under the cap by only \$2.3 million. As a result of this situation, the governor has proposed meeting the deficiency needs for this fiscal year via a transfer of excess funds from the Medicaid account in the Department of Social Services rather than through additional appropriations.

In a declaration presented with his recommended budget, the governor proposes allowing the spending cap for FY 99 to be exceeded in order to allow the appropriation of \$367.2 million for a variety of purposes. (See listing on pages 11 and 12.)

While the spending cap calculations presented with the governor's budget show the budget to be under the cap by \$91.9 million for FY 00, and by \$37.2 million for FY 01, these margins are less than 1% of the budget. Also, these calculations do not take into consideration the proposed agreement to provide an estimated \$67.5 million of additional funding for nursing homes. If this additional funding were to be provided, with no other changes to the budget, then the budget would be under the cap by only \$24.4 million in FY 00.

Being under the cap by such a relatively small amount could cause difficulty in meeting deficiency appropriation needs in FY 00. It might be necessary to resort to the method proposed for the current fiscal year of transferring excess funds from one agency to another, or the governor would have to declare an emergency in order for the cap to be exceeded (this would require a three-fifths majority vote in both chambers).

Budget Growth Rates

Growth Rates		
All Appropriated Funds	FY 00	FY 01
Governor's Recommended Budget	4.0%	4.8%
OFA (including adjustments)	5.0%	4.9%

Reasons for difference:

1. Net dollar difference in FY 99 estimated expenditures: OFA is \$39.7 million lower.

This difference is due to the following factors:

- (a) OFA excludes the \$100 million for stadium construction, for two reasons: (1) the funds are not likely to be expended this fiscal year, and (2) since the costs are of a "one-time" nature, they would not be included since they serve to distort year-to-year comparisons.
 - (b) OFA includes items funded from prior year surpluses, such as the Economic Recovery Fund (ERF) payment (\$80.9 million) and debt service payments (\$22 million).
 - (c) While the above items offset each other to a great degree, OFA's projected lower expenditures for the overall budget generally account for the difference.
2. Net dollar difference in the FY 00 and FY 01 projected budgets: OFA is \$73.5 million and \$90 million higher, respectively
 - (a) This higher level is primarily the result of adjusting for the nursing home settlement, plus various items to be funded through use of the FY 99 projected surplus. (See separate section on use of surplus for on-going costs on page 13.)

A schedule which shows the growth rate calculations appears on the following page.

**FY 00 and FY 01 Budget Growth Rates
(Based on OFA Adjustments)
(in millions)**

	FY 99 OFA Est. Expend. [1]	FY 00 Gov. Rec.	Amount of Change	Percent Change (Adjusted)	FY 00 Gov. Rec.	FY 01 Gov. Rec.	Amount of Change	Percent Change (Adjusted)
General Fund								
Base	\$ 9,933.2	\$10,542.1			\$10,542.1	\$11,057.2	\$ 515.1	
Adjustments [2][3]	125.5	69.4			69.4	78.0	8.6	
Subtotal	\$ 10,058.7	\$10,611.5	\$ 552.8	5.5%	\$10,611.5	\$11,135.2	\$ 523.7	4.9%
Transportation Fund								
Base	\$ 794.9	\$ 822.2			\$ 822.2	\$ 857.3	\$ 35.1	
Adjustments [4]	24.7	5.5			5.5	12.0	6.4	
Subtotal	\$ 819.6	\$ 827.7	\$ 8.1	1.0%	\$ 827.7	\$ 869.3	\$ 41.5	5.0%
Other Appropriated Funds [5]								
Base	\$ 210.6	\$ 210.3			\$ 210.3	\$ 212.2	\$ 1.9	
Adjustments[6]	-	(1.4)			(1.4)	-	1.4	
Subtotal	\$ 210.6	\$ 208.9	\$ (1.7)	-0.8%	\$ 208.9	\$ 212.2	\$ 3.3	1.6%
Total [7]	\$ 11,088.9	\$11,648.1	\$ 559.2	5.0%	\$11,648.1	\$12,216.7	\$ 568.6	4.9%

[1] General Fund and Transportation Fund estimates are as of February 1999. The \$80 million FY 99 General Fund appropriation for the Patriots stadium has not been included because no expenditures are anticipated during this fiscal year.

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

	FY 99 Estimated	FY 00 Gov. Rec.	FY 01 Gov. Rec.
(in millions)			
(a) ERF Payment from FY 97 surplus	\$ 80.9	\$ -	\$ -
(b) Debt Service from the FY 97 surplus	22.0	-	-
(c) Pre-fund higher education endowment match from the FY 99 surplus	1.8	9.1	12.7
(d) Department of Education library books from the FY 99 surplus	3.0	3.0	3.0
(e) Transfer of General Fund costs to other funds or off-budget for:			
Equipment purchases to Capital Equipment Purchase Fund (bond funds); the increase is over the FY 99 level of \$15.1 million	5.3	11.9	5.9
Connecticut Historical Commission - fund Freedom Trail and the Rochambeau Route from increased Tourism Fund collections	-	0.1	0.1

	FY 99 Estimated	FY 00 Gov. Rec. (in millions)	FY 01 Gov. Rec.
(f) Transfers to the General Fund of costs previously paid by other funds:			
Office of Policy and Management - Computer Assisted Mass Appraisal (CAMA) from bond funds	-	(0.3)	(0.7)
Department of Social Services - Housing/Homeless Services previously paid from Social Services Block Grant	-	-	(10.5)
Department of Correction - continue funding for 125 halfway house beds previously supported by federal funds that have expired	-	(1.4)	(2.3)
Judicial Department - previously supported by federal funds:			
Programs	-	(4.7)	(4.7)
Grants	-	(0.9)	(1.4)
Family violence dockets	-	(1.7)	(1.8)
State Police Highway Motor Patrol Fringe Benefits from the Transportation Fund	-	(13.1)	(14.4)
(g) Reserve for Salary Adjustments - funding is provided from the FY 99 carry-forward			
	-	-	10.0
[3] Costs of Nursing Home Settlement are added to the governor's recommended	12.5	67.5	82.1
Total General Fund	\$ 125.5	\$ 69.4	\$ 78.0

[4] The following are adjustments to the Transportation Fund for purposes of comparability with prior years.

(a) Transfer of General Fund costs to other funds or off-budget for:			
State Police Highway Motor Patrol Fringe Benefits to the General Fund	-	13.1	14.4
(b) Transfer to the Transportation Fund of costs previously paid by other funds:			
Motor Vehicles Department			
Transfer 34 positions from the Emissions Fund	-	(1.7)	(1.7)
Eliminate the Insurance Enforcement Fund and transfer five positions and \$0.4 million in revenues	-	(0.7)	(0.7)
(c) Use of FY 97 and FY 98 surplus for Transportation Fund Debt Service	24.7	-	-
(d) Remove "one-time" costs for 27th payroll	-	(5.2)	-
Total Transportation Fund	\$ 24.7	\$ 5.5	\$ 12.0

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

[6] Remove "one-time" costs for 27th payroll (\$1.4 million) from FY 00.

[7]The amounts shown for FY 99 Estimated Expenditures do not include funds appropriated from the FY 98 surplus for one-time expenditures. Other "one-time" expenditures proposed by the governor and not included above are shown on the following page.

	FY 99 Estimated	FY 00 Gov. Rec. (in millions)	FY 01 Gov. Rec.
General Fund			
Tax Rebate Program (including supplemental payment and administrative costs)	\$ 110.5	\$ 80.8	\$ -
Year 2000 Compliance	80.0	15.0	-
Two PILOT Grant Payments	40.0	-	-
Pre-fund the 27th payroll that occurs every 11 years	-	90.0	-
Pre-fund Medicaid capitation incentive payments	-	3.8	4.1
State Employees Health Insurance			
Convert to fully-insured plan from self-insured plan (the "tail")	-	35.0	-
Pay off deficit in Rate Stabilization Reserve Account with Anthem Blue Cross and Blue Shield	-	30.0	-
Pre-fund certain pier diem costs of private providers in the departments of Mental Retardation, Mental Health and Addiction Services, and Children and Families due to the leap year (FY 00)	-	4.7	-
Fund payment of UConn Educational Properties, Inc. developer's claim	-	2.5	-
Fund moving costs for a portion of the State Library	-	2.0	-
Department of Information and Technology - fund automated forms and licenses ("e-government")	-	1.7	-
Department of Environmental Protection - fund aerial photo survey	-	0.3	-
Ethics Commission - fund electronic filing system	-	0.2	-
Office of Policy and Management - Property Tax Relief Elderly Circuit Breaker to be made available to meet expenses related to the Patriots stadium	-	5.5	-
General Fund Total	\$ 230.5	\$ 271.5	\$ 4.1
Transportation Fund			
Motor Vehicles Department - reflectorized license plate replacement	\$ -	\$ 12.9	\$ -
Transportation Fund Total	\$ -	\$ 12.9	\$ -
Grand Total	\$ 230.5	\$ 284.4	\$ 4.1

Major Issues

Tobacco Settlement

Over the next biennium, Connecticut is expected to receive approximately \$300 million in revenue from a settlement of state lawsuits against tobacco companies. The actual dates of disbursement of payments are dependent on the settling states collectively reaching "Final Approval."

Final Approval is obtained when the 80/80 rule is met. This occurs when both of the following events have taken place: (1) 80% of all eligible states have reached state-specific finality and (2) states representing or accounting for 80% of all funds to be distributed have achieved state-specific finality. To obtain state-specific finality, states must get the settlement approved by a state court and all opportunities for appeal of the approval must have expired. Connecticut achieved state-specific finality in December.

Alternatively, if all eligible states have not achieved state-specific finality by June 30, 2000, then total finality is achieved for the set of states that have state-specific finality, and the other states would be excluded from the agreement. In that case, total payments by the manufacturers will be reduced accordingly, and each state's percentage would change, such that the amount received would remain constant.

The U.S. Department of Health and Human Services (DHHS) contends that the existing Medicaid law compels it to recover its share (federal Medicaid matching percentage) of the third party payments, collected on behalf of Medicaid clients. DHHS argues that state tobacco settlement funds are third-party recoveries under the Medicaid statute. Since Connecticut's federal Medicaid matching percentage is 50%, half of the state's tobacco settlement funds are at issue. An amendment to the Medicaid statute that would exempt tobacco settlement funds from recovery may be needed to prevent the loss of these funds. The Congress is currently considering this action.

The governor's proposal anticipates that \$165.8 million in FY 00 and \$133.5 million in FY 01 will be realized from the tobacco settlement and deposited as revenue in a new Tobacco Settlement Fund. The governor proposes that 15% of the money be set aside in an endowment fund and that the money necessary to fund his recommended expenditures be transferred to the General Fund. **In order for the funds to be clearly identifiable and expenditures easily tracked, OFA recommends that separate appropriations be made from the Tobacco Settlement Fund, rather than through the General Fund.** There is concern that the initial funds may not be received until June 30, 2000. If the funds are received later than this date, it would be necessary to accrue the revenues to pay for the programs that are to be funded in FY 00.

Although some tables indicate that Connecticut will likely be receiving Tobacco Settlement revenues through calendar year 2025, it is anticipated that Connecticut will continue to receive as much as \$148.6 million each year thereafter in perpetuity (subject to decreased volume of cigarette sales) which when adjusted for inflation could exceed \$320 million.

The table below presents an analysis of estimated revenue the state will receive over the next biennium and the use of the funds proposed in the governor's budget.

Tobacco Settlement Fund

	FY 00	FY 01
	(in millions)	
Beginning Balance	\$ -	\$60.7
Connecticut Share of Tobacco Settlement	165.8	133.5
Transfer to General Fund (see following table for detail)	(80.2)	(143.2)
Transfer to Endowment Fund	(24.9)	(20.0)
Ending Balance	\$60.7	\$31.0

Governor's Proposed Use of Tobacco Settlement Funds

Public Health Initiatives Item/Agency Account	FY 00	FY 01
	(in millions)	
Smoking Enforcement		
DMHAS - within Other Expenses	\$0.2	\$0.2
Tobacco Education		
DPH - Tobacco Education	0.2	0.2
CT Healthy 2000		
DPH - CT Health Priorities 2000	5.0	5.0
Universal Vaccine		
DPH - part of Immunization Services	3.5	3.5
Teen Pregnancy Prevention		
DSS - part of Teenage Pregnancy Prevention Block Grant	1.0	1.0
Develop Assisted Living Pilots		
DSS - within Medicaid	-	4.3
Expand Dental Access		
DSS - within Medicaid	-	2.0
Expand Home Care Program		
DSS - part of Connecticut Home Care Program	-	9.7
Truancy Prevention		
OPM - part of Truancy Prevention Demonstration Program	-	0.8
Total - Public Health Initiatives	\$9.9	\$26.7

Education is our Future Initiative Item/Agency/Amount	FY 00 (in millions)	FY 01
Computers in the Classroom		
DoIT - Computers in the Classroom	\$10.0	\$10.0
Education Network and Distance Learning		
DoIT - Education Intranet	2.5	5.7
Charter Oak College - Distance Learning Consortium	0.7	0.6
Tuition Freeze		
UConn - Tuition Freeze	2.6	2.6
Regional Community Technical Colleges Tuition Freeze	1.0	1.0
CT State University - Tuition Freeze	3.5	3.5
Magnet Schools		
DoEd. - part of Magnet Schools account	-	12.1
ECS		
DoEd. - part of Education Equalization Grants account	-	31.0
Total Education Initiatives	\$20.3	\$66.5
Local Relief		
Increase Local Property Tax Relief		
Miscellaneous Appropriations Administered by the Comptroller		
Tobacco Settlement Relief for Local Education Expenses	<u>50.0</u>	<u>50.0</u>
Grand Total	\$80.2	\$143.2

\$50 Million Information Technology (IT) Savings (Privatizing/Outsourcing IT)

FY 00 and FY 01 and the three out-years each have a \$50 million bottom line General Fund expenditure reduction related to "IT Savings", which is the savings claimed from the privatization or outsourcing of the state's Information Technology operations. A 1996 KPMG Peat Marwick study of the state's IT operations (upon which the outsourcing proposal is based) estimated 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.

The 1997-1999 biennial budget (passed in June 1997) included \$50 million in annual savings beginning in FY 99 from "Agency Statewide Functional Consolidation," which are savings claimed primarily as the result of privatizing or outsourcing the state's information technology business to a private company. The contractor was originally expected to assume operations by January 1998. The budgeted savings for FY 99 was not changed by the legislature during the 1998 session and remained at \$50 million, because the administration indicated that the contract would take effect by January 1999, and that \$50 million in savings could be achieved in one-half year.

On December 30, 1998, the administration announced that it has selected Electronic Data Systems (EDS) as the private computer firm, and is negotiating the final aspects of the contract. The administration's current target contract effective date is September 1, 1999. Therefore, none of the \$50 million in budgeted savings will be realized for FY 99. In addition, it was announced that a reduced portion of the state's IT business will be out-sourced from the level previously assumed. IT systems for the judicial branch, the legislative branch, the offices of the state elected officials and the constituent units of higher education will not be part of the privatization contract. Only an estimated \$200 million per year is spent by the remaining executive branch agencies on IT.

The administration now plans to have the contract take effect on September 1, 1999. Therefore, it could be difficult to fully achieve the \$50 million savings contained in the governor's budget in the first year. In addition, an unknown portion of the \$50 million shown by the governor as an expenditure reduction involves 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 ongoing General Fund expenditure reduction. No information has been provided indicating what is for sale and how much revenue would be realized.

No specific appropriations are 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 EDS continue. Department of Information Technology officials estimate that this outsourcing contract would be worth \$1 billion over seven years. Funding is to be obtained by reallocating funds, with Finance Advisory Committee (FAC) approval, from other state agencies per Sec. 51 of HB 6762 (the appropriations bill), which has been proposed by the governor. The governor's proposal would require a significant reallocation of budgeted funds in FY 00.

If the contract is to be paid out of reallocated resources from agency budgets, 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 \$14 million in Personal Services, \$10 million in Other Expenses and \$75 million in unallocated lapses.

Year 2000 Century Date Compliance for the State's Information Technology Systems: Additional Appropriation of \$15 Million from FY 99 Surplus

An amount of \$15 million in bonding was initially authorized in SA 97-1, (June Special Session), to finance the Year 2000 conversion. This amount was to be used for the state's core financial and administrative systems. An additional \$80 million was provided from FY 98 surplus for the conversion, replacement and/or testing of systems in 75 agencies. The governor has recommended appropriating an additional \$15 million from FY 99 surplus to avoid issuing debt for remaining Year 2000 needs. If approved, a total of \$110 million will have been made available to resolve this problem.

Transferring the Cost of Equipment Purchases from General Fund Appropriations to the Capital Equipment Purchase Fund (CEPF)

The use of bond fund financing for the purchase of most agency equipment items is continued. Total CEPF funding of agency operating equipment in FY 00 is estimated to be \$26.8 million, and in FY 01, \$20.7 million. These amounts are based on back-up budget materials submitted by OPM, and reflect increases of \$11.7 million for FY 00 and \$5.6 million for FY 01 over the estimated FY 99 level of \$15.1 million.

Using bond funds for equipment results in future increases in the debt service appropriation over the next five years. The estimated amount of debt service from previously issued bonds for this purpose is estimated to be \$28 million in FY 00.

Conversion of the State's Budget and Accounting Systems to a Generally Accepted Accounting Principles (GAAP) Basis

Connecticut's budget is prepared and executed using a **modified cash basis** of accounting. Under this system, expenditures are charged against appropriations of the year in which they are **paid**. Most revenues are recognized when **earned (accrued)** rather than when **received**. Under

Generally Accepted Accounting Principles (GAAP), an **accrual basis** of accounting would be used whereby expenditures would be charged when **incurred (not after when paid)** and all revenues would be recognized when **earned**.

The cumulative GAAP deficit as of June 30, 1998 is \$694.3 million as indicated in the latest report issued by the State Comptroller dated March 1, 1999. Under current law, implementation of Generally Accepted Accounting Principles (GAAP) is required to begin on July 1, 1999. However, the governor has recommended that the implementation of GAAP be further delayed until July 1, 2003 as provided in SB 1123. The governor's out-year budget estimates, which accompanied his 1999-2001 biennial budget recommendations, assume that implementation will be further postponed beyond FY 04. If GAAP were implemented on schedule, costs would include an operating budget impact of \$27 million associated with GAAP conversion beginning in FY 00 (primarily due to the incremental costs of being on an accrual basis for expenditures). An additional \$36 million for the amortization of the \$694.3 million GAAP deficit (reduced by \$155 million based on the governor's recommendations to pay \$90 million for the 27th payroll and \$65 million for outstanding health insurance liabilities from FY 99 projected surplus) over 15 years beginning in FY 01, results in a total of \$63 million in each of those years. The governor has proposed funding \$90 million from FY 99 projected surplus (or \$63 million more than the level that would be required if GAAP were implemented) to pay in FY 00 an additional state employee payroll which occurs approximately every 11 years. A normal fiscal year contains 26 biweekly payrolls. FY 00 will contain 27. This item would not need to be budgeted if GAAP were implemented for FY 00 in accordance with current law. The governor has recommended that the accrual period for the Corporation Business Tax be permanently changed from August 15th to July 31st, with a corresponding revenue loss of \$6 million, to be more consistent with GAAP.

Based upon the enactment of PA 93-402, the conversion of the state's budget and accounting systems to a GAAP basis was to have become effective with the 1995-1997 biennium. PA 95-178 postponed the conversion until the beginning of the 1997-1999 biennium and PA 97-305 further postponed the conversion until the 1999-2001 biennium.

Increases in Authorized Positions

The governor's budget recommends increasing the authorized position level (for all appropriated funds) from 45,203 in FY 99 to 45,948 in FY 00 for an increase of 745 positions and to 46,097 in FY 01 for an increase of 149 positions. Most of these position changes (excluding transfers) occur within the agencies indicated on the table below.

	FY 00	FY 01
Base Year		
FY 99	45,203	---
FY 00	---	45,948
Position Increases		
Department of Correction	303	0
Department of Public Safety	246	54
Department of Children and Families	106	0
Judicial Department	0	108
All Others	<u>90</u>	<u>(13)</u>
Subtotal	<u>745</u>	<u>149</u>
Total Recommended	45,948	46,097

Grants to Towns for FY 00 and FY 01

Assistance to towns through various grant programs (excluding state bond funds) is recommended by the governor to increase by \$40.8 million in FY 00 or 2% above the FY 99 estimated expenditure. Major changes for FY 00 include: the addition of \$50 million for Tobacco Settlement - Education Aid; a \$31.6 million increase for Education Equalization Grants (ECS); and decreases of \$27.4 million in PILOT - State Property and \$21.5 million in PILOT - Colleges and Hospitals due to the higher levels in FY 99 resulting from the use of FY 98 surplus. State assistance to municipalities as a percent of the total budget recommended for FY 00 equals 19.3%.

In FY 01, state assistance to municipalities is recommended to increase by \$57 million or 2.8% above the proposed budget for FY 00. Major changes for FY 01 include \$31 million for ECS and \$11.9 million for Magnet Schools. State assistance as a percent of the total budget that is recommended for FY 01 is 18.9%.

The following schedule displays comparisons for each year of the biennium with the prior fiscal year. The schedule includes only those grants that exhibit an increase or decrease of \$1 million or more in either year over the prior year.

Approximately \$2,032 million in FY 00 and \$2,089 million in FY 01 is recommended for all appropriated grants to towns. It should be noted, however, that the governor's recommended budget includes the payments that the state makes to the teachers' retirement plan as a payment on behalf of towns. This analysis does not include this amount, as it is not paid directly to the municipalities. The funding level is at 85% in both years of the biennium. Section 43 of HB 6762 (the appropriations bill), which has been proposed by the governor, would permit the continuation of this funding level. The governor has recommended that Teachers' Retirement Contributions increase by \$16.1 million to \$204.4 million for FY 00 over the FY 99 level of \$188.3 million and by \$21.1 million to \$225.5 million for FY 01 over the FY 00 level. In FY 00, the governor recommends that the Retirees Health Service Cost and the Municipal Retiree Health Insurance Cost be funded at the FY 99 level of \$8.5 million and increase by \$0.2 million to \$8.7 million for FY 01 over the FY 00 level.

Grant Payments to Towns for FY 00 and FY 01 (in millions)

Those grants which would experience at least a change of \$1 million are detailed as follows:

Appropriated Grants	FY 99 Est. Exp.	FY 00 Gov. Rec.	Amt. of Chg. Over FY 99	% Change Over FY 99	FY 01 Gov. Rec.	Amt. of Chg. Over FY 00	% Change Over FY 00
Property Tax Relief - Elderly Circuit Breaker	\$ 22.0	\$ 24.0	\$ 2.0	9.1%	25.5	1.5	6.3%
Drug Enforcement Program	16.9	11.9	(5.0)	-29.6%	11.3	(0.6)	-5.0%
PILOT - New Manufacturing Equipment	67.4	72.0	4.6	6.8%	75.0	3.0	4.2%
Tax Abatement	2.2	-	(2.2)	-100.0%	-	-	-
Payment in Lieu of Taxes	2.9	-	(2.9)	-100.0%	-	-	-
Teen Pregnancy Prevention	1.0	2.0	1.0	100.0%	2.0	-	0.0%
Transportation of School Children	41.3	43.2	1.9	4.6%	45.2	2.0	4.6%
Education Equalization Grants	1,299.4	1,331.0	31.6	2.4%	1,362.0	31.0	2.3%
Excess Cost - Student Based	46.0	45.0	(1.0)	-2.2%	47.0	2.0	4.4%
OPEN Choice Program	3.1	6.4	3.3	106.5%	9.6	3.2	50.0%
Magnet Schools	16.0	20.9	4.9	30.6%	32.8	11.9	56.9%
Interdistrict Summer School [1]	-	2.0	2.0	-	2.0	-	0.0%
PILOT: State Property [2]	62.1	34.7	(27.4)	-44.1%	35.2	0.5	1.4%
PILOT: Colleges and Hospitals [2]	97.1	75.6	(21.5)	-22.1%	75.6	-	0.0%
Tobacco Settlement - Education Aid	-	50.0	50.0	-	50.0	-	0.0%
Others	313.8	313.3	(0.5)	-0.2%	315.8	2.5	0.8%
Total [3]	\$ 1,991.2	\$ 2,032.0	\$ 40.8	2.0%	\$ 2,089.0	\$ 57.0	2.8%

[1] The governor's recommendation of \$2,000,000 includes a transfer of \$1 million from the Interdistrict Cooperation grant and \$1 million in new funding.

[2] The FY 99 level is higher due to the use of FY 98 surplus.

[3] Our listing of appropriated Grant Payments to Towns is different from the governor's in that it excludes Justice Assistance Grants, the Payment in Lieu of Boating Taxes, the Early Childhood/School Readiness Program and all of the Teachers' Retirement Board payments on behalf of teachers.

**New and Expanded General Fund Programs
Recommended by the Governor for FY 00 and FY 01**

<u>Agency/Program</u>	<u>FY 00</u>	<u>FY 01</u>
Legislative Management		
Add 16 Full-Time to Replace Part-Time Interim Committee Staff	\$ 703,263	\$ 703,263
Provide Funding for a New Asset Management Account	1,170,000	700,000
Auditors of Public Accounts		
Add Five Positions in FY 00 and 5 More Positions in FY 01 for New EDP Unit, Performance Audit Unit and Statewide Audit	199,635	404,955
Permanent Commission on the Status of Women		
Add an Analyst Position to Perform Legislative Research	37,070	37,070
Commission on Children		
Add a Planning Analyst for Parental Leadership Issues and a Legislative Secretary to Handle Receptionist Duties and Correspondence	61,593	61,593
Commission on Latinos and Puerto Rican Affairs		
Add One Position to Respond to Requests for Public Information	43,157	45,157
African-American Affairs Commission		
Add Funding for a Special Projects Coordinator	46,483	46,483
Legislative Agencies		
Note: The governor has recommended a lapse adjustment for new legislative positions and it is unknown how this reduction would occur by agency and how it will be dealt with in the final budget		
Lieutenant Governor's Office		
Convert a Part-Time Public Information Position to Full-Time	17,360	17,360
Ethics Commission		
Develop Lobbyist Electronic Filing System (Note: \$200,000 is provided from surplus in FY 00 for this purpose)	-	42,000
Freedom of Information Commission		
Add One Position to the Business Office	74,083	79,000

<u>Agency/Program</u>	<u>FY 00</u>	<u>FY 01</u>
State Properties Review Board		
Create a Database to Interact with Other State Agencies' Databases	15,000	5,000
Department of Revenue Services		
Expand Collection and Litigation of Delinquent Accounts to Increase Revenues by Approximately \$1.4 Million Annually	312,500	312,500
Expand the Telefile System to Enable the Agency to Redeploy Processing and Correction Examiner Employees to Generate Additional Revenues of Approximately \$1.5 Million Annually	295,000	25,000
Office of Policy and Management		
Expand the Drugs Don't Work Program	350,000	350,000
Fund Five Pilot Sites to Reduce Truancy and Support a Statewide Initiative Concerning School Attendance	1,200,000	2,000,000
Provide a 10% Match to Improve the Criminal Justice Information System and Leverage \$3,250,000 in Federal Funds	325,000	325,000
Continue through FY 02 the Safe Neighborhoods Program which was Scheduled to Terminate in FY 00	2,600,000	1,950,000
Department of Veterans' Affairs		
Add a Programmer to Develop a Bridge between DVA and DAS Financial Systems and for the Cost of DAS' Services in Medicare/Medicaid Billing; a Corresponding Revenue Increase of \$3 to \$5 Million is Anticipated over the Biennium	168,827	171,277
Department of Administrative Services		
Expand the Department's Recovery Efforts with an Anticipated Revenue Increase of \$1.1 Million in FY 00 and \$1.21 Million in FY 01	96,000	100,800
Fund Governor's Internship Program for People with Disabilities	50,000	50,000
Department of Information Technology		
Purchase Computers for Public Schools throughout the State	10,000,000	10,000,000
Provide for a Statewide, High-Speed Education Network Connecting Schools, Colleges and Universities, Libraries, Museums, Job Centers and Businesses	2,500,000	5,700,000
Office of the Attorney General		
Add Four Positions to the Health Care Fraud / Whistle Blower Unit; a Corresponding \$2 Million Cost Avoidance and \$3 Million in Additional Collections in DSS is Anticipated	219,597	219,597

<u>Agency/Program</u>	<u>FY 00</u>	<u>FY 01</u>
Division of Criminal Justice		
Add 38 Positions in FY 00 and an Additional 18 positions in FY 01 for Caseload Management	1,653,270	2,978,776
Add funds for New Britain Courthouse Staff	742,575	742,575
Department of Labor		
Increase Funding to Support the Governor's Workforce Development Initiative and the Connecticut Employment and Training Commission	4,036,993	7,720,098
Department of Environmental Protection		
Fund Five Positions to Implement a Comprehensive, Integrated Management Information System to Provide One-Stop Access to Agency Environmental Information	442,500	424,500
Department of Economic and Community Development		
Establish a Demonstration Project to Develop Units of Subsidized Assisted Living Services for People Residing in Affordable Housing	503,358	1,692,750
Agricultural Experiment Station		
Fund Costs Associated with the Longhorn Beetle Quarantine	46,000	48,000
Department of Public Health		
Provide Funding to Focus Resources on the Leading Causes of Mortality/Morbidity	5,000,000	5,000,000
Provide Vaccination Enhancements	3,500,000	3,500,000
Support Tobacco Education Programs	200,000	200,000
Office of the Medical Examiner		
Fund a Part-Time Forensic Photographer to Cover Weekends and Holidays	13,000	33,000
Department of Mental Retardation		
Devote New Resources to Place Approximately 60 Clients in Residential Settings and 25 Clients in Day Services from the Waiting Lists in Each Year	2,271,653	4,544,385

<u>Agency/Program</u>	<u>FY 00</u>	<u>FY 01</u>
Department of Mental Health and Addiction Services		
Support Persons with Acquired Brain Injury at Connecticut Valley Hospital	3,404,831	6,953,924
Implement Recommendations of the Alcohol and Drug Policy Council; an additional \$1.3 Million is available from Uncommitted Substance Abuse Block Grant Money	2,700,000	2,700,000
Phase-In the Recommendations of the Task Force on Sexually Violent Predators	2,000,000	3,000,000
Provide Specialized Services for 23 Additional High Risk Youth in FY 00 and 25 More in FY 01 who are Anticipated to Leave the DCF Service System	1,900,000	5,000,000
Enhance Smoking Enforcement Activities	200,000	200,000
Department of Social Services		
Provide Additional Funds to Allow the State-Funded Connecticut Home Care Program to Meet Anticipated Needs and Avoid Service Waiting Lists	4,206,128	6,908,251
Implement the Assisted Living Pilots and Enhance Homecare Funding	6,448,828	16,356,846
Fund Coverage for Dental Hygienists and Implement Various Pilot Initiatives to Improve Dental Access	2,000,000	4,000,000
Expand Teen Pregnancy Prevention Efforts	1,000,000	1,000,000
Implement a Primary Care Case Management Pilot for Disabled Individuals Served by DMR	500,000	500,000
Provide Additional Funds for Boarding Homes in order to Reduce DMR's Waiting List for Residential Services	228,347	455,615
Department of Education		
Expand Magnet Schools, Charter Schools and Open Choice; Increase RESC funding to manage Open Choice Program	10,158,008	27,624,508
Expand Learning Logic-Algebra I Program in the Vocational-Technical Schools	78,000	78,000
Increase the Position Count in the Vocational-Technical Schools by 15 Positions	-	40,000
Increase Interdistrict Summer School Funding	1,000,000	1,000,000
State Library		
Expand the Higher Order Thinking (HOT) Schools Program to 16 Additional School Districts	640,000	652,800
University of Connecticut		
Freeze Tuition and Extension Fees for the 1999-2000 Academic Year	2,558,458	2,558,458

<u>Agency/Program</u>	<u>FY 00</u>	<u>FY 01</u>
Charter Oak College		
Freeze Tuition Fees for the 1999-2000 Academic Year	24,000	24,000
Enhance Support for Distance Learning	500,000	500,000
Community-Technical Colleges		
Freeze Tuition for the 1999-2000 Academic Year	1,050,964	1,050,964
Connecticut State University		
Freeze Tuition and Extension Fees for the 1999-2000 Academic Year	3,497,229	3,497,229
Department of Children and Families		
Fund Nine Positions to Provide for Thorough Needs Assessment and Stabilization for Children in Safe Homes before Transition	430,694	435,480
Public Defender Services Commission		
Provide Funds for New Britain Courthouse Staff	359,532	359,532
Mashantucket Pequot and Mohegan Fund		
Increase Grants to Towns	50,000,000	50,000,000
Tobacco Settlement Relief for Local Education Expenses		
Increase Local Property Tax Relief to Towns (Governor has indicated that these new funds replace "one-time" increases in the 2 PILOT grants.)	50,000,000	50,000,000
Total - New and Expanded General Fund Programs	\$ 183,778,936	\$ 235,125,746

**MAJOR INCREASES IN GENERAL FUND CURRENT SERVICES
(Greater Than \$1 Million)
(Base: FY 99 Estimated Expenditures)**

Agency/Item	Gov. Rec. FY 00 Amount	Gov. Rec. FY 01 Amount
Department of Public Safety		
Increase Sworn Staff to Mandated Level of 1,248	\$ 4,222,950	\$ 7,235,450
Provide Staff and Funding for New Telecommunications System	3,301,979	3,301,979
Agency Total	7,524,929	10,537,429
Department of Mental Retardation		
Enhance Services at Southbury Training School/Increase Certification of ICF/MR Beds	4,127,920	4,103,952
Enhance Funding for Computer Services/Telecommunications Savings	2,406,320	2,476,640
Enhance Day Programs for High School Graduates	1,377,625	4,215,534
Enhance Community Placements for Southbury Training School Residents	2,119,717	2,119,717
Expenditure Updates/Incorporate Annualization	2,040,651	2,528,708
Increase Funding for Age-Outs	3,463,485	6,997,115
Agency Total	15,535,718	22,441,666
Department of Mental Health and Addiction Services		
Annualize FY 98 Changes	6,155,194	6,155,194
Department of Social Services		
Medicaid Managed Care Services Update	6,050,000	22,091,966
Medicaid-Nursing Home Expenditure Increase	14,396,000	31,516,752
Provide Increases for Intermediate Care Facilities for the Mentally Retarded and Chronic Disease Hospitals	4,453,700	8,157,223
Medicaid-Health Services Cost and Utilization Update	34,460,000	76,252,252
Implement Personal Care Assistance and Acquired Brain Injury Waiver Programs	3,514,000	9,355,684
Cost and Caseload Update - HUSKY	13,610,978	24,112,111
Medical Cost Update - State Administered General Assistance	5,415,525	6,936,209
Cost and Caseload Update - Supplemental Assistance	3,956,523	5,253,066
Child Care Cost and Caseload Update	24,516,173	45,111,908
Cost and Caseload Update - Various Programs	1,722,265	2,329,327
Provide Funds for Housing/Homeless Services Previously Available from Social Services Block Grant	0	10,524,834
Agency Total	91,649,164	188,032,614
Department of Education		
Increase Grants to Towns		
Education Equalization (ECS)	31,000,000	62,000,000
OPEN Choice Program	3,580,500	6,780,500
Magnet Schools	3,400,000	15,300,000
Other Education Grants	5,000,000	10,667,000
Total	42,980,500	94,747,500
Department of Correction		
Fund 185 Positions to Operate Northeast Correctional Institution in Mansfield. (Costs shown are net, after a reallocation of \$3.9 million from the overcrowding contingency account.)	4,137,686	4,137,686
Fund 125 Halfway House Beds Previously Supported by Federal Funds	1,350,000	2,250,000
Provide Funding for 116 Staff for Additional Housing for 567 Inmates	4,153,036	3,972,634
Agency Total	9,640,722	10,360,320

Agency/Item	Gov. Rec. FY 00 Amount	Gov. Rec. FY 01 Amount
Department of Children and Families		
Expenditure Update/Annualization-Safety Initiative	15,721,747	16,023,568
Expenditure Update/Annualization-Long Lane Staff	1,855,997	1,876,619
Increase Staff-Long Lane School	4,216,078	4,257,847
Pay Computer Support Costs	1,200,000	1,200,000
Implement 1999 Program Assessment and Resource Allocation Plan/Consent Decree	6,523,338	10,023,338
Increase Foster Rates/Consent Decree	3,174,952	3,174,952
Expenditure Update/Board and Care for Children	1,994,723	2,418,889
Expenditure Update/Single Cost Accounting Rate Increases	1,400,000	2,800,000
Agency Total	36,086,835	41,775,213
County Sheriffs		
Provide Security for New Stamford Courthouse	0	2,480,921
Judicial Department		
Provide Funds for Stamford Courthouse	0	1,246,250
Provide Funds for Annualization of Costs for New Judges	1,154,425	2,125,625
Pick-up Expiring Federal Grants with State Funds - Alternative Incarceration	3,996,097	4,346,097
Fund Juvenile Detention Expansion	0	2,265,393
Continue Existing Programs Previously Paid by Federal Funds for Drug Courts, Family Violence and Security	2,388,449	3,173,262
Provide Funds for Salary Increases for Judges	756,181	3,090,268
Agency Total	8,295,152	16,246,895
Public Defender Services Commission		
Provide Staff for Caseload Management	3,344,143	4,400,227
Debt Service		
Adjust Funding Level to Reflect Increased Bonded Indebtedness	99,649,688	170,147,396
Collective Bargaining Costs		
Provide Funding for Collective Bargaining Contracts and Arbitrated Awards (Includes related Social Security costs; excludes Retirement and Health Insurance Costs)	66,300,865	113,573,513
Employers Social Security Tax		
Provide Funding for New and Transferred Positions	1,134,000	1,562,000
State Employees Health Service Cost		
Provide Funding for New and Transferred Positions	1,847,000	2,497,000
Fringe Benefit Accounts		
Additional Funds are Provided to Reflect Cost Increases in the Following Accounts:		
State Employees Retirement Contributions	28,642,546	56,155,398
Higher Education Alternative Retirement System	2,805,000	3,785,000
Employers Social Security Tax	1,544,220	6,150,220
State Employees Health Service Cost	38,110,800	63,563,800
Retired State Employees Health Service Cost	37,580,000	57,150,000
Total	108,682,566	186,804,418
Total - Above Items	\$ 519,272,476	\$ 925,371,024

MAJOR DECREASES IN GENERAL FUND CURRENT SERVICES
(Reductions of \$1 Million or More)
(Base: FY 99 Estimated Expenditures)

Agency/Item	Gov. Rec. FY 00 Amount	Gov. Rec. FY 01 Amount
Department of Public Safety		
Reduce Overtime Due to Staffing Increase	\$ -1,000,000	\$ -2,000,000
Department of Economic and Community Development		
Eliminate Tax Abatement and PILOT grants - replace lost local aid through increased aid via other grants	-5,143,276	-5,143,276
Department of Mental Retardation		
Reduce Funding Due to Consolidating Administrative Services	-291,214	-1,287,335
Department of Social Services		
Implementation of Rate Reimbursement for Dual Eligible Clients	-40,900,000	-38,278,772
Expand Attorney General's Fraud Unit to Reduce Medicaid Costs	0	-2,000,000
Contract for Pharmacy Services to Reduce Costs - Medicaid	-18,000,000	-18,000,000
Contract for Pharmacy Services to Reduce Costs - Other Programs	-3,000,000	-3,000,000
Achieve Savings by Competitive Bidding for Certain Fee-for-Service Categories	0	-10,000,000
Caseload Growth/Expenditure Update - ConnPACE	-1,595,938	88,718
Restructure Disproportionate Share Payments to Reflect Tax Reductions	-10,000,000	-13,000,000
Strengthen Child Support Enforcement to Reduce Cost in Various Programs	-686,075	-1,326,150
Cost and Caseload Update - Temporary Family Assistance	-33,930,196	-53,856,540
Agency Total	-108,112,209	-139,372,744
Department of Education		
Fund Endowment Match with FY 99 Surplus	-9,100,000	-12,650,000
University of Connecticut		
Increase Faculty Productivity	-562,500	-1,687,500
Teachers' Retirement Board		
Continue to Fund Retirement Contribution at 85% Rather than 100% (This results in a loss of asset value and investment income to the Fund)	-36,078,607	-37,882,182
Department of Children and Families		
Adjustment for Turnover/Personal Services	-5,629,595	-5,812,848
Eliminate Excess Service Capacity Per Program Assessment and Resource Allocation Plan	-2,004,080	-2,004,080
Reduce Residential/Group Home Placements	-1,965,000	-1,965,000
Achieve Efficiencies/Board and Care Payments	-1,250,000	-1,250,000
Achieve Savings Via Utilization Review	-2,870,000	-2,870,000
Agency Total	-13,718,675	-13,901,928
Judicial Department		
Reduce Other Expenses to Effect Economy	-1,268,692	-1,901,810
Debt Service - State Treasurer		
Reduce August 1999 Bond Sale by Using \$10 Million from FY 99 Surplus for School Construction	-275,000	-1,036,250

Agency/Item	Gov. Rec. FY 00 Amount	Gov. Rec. FY 01 Amount
Reserve for Salary Adjustments		
Reduce Funding Level by the Amount to be Funded from the FY 99 Carry-Forward	0	-10,000,000
Equipment		
Use Bond Funds for most purchases via the Capital Equipment Purchase Fund (CEPF) (This results in higher debt services costs.)	-26,800,000	-20,650,000
Inflation		
Remove Funds to Cover Inflationary Cost Increases	-25,575,000	-46,825,000
GAAP Implementation		
Remove Funds for Conversion; Postpone Implementation for Four Years (to 7/1/03)	-41,500,000	-41,500,000
Reductions Due to Use of FY 99 Surplus		
27th Payroll - Fund General Fund cost with FY 99 Surplus	-90,000,000	0
DSS - Pre-fund Medicaid Capitation Payments	-34,200,000	-35,900,000
Pre-fund Medicaid Capitation Incentive Payments	-3,800,000	-4,100,000
DoEd - Pre-fund School Library Books	-3,000,000	-3,000,000
Pre-fund Higher Education Endowment Match	-9,100,000	-12,700,000
Various Agencies - Pre-fund Leap Year Costs	-4,700,000	0
Total - Above Items	\$ -414,225,173	\$ -391,538,025

1999-2001
AGENCY BUDGET TOTAL COMPARISONS
(All Appropriated Funds)

	OFA Estimated Expenditure FY 99	Current Services FY 00	Governor's Recommended FY 00	Difference Gov. 00-Est. 99	% Change	Current Services FY 01	Governor's Recommended FY 01	Difference Gov. 01-Gov. 00	% Change
LEGISLATIVE									
Legislative Management	\$ 43,027,138	\$ 46,561,574	\$ 46,561,574	\$ 3,534,436	8.21	\$ 49,642,362	\$ 49,642,362	\$ 3,080,788	6.62
Auditors of Public Accounts	7,354,479	8,708,377	8,708,377	1,353,898	18.41	8,965,158	8,965,158	256,781	2.95
Commission on the Status of Women	488,737	510,780	510,780	22,043	4.51	540,900	540,900	30,120	5.90
Commission on Children	444,115	539,372	539,372	95,257	21.45	563,658	563,658	24,286	4.50
Latino and Puerto Rican Affairs Commission	275,537	369,528	369,528	93,991	34.11	383,602	383,602	14,074	3.81
African-American Affairs Commission	260,173	286,795	286,795	26,622	10.23	328,661	328,661	41,866	14.60
Total Legislative	\$ 51,850,179	\$ 56,976,426	\$ 56,976,426	\$ 5,126,247	9.89	\$ 60,424,341	\$ 60,424,341	\$ 3,447,915	6.05
GENERAL GOVERNMENT									
Governor's Office	\$ 2,118,020	\$ 2,803,761	\$ 2,717,881	\$ 599,861	28.32	\$ 2,891,662	\$ 2,872,551	\$ 154,670	5.69
Secretary of the State	3,203,677	4,021,730	3,593,427	389,750	12.17	3,803,456	3,726,066	132,639	3.69
Lieutenant Governor's Office	229,276	352,864	344,253	114,977	50.15	360,782	359,369	15,116	4.39
Elections Enforcement Commission	690,442	763,967	709,164	18,722	2.71	766,307	749,117	39,953	5.63
Ethics Commission	707,889	977,352	749,953	42,064	5.94	835,001	828,665	78,712	10.50
Freedom of Information Commission	953,218	1,080,416	1,075,167	121,949	12.79	1,075,432	1,136,520	61,353	5.71
Judicial Selection Commission	75,193	81,951	79,079	3,886	5.17	84,603	83,441	4,362	5.52
State Properties Review Board	447,439	489,119	491,885	44,446	9.93	499,303	502,810	10,925	2.22
State Treasurer	3,217,698	3,943,794	3,754,456	536,758	16.68	3,980,968	3,879,685	125,229	3.34
State Comptroller	15,705,941	17,342,303	16,766,179	1,060,238	6.75	17,711,891	17,623,751	857,572	5.11
Department of Revenue Services	38,509,232	56,594,970	54,941,219	16,431,987	42.67	57,755,574	57,216,217	2,274,998	4.14
Division of Special Revenue	8,865,323	9,644,160	8,556,351	-308,972	-3.49	9,746,254	9,233,579	677,228	7.91
State Insurance and Risk Management Board	6,903,230	7,890,095	7,877,820	974,590	14.12	8,022,581	8,021,037	143,217	1.82
State Insurance and Risk Management Board - TF	2,150,000	2,081,000	2,081,000	-69,000	-3.21	2,142,275	2,142,275	61,275	2.94
Gaming Policy Board	4,000	4,119	4,000	0	0.00	4,230	4,000	0	0.00
Office of Policy and Management	170,427,743	164,104,247	168,078,723	-2,349,020	-1.38	169,818,544	174,678,360	6,599,637	3.93
Department of Veterans' Affairs	25,684,579	29,067,485	27,499,912	1,815,333	7.07	29,112,850	28,524,328	1,024,416	3.73
Department of Veterans' Affairs - SF	290,000	252,000	252,000	-38,000	-13.10	252,000	252,000	0	0.00
Department of Administrative Services	28,113,355	30,731,833	28,685,895	572,540	2.04	31,441,767	29,822,244	1,136,349	3.96
Department of Information Technology	2,340,000	2,027,836	14,438,949	12,098,949	517.05	1,870,819	17,527,757	3,088,808	21.39
Department of Public Works	35,224,000	37,584,898	36,865,448	1,641,448	4.66	38,147,291	37,462,911	597,463	1.62
Attorney General	22,938,074	25,809,780	24,396,249	1,458,175	6.36	25,762,703	25,846,510	1,450,261	5.94
Office of the Claims Commissioner	316,428	333,915	320,790	4,362	1.38	337,665	330,862	10,072	3.14
Division of Criminal Justice	31,056,279	36,308,303	36,209,457	5,153,178	16.59	37,153,931	39,309,500	3,100,043	8.56
Criminal Justice Commission	1,195	1,231	1,195	0	0.00	1,264	1,195	0	0.00
Total General Government	\$ 400,172,231	\$ 434,293,129	\$ 440,490,452	\$ 40,318,221	10.08	\$ 443,579,153	\$ 462,134,750	\$ 21,644,298	4.91
REGULATION AND PROTECTION									
Department of Public Safety	\$ 101,012,037	\$ 117,138,940	\$ 114,428,397	\$ 13,416,360	13.28	\$ 123,789,270	\$ 123,306,746	\$ 8,878,349	7.76
Police Officer Standards and Training Council	2,168,000	2,724,110	2,491,138	323,138	14.90	2,633,683	2,489,590	-1,548	-0.06
Board of Firearms Permit Examiners	87,000	112,176	109,342	22,342	25.68	93,127	91,741	-17,601	-16.10
Department of Motor Vehicles - GF	0	0	0	0	NA	0	0	0	NA
Department of Motor Vehicles - TF	45,600,000	50,884,773	50,824,501	5,224,501	11.46	51,105,365	51,445,354	620,853	1.22
Military Department	5,140,000	5,820,819	6,159,248	1,019,248	19.83	5,981,926	6,384,427	225,179	3.66
Commission on Fire Prevention and Control	1,800,000	2,449,089	2,067,093	267,093	14.84	2,269,725	2,149,512	82,419	3.99
Department of Banking - BF	13,521,414	14,195,050	14,195,050	673,636	4.98	14,800,540	14,800,540	605,490	4.27
Department of Insurance - IF	14,712,296	17,637,698	17,637,698	2,925,402	19.88	18,114,546	18,114,546	476,848	2.70
Office of Consumer Counsel - CF	1,922,377	2,124,913	2,278,789	356,412	18.54	2,178,553	2,333,314	54,525	2.39

	OFA Estimated Expenditure FY 99	Current Services FY 00	Governor's Recommended FY 00	Difference Gov. 00-Est. 99	% Change	Current Services FY 01	Governor's Recommended FY 01	Difference Gov. 01-Gov. 00	% Change
Department of Public Utility Control - CF	16,037,104	16,720,052	16,720,052	682,948	4.26	16,784,903	16,784,903	64,851	0.39
Department of Consumer Protection	9,991,088	10,722,293	9,926,640	-64,448	-0.65	10,792,380	10,687,003	760,363	7.66
Department of Labor	32,781,850	49,207,624	53,574,548	20,792,698	63.43	38,934,963	47,131,253	-6,443,295	-12.03
Department of Labor - WF	637,850	656,986	0	-637,850	-100.00	674,725	0	0	NA
Office of Victim Advocate	100,000	219,769	3,462,943	3,362,943	3,362.94	208,448	3,809,808	346,865	10.02
Office of Victim Advocate - CIF	0	0	1,900,000	1,900,000	NA	0	1,900,000	0	0.00
Commission on Human Rights and Opportunities	5,954,207	6,757,230	6,473,006	518,799	8.71	6,872,230	6,956,597	483,591	7.47
Office of Protection and Advocacy for Persons with Disabilities	2,320,996	2,570,991	2,475,084	154,088	6.64	2,617,669	2,586,273	111,189	4.49
Office of the Child Advocate	394,476	474,860	438,502	44,026	11.16	480,152	463,014	24,512	5.59
Workers' Compensation Commission - WF	19,616,000	22,000,801	18,447,609	-1,168,391	-5.96	22,552,008	18,984,577	536,968	2.91
Total Regulation and Protection	\$ 273,796,695	\$ 322,418,174	\$ 323,609,640	\$ 49,812,945	18.19	\$ 320,884,213	\$ 330,419,198	\$ 6,809,558	2.10
CONSERVATION AND DEVELOPMENT									
Department of Agriculture	\$ 4,042,203	\$ 4,655,136	\$ 4,441,316	\$ 399,113	9.87	\$ 4,749,609	\$ 4,654,400	\$ 213,084	4.80
Department of Agriculture - RF	639,403	665,196	665,196	25,793	4.03	661,537	661,537	-3,659	-0.55
Department of Environmental Protection	40,066,066	42,364,881	40,720,519	654,453	1.63	43,224,163	42,534,824	1,814,305	4.46
Council on Environmental Quality	114,143	119,526	115,261	1,118	0.98	122,335	121,963	6,702	5.81
Connecticut Historical Commission	973,980	1,078,022	969,627	-4,353	-0.45	1,096,638	1,010,997	41,370	4.27
Department of Economic and Community Development	22,802,911	24,294,166	17,773,091	-5,029,820	-22.06	24,523,694	20,142,044	2,368,953	13.33
Agricultural Experiment Station	4,732,859	5,554,960	5,297,212	564,353	11.92	5,646,286	5,572,735	275,523	5.20
Total Conservation and Development	\$ 73,371,565	\$ 78,731,887	\$ 69,982,222	\$ -3,389,343	-4.62	\$ 80,024,262	\$ 74,698,500	\$ 4,716,278	6.74
HEALTH AND HOSPITALS									
Department of Public Health	\$ 62,660,056	\$ 72,452,685	\$ 75,528,571	\$ 12,868,515	20.54	\$ 74,117,755	\$ 77,967,240	\$ 2,438,669	3.23
Office of Health Care Access	2,314,270	2,911,644	2,809,447	495,177	21.40	2,999,008	2,969,541	160,094	5.70
Office of the Chief Medical Examiner	4,180,293	4,650,500	4,455,432	275,139	6.58	4,652,500	4,580,164	124,732	2.80
Department of Mental Retardation	579,999,552	625,071,501	608,123,481	28,123,929	4.85	641,860,376	636,683,764	28,560,283	4.70
Department of Mental Health and Addiction Services	253,615,878	293,341,900	284,195,120	30,579,242	12.06	305,124,425	304,160,290	19,965,170	7.03
Psychiatric Security Review Board	240,170	286,540	270,469	30,299	12.62	302,290	287,200	16,731	6.19
Total Health and Hospitals	\$ 903,010,219	\$ 998,714,770	\$ 975,382,520	\$ 72,372,301	8.01	\$ 1,029,056,354	\$ 1,026,648,199	\$ 51,265,679	5.26
TRANSPORTATION									
Department of Transportation - GF	\$ 0	\$ 0	\$ 0	\$ 0	NA	\$ 0	\$ 0	\$ 0	NA
Department of Transportation - TF	323,100,000	333,684,214	332,776,500	9,676,500	2.99	342,983,117	341,231,814	8,455,314	2.54
Total Transportation	\$ 323,100,000	\$ 333,684,214	\$ 332,776,500	\$ 9,676,500	2.99	\$ 342,983,117	\$ 341,231,814	\$ 8,455,314	2.54
HUMAN SERVICES									
Department of Social Services	\$ 3,250,702,418	\$ 3,411,502,053	\$ 3,293,123,623	\$ 42,421,205	1.30	\$ 3,561,225,363	\$ 3,411,806,320	\$ 118,682,697	3.60
Soldiers', Sailors' and Marines' Fund - SF	3,177,848	3,065,500	3,065,500	-112,348	-3.54	3,121,500	3,121,500	56,000	1.83
Total Human Services	\$ 3,253,880,266	\$ 3,414,567,553	\$ 3,296,189,123	\$ 42,308,857	1.30	\$ 3,564,346,863	\$ 3,414,927,820	\$ 118,738,697	3.60
EDUCATION, MUSEUMS, LIBRARIES									
Department of Education	\$ 1,678,990,874	\$ 1,702,931,760	\$ 1,777,689,779	\$ 98,698,905	5.88	\$ 1,731,032,097	\$ 1,838,702,483	\$ 61,012,704	3.43
Board of Education and Services for the Blind	14,578,706	14,763,301	14,535,777	-42,929	-0.29	14,867,612	14,661,509	125,732	0.86
Commission on the Deaf and Hearing Impaired	1,019,376	1,265,315	1,200,913	181,537	17.81	1,255,291	1,237,719	36,806	3.06
State Library	13,340,349	14,459,302	14,314,340	973,991	7.30	14,705,871	14,703,596	389,256	2.72
Department of Higher Education	38,804,725	49,678,255	0	-38,804,725	-100.00	54,381,528	0	0	NA
University of Connecticut	166,408,577	173,634,741	169,094,885	2,686,308	1.61	172,326,032	172,316,010	3,221,125	1.90

	OFA Estimated Expenditure FY 99	Current Services FY 00	Governor's Recommended FY 00	Difference Gov. 00-Est. 99	% Change	Current Services FY 01	Governor's Recommended FY 01	Difference Gov. 01-Gov. 00	% Change
University of Connecticut Health Center	67,842,563	73,362,349	70,491,582	2,649,019	3.90	73,348,325	72,797,749	2,306,167	3.27
Charter Oak State College	1,093,223	1,439,418	1,887,922	794,699	72.69	1,500,006	1,934,606	46,684	2.47
Teachers' Retirement Board	198,644,802	250,905,525	214,757,570	16,112,768	8.11	263,375,398	225,478,966	10,721,396	4.99
Regional Community - Technical Colleges	103,746,652	113,596,102	110,482,395	6,735,743	6.49	116,965,564	117,002,075	6,519,680	5.90
Connecticut State University	117,616,734	128,770,079	127,298,002	9,681,268	8.23	129,940,806	132,637,270	5,339,268	4.19
Total Education, Museums, Libraries	\$ 2,402,086,581	\$ 2,524,806,147	\$ 2,501,753,165	\$ 99,666,584	4.15	\$ 2,573,698,530	\$ 2,591,471,983	\$ 89,718,818	3.59
CORRECTIONS									
Department of Correction	\$ 413,255,434	\$ 481,075,049	\$ 465,382,534	\$ 52,127,100	12.61	\$ 489,644,024	\$ 484,196,827	\$ 18,814,293	4.04
Board of Pardons	34,141	35,265	34,241	100	0.29	36,214	34,241	0	0.00
Board of Parole	6,981,163	7,685,891	7,477,801	496,638	7.11	7,934,060	7,819,131	341,330	4.56
Department of Children and Families	396,862,917	436,406,042	425,809,209	28,946,292	7.29	447,062,807	445,382,992	19,573,783	4.60
County Sheriffs	25,408,663	27,334,325	27,688,197	2,279,534	8.97	30,391,215	30,717,941	3,029,744	10.94
Total Corrections	\$ 842,542,318	\$ 952,536,572	\$ 926,391,982	\$ 83,849,664	9.95	\$ 975,068,320	\$ 968,151,132	\$ 41,759,150	4.51
JUDICIAL									
Judicial Department	\$ 243,773,970	\$ 277,805,096	\$ 268,394,785	\$ 24,620,815	10.10	\$ 289,791,711	\$ 286,832,157	\$ 18,437,372	6.87
Judicial Department - CIF	1,900,000	1,957,000	0	-1,900,000	-100.00	2,009,839	0	0	NA
Public Defender Services Commission	23,523,478	25,878,944	28,225,622	4,702,144	19.99	26,508,075	30,667,545	2,441,923	8.65
Total Judicial	\$ 269,197,448	\$ 305,641,040	\$ 296,620,407	\$ 27,422,959	10.19	\$ 318,309,625	\$ 317,499,702	\$ 20,879,295	7.04
NON-FUNCTIONAL									
Miscellaneous Appropriation to the Governor	\$ 18,000	\$ 18,000	\$ 18,000	\$ 0	0.00	\$ 18,000	\$ 18,000	\$ 0	0.00
Debt Service - State Treasurer	838,256,950	949,906,638	952,131,638	113,874,688	13.58	1,020,404,346	1,021,868,096	69,736,458	7.32
Debt Service - State Treasurer - RF	194,000	164,000	164,000	-30,000	-15.46	172,000	172,000	8,000	4.88
Debt Service - State Treasurer - TF	371,494,062	385,955,080	385,955,080	14,461,018	3.89	407,228,880	407,228,880	21,273,800	5.51
Reserve for Salary Adjustments	0	11,900,000	12,400,000	12,400,000	NA	17,500,000	8,000,000	-4,400,000	-35.48
Reserve for Salary Adjustments - TF	0	369,200	369,200	369,200	NA	380,000	380,000	10,800	2.93
Workers' Compensation Claims - Department of Administrative Services	12,100,000	12,134,714	11,705,563	-394,437	-3.26	12,534,098	11,693,067	-12,496	-0.11
Workers' Compensation Claims - Department of Administrative Services - TF	0	1,924,548	1,924,548	1,924,548	NA	1,997,044	1,997,044	72,496	3.77
Judicial Review Council	205,555	204,948	200,193	-5,362	-2.61	209,296	203,967	3,774	1.89
Refunds of Payments	450,000	463,500	450,000	0	0.00	476,000	450,000	0	0.00
Refunds of Payments - TF	1,700,000	1,864,300	1,810,000	110,000	6.47	1,914,600	1,810,000	0	0.00
Fire Training Schools	374,270	385,500	381,760	7,490	2.00	396,000	389,390	7,630	2.00
Maintenance of County Base Fire Radio Network	21,000	21,600	21,420	420	2.00	22,200	21,850	430	2.01
Maintenance of Statewide Fire Radio Network	14,000	14,400	14,280	280	2.00	14,800	14,570	290	2.03
Equal Grants to Thirty-Four Nonprofit General Hospitals	34	34	34	0	0.00	34	34	0	0.00
Connecticut State Police Association	178,000	178,000	178,000	0	0.00	178,000	178,000	0	0.00
Connecticut State Firemen's Association	200,000	206,000	204,000	4,000	2.00	211,600	208,080	4,080	2.00
Interstate Sanitation Commission	3,333	3,433	3,400	67	2.01	3,525	3,470	70	2.06
Reimbursements to Towns for Loss of Taxes on State Property	34,068,355	34,678,279	34,678,279	609,924	1.79	35,223,664	35,223,664	545,385	1.57
Mashantucket Pequot and Mohegan Fund Grant - MF	135,000,000	85,000,000	135,000,000	0	0.00	85,000,000	135,000,000	0	0.00
Reimbursements to Towns for Loss of Taxes on Private Tax-Exempt Property	85,120,537	75,613,154	75,613,154	-9,507,383	-11.17	75,613,154	75,613,154	0	0.00
Tobacco Settlement Relief for Local Education Expenses	0	0	50,000,000	50,000,000	NA	0	50,000,000	0	0.00
Unemployment Compensation	5,113,000	5,935,000	5,935,000	822,000	16.08	6,175,000	6,175,000	240,000	4.04
Unemployment Compensation - TF	475,000	315,000	315,000	-160,000	-33.68	325,000	325,000	10,000	3.17
State Employees Retirement Contributions	199,304,785	227,947,331	227,947,331	28,642,546	14.37	255,460,183	255,460,183	27,512,852	12.07

	OFA Estimated Expenditure FY 99	Current Services FY 00	Governor's Recommended FY 00	Difference Gov. 00-Est. 99	% Change	Current Services FY 01	Governor's Recommended FY 01	Difference Gov. 01-Gov. 00	% Change
State Employees Retirement Contributions - TF	28,419,000	27,636,000	27,636,000	-783,000	-2.76	30,154,000	30,154,000	2,518,000	9.11
Higher Education Alternative Retirement	12,415,000	15,220,000	15,220,000	2,805,000	22.59	16,200,000	16,200,000	980,000	6.44
Pensions and Retirements - Other Statutory	1,500,000	1,580,000	1,580,000	80,000	5.33	1,675,000	1,675,000	95,000	6.01
Judges and Compensation Commissioners Retirement	9,283,249	9,324,239	9,324,239	40,990	0.44	9,837,077	9,837,077	512,838	5.50
Insurance - Group Life	2,575,000	2,758,000	2,758,000	183,000	7.11	3,490,000	3,490,000	732,000	26.54
Insurance - Group Life - TF	133,000	120,000	120,000	-13,000	-9.77	180,000	180,000	60,000	50.00
Tuition Reimbursement - Training and Travel	2,701,625	1,712,000	1,712,000	-989,625	-36.63	1,712,000	1,712,000	0	0.00
Employers Social Security Tax	128,665,949	154,317,000	147,451,000	18,785,051	14.60	161,319,000	162,881,000	15,430,000	10.46
Employers Social Security Tax - TF	12,920,300	11,525,000	11,657,000	-1,263,300	-9.78	11,850,000	11,994,000	337,000	2.89
State Employees Health Service Cost	178,980,200	217,091,000	218,938,000	39,957,800	22.33	242,544,000	245,041,000	26,103,000	11.92
State Employees Health Service Cost - TF	18,832,600	16,500,000	16,691,000	-2,141,600	-11.37	18,200,000	18,434,000	1,743,000	10.44
Retired State Employees Health Service Cost	130,850,000	168,430,000	168,430,000	37,580,000	28.72	188,000,000	188,000,000	19,570,000	11.62
Total Non-Functional	\$ 2,211,566,804	\$ 2,421,415,898	\$ 2,518,937,119	\$ 307,370,315	13.90	\$ 2,606,618,501	\$ 2,702,031,526	\$ 183,094,407	7.27
Grand Total - Gross	\$ 11,004,574,306	\$ 11,843,785,810	\$ 11,739,109,556	\$ 734,535,250	6.67	\$ 12,314,993,279	\$ 12,289,638,965	\$ 550,529,409	4.69
ESTIMATED LAPSE									
General Fund	-54,800,000	-108,500,000	-154,516,889	-99,716,889	NA	-108,500,000	-152,947,384	1,569,505	-1.02
Transportation	-10,000,000	-10,000,000	-10,000,000	0	NA	-10,000,000	-10,000,000	0	0.00
Total Estimated Lapse	-64,800,000	-118,500,000	-164,516,889	-99,716,889	NA	-118,500,000	-162,947,384	1,569,505	-0.95
Grand Total - Net	\$ 10,939,774,306	\$ 11,725,285,810	\$ 11,574,592,667	\$ 634,818,361	5.80	\$ 12,196,493,279	\$ 12,126,691,581	\$ 552,098,914	4.77

Transportation Fund

Revenues

Transportation Fund revenue estimates for the upcoming biennium reflect only minor policy changes (\$6.9 million per year) to current law forecasts. OFA's and the governor's revenue estimates reflect a modest growth in motor fuels taxes as well as permit and fee revenue.

Expenditures

Except for minor inflationary increases, the Department of Transportation's (DOT) 1999-2001 biennial budget will remain at its current services level including amounts for rail and bus operations. No transit services fare increases are incorporated in this budget. (Due to higher ridership than originally anticipated and savings in operating costs, the 4.5% fare increase on the Metro North Commuter Rail Line scheduled to go into effect January 1, 1999 will be delayed for approximately five months.

The major change in the operating budget is the transfer of the Workers' Compensation Claims account to a non-functional account within the Department of Administrative Services. However, the Transportation Fund will continue to be charged for these expenditures.

The Department of Motor Vehicles' (DMV) operating budget has the following governor's recommendations:

- The transfer of 34 permanent full-time positions from the Emissions Fund to the Transportation Fund, based on an Auditor's recommendation, to more accurately reflect their duties. The cost for the 34 positions is \$1.7 million in each fiscal year of the biennium.
- Elimination of the Insurance Enforcement Fund and placing its responsibilities within DMV's budget. As a result, five positions, expenses (\$675,108 and \$684,819 in FY 00 and FY 01, respectively), and revenues (\$400,000) will be transferred to the Transportation Fund.
- Revise vision screening requirements and make it mandatory for all renewal applicants over the age of 69. Current law requires a vision screening for all motor vehicle drivers at every other license renewal (every eight years) following the initial screening test. Therefore, anticipated expenditures (approximately \$1 million in each fiscal year of the biennium) will be eliminated.
- The governor increased the current services level by five permanent full-time positions: one Processing Technician to accommodate blood and urine tests within the drunk driving Administrative Per Se Program, (\$32,589), and four positions for the Graduated License Program, (\$202,772 and \$260,312 in each year of the biennium). Graduated licenses are issued on the advice of the driver's medical professional and may contain one or more restrictions or limitations such as driving during daylight hours only, driving on roads that are not limited access highways, etc.

- Defer the requirement under PA 97-309 that the DMV record social security numbers (SSN), Federal Employer Identification Number (FEIN) or both prior to issuing a new or renewal registration from October 1, 1999 to October 1, 2001. This recommendation will delay the costs of \$540,700 and \$470,710 to fiscal years 2002 and 2003 and thereafter.
- PA 98-172 requires the DMV to print completed donor cards on the back of the driver's license instead of simply indicating that the driver is an organ donor. The governor recommended deferring the implementation of this program from July 1, 1999 to October 1, 2001. This action will defer the one-time cost of \$554,800 to FY 02.
- PA 98-248 requires the DMV to staff the Union Weigh Station between five and eight work shifts in a seven-day period. The governor has proposed the elimination of the requirement that the DMV provide specific levels of enforcement activity. This will result in a reduction of \$43,967 and \$43,186 in each year of the biennium.

In addition to the impact the biennial budget will have on the two agencies within the Transportation Fund, namely, the DOT and the DMV, as stated above, the following recommendations will also affect the condition of the Fund:

- The governor has proposed to allow private licensed dealers and repairers to conduct safety inspections beginning July 1, 1999. Currently, the fee for a safety inspection for out-of-state motor vehicles and vehicles ten years old or older when title is transferred is \$25. As the result of this proposal, dealers and repairers could charge \$15 and the DMV would charge \$10 for certification of inspection when cars are registered. This action would create a revenue loss to the Transportation Fund of \$3.4 million beginning in FY 00 and into the out-years.
- To ensure the solvency of the Emissions Fund, the governor proposes to place one half of the \$20 emissions late fee in the Emissions Fund. This action will result in a revenue loss to the Transportation Fund of \$2.5 million beginning in FY 00 and into the out-years.
- The governor recommends the appropriation of \$12.9 million from the FY 99 Transportation Fund projected surplus to implement the conversion to fully reflectorized license plates. The funds will be available during fiscal years 2000 and 2001.

The biennial budget also includes an appropriation to cover the costs of the 27th payroll in FY 00. Thus, the DOT's and the DMV's operating budgets include \$4 million and \$1.2 million, respectively, in their Personal Services account for this purpose.

In reference to the Debt Service account, PA 97-309 requires the Treasurer to use any annual balance in the Transportation Fund above \$20 million to reduce future special tax obligation debt service. The treasurer may do so by: (1) redeeming outstanding special tax obligations before their maturity, (2) buying such obligations in the open market, (3) transferring funds into an escrow account for future scheduled payments, (4) paying debt service, starting in FY 99, and (5) any combination of these methods. SB 1128 provides the additional option of depositing the excess into the Infrastructure Improvement Fund in lieu of bond proceeds so the funds could be used on a "pay-as-you-go" cash basis for projects financed through the fund. This option would reduce Special Tax Obligation (STO) debt service by avoiding the issuance of debt.

Out-Year Projections

The governor's out-year projections for the Debt Service budget assume that no use of the surplus will be made until a minimum of \$100 million in excess of the \$20 million minimum balance has accumulated. Based on our projections, this occurs in FY 01, which is one year earlier than the governor's projections. Current law and this proposal give the treasurer various options to reduce future debt service. The projections further assume that in FY 03 the treasurer will use \$100 million from the surplus to replace the planned September 2002 issuance of STO bonds in accordance with the governor's proposal. This would result in Debt Service savings of \$7.7 million in FY 03 and \$8.9 million in FY 04.

The out-year operating budget projections include the governor's proposed recommendations which have been adjusted to include a modest level of inflation. Based on historical experience, the estimated lapse is projected to grow by \$2 million in each fiscal year. The future Debt Service relief reaches its peak in FY 03 when the cumulative balance including \$20 million from the prior fiscal year reaches \$189.7 million. However, due to the governor's proposal to not use the surplus until a minimum of \$100 million, in excess of the \$20 million required fund balance, has accumulated, the cumulative projected surplus declines to \$96 million by FY 04. In summary, the outlook of the Transportation Fund appears to remain positive through FY 04 with an annual projected surplus of \$6.3 million and a cumulative surplus of \$96 million or \$76 million, excluding the required fund balance of \$20 million from the previous fiscal year. (Please refer to Table A on the following page for further details on the Transportation Fund revenue and expenditure projections.)

Table A

**Preliminary Transportation Fund Revenue and Expenditure Projections
(Based on the Governor's Proposed Budget and OFA Projections)
FY 99 - FY 04 as of March 15, 1999
(in \$ millions)**

	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	779.0	786.8	794.6	802.4	810.2	818.0
Sales Tax - DMV Payments	-	10.0	20.0	30.0	40.0	40.0
Federal Transportation Administration	2.8	2.5	2.5	2.5	2.5	2.5
Interest Income	35.0	36.0	37.0	37.0	37.0	37.0
Petroleum Cos. Gross Earnings Transfer (PA 97-309)	20.0	36.0	36.0	36.0	36.0	36.0
Transfer to the Conservation Fund (PA 95-160)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Governor's Proposed Revenue Changes	-	(6.9)	(6.9)	(6.9)	(6.9)	(6.9)
Subtotal: Projected Revenues	836.3	863.9	882.7	900.5	918.3	926.1
Less: Refunds of Taxes	(6.2)	(6.3)	(6.3)	(6.3)	(6.4)	(6.4)
TOTAL NET REVENUES	830.1	857.6	876.4	894.2	911.9	919.7
PROJECTED EXPENSES						
Agency Operating Expenses						
DOT Budgeted Expenses	308.0	312.9	325.2	331.9	338.8	345.3
27th Payroll	-	4.0	-	-	-	-
Non-Bonded Highway and Bridge Projects	14.2	15.6	16.0	16.4	16.8	17.2
Airport Payment in Lieu of Taxes (PA 93-433)	0.9	0.3	-	-	-	-
Subtotal - DOT Operating Costs	323.1	332.8	341.2	348.3	355.6	362.5
DMV Current Services Expenses	45.6	49.6	51.4	52.6	53.8	55.1
27th Payroll	-	1.2	-	-	-	-
Social Security Numbers on Registrations	-	-	-	0.5	0.5	0.5
Anatomical Donation Information on Licenses	-	-	-	0.6	-	-
Subtotal - DMV Budgeted Expenses	45.6	50.8	51.4	53.7	54.3	55.6
Fringe Benefits	60.8	56.4	61.1	64.8	69.0	73.4
Reserve for Salary Adjustment	1.1	0.4	0.4	0.4	0.4	0.4
Other Budgeted Expenses	3.9	3.8	3.8	3.9	3.9	4.0
Subtotal - Operating Expenses	434.5	444.2	457.9	471.1	483.2	495.9
Debt Service Expenditures:						
STO Debt Service	336.5	354.5	378.1	393.5	409.3	432.7
Use \$100 million of Accumulated Surplus to reduce STO Debt Service [1]	-	-	-	-	(7.7)	(8.9)
GO Debt Service	44.7	31.4	29.2	21.0	17.3	13.7
Total Debt Service	381.2	385.9	407.3	414.5	418.9	437.5
Less: Debt Service from Surplus	(9.7)	-	-	-	-	-
Subtotal - Net Debt Service Expenditures	371.5	385.9	407.3	414.5	418.9	437.5
Total Gross Expenditures	806.0	830.1	865.2	885.6	902.1	933.4
Less: Estimated Lapse	(10.0)	(12.0)	(14.0)	(16.0)	(18.0)	(20.0)
Total Net Expenditures	796.0	818.1	851.2	869.6	884.1	913.4

	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Reflectorized License Plate Program	(12.9)	-	-	-	-	-
Projected Surplus	21.2	39.5	25.2	24.6	27.8	6.3
Cumulative Surplus from Prior Years For Future Debt Service Relief	31.4	52.6	92.1	117.3	141.9	69.7
Required Fund Balance	20.0	20.0	20.0	20.0	20.0	20.0
Cumulative Projected Surplus (Includes \$20 million Fund Balance from Prior Fiscal Year)	72.6	112.1	137.3	161.9	189.7	96.0
Use of \$100 million surplus in place of bonding	-	-	-	-	(100.0)	-
Total	72.6	112.1	137.3	161.9	89.7	96.0
Cumulative Projected Surplus (Minus \$20 million Fund Balance)	52.6	92.1	117.3	141.9	69.7	76.0
Required Fund Balance	20.0	20.0	20.0	20.0	20.0	20.0
Debt Service Coverage Ratio [2]	2.5	2.4	2.3	2.3	2.2	2.1

[1] PA 97-309 requires the treasurer to use any annual balance in the Transportation Fund above \$20 million to reduce future special tax obligation debt service. SB 1128 provides the additional option of depositing the excess into the Infrastructure Improvement Fund in lieu of bond proceeds so the funds could be used on a "pay as you go" cash basis for projects financed through the fund. This option would reduce Special Tax Obligation (STO) debt service by avoiding the issuance of debt. The governor's out-year projections for debt service assume that no use of the surplus will be made until a minimum of \$100 million in excess of the \$20 million minimum balance has accumulated. The projections further assume that in FY 03 the treasurer will use \$100 million from the surplus to replace the planned September 2002 issuance of STO bonds. This would result in debt service savings of \$7.7 million in FY 03 and \$8.9 million in FY 04.

[2] The state is required by the bond indenture to provide revenues in each fiscal year equal to two times the debt service on STO bonds. Our projections indicate that the amount by which the state would exceed this requirement declines from \$157.1 million in FY 99 to \$72.1 million in FY 04.