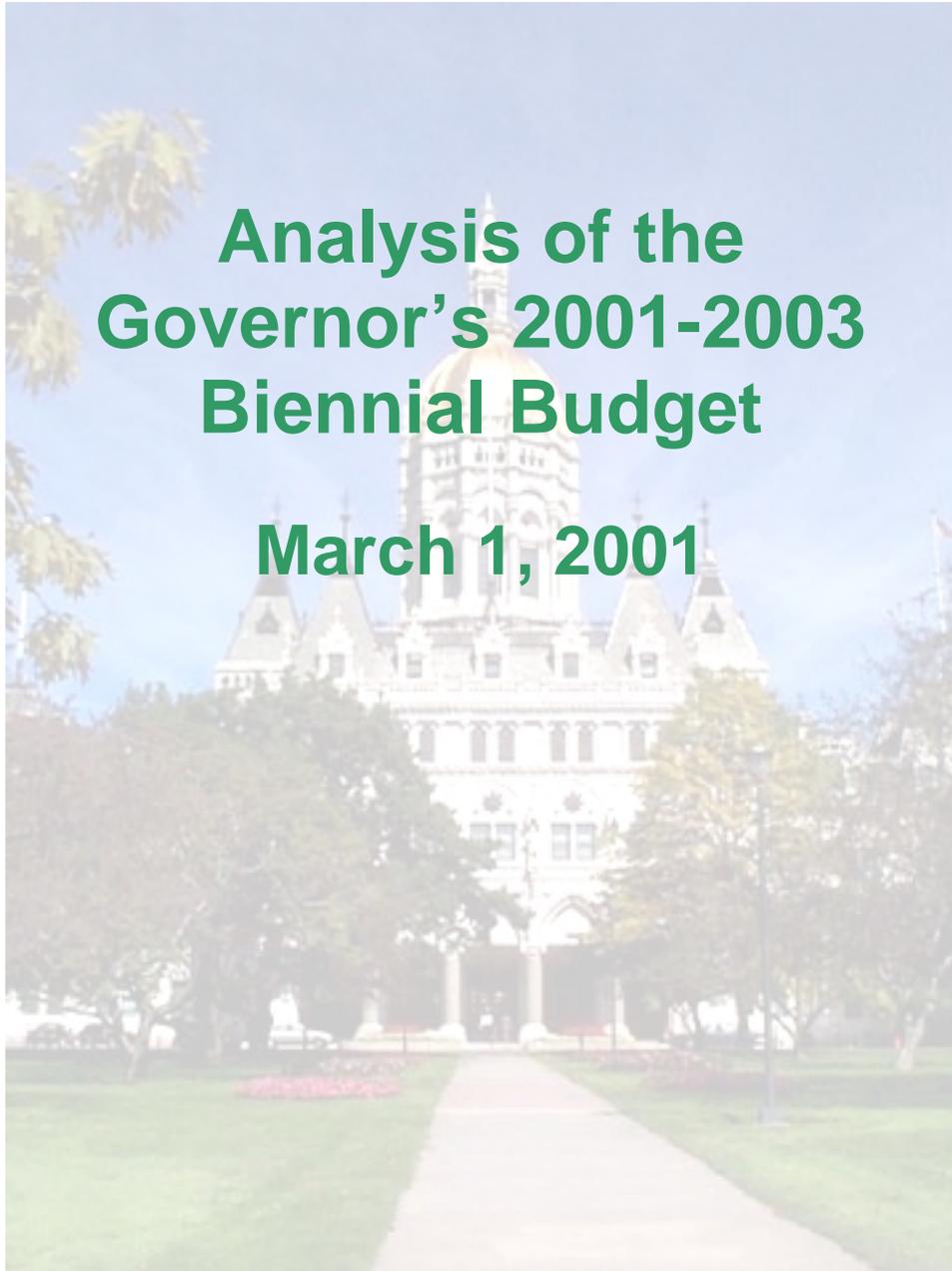


**Connecticut General Assembly**  
**OFFICE OF FISCAL ANALYSIS**

**Analysis of the  
Governor's 2001-2003  
Biennial Budget**

**March 1, 2001**



## **Highlights of the OFA Analysis of the Governor's 2001-2003 Budget:**

### **Revenues:**

OFA estimates of revenues are based on the following economic conditions:

- Connecticut's economy will slow, but not fall into a recession
- Employers will continue to recruit in a tight labor market pressuring wages
- Major construction projects by Pfizer, The Mohegan Tribe, Swiss Bank and at Andriaen's Landing will add jobs over the next two years and help offset losses in manufacturing and insurance
- Sales of new and existing homes especially in Fairfield and New London Counties will be strong over the next two years
- However, lower stock prices will have a negative effect on Personal Income Taxes, Inheritance and Estate Taxes.

<b>OFA Revenue Estimates:</b>				
<b>General Fund:</b>		<b>Transportation Fund:</b>		
FY 02	\$11,893,200		FY 02	\$876,800
FY 03	\$12,465,700		FY 03	\$884,600

These estimates do not differ materially from those of the Governor.

Revenues are adequate to cover the proposed expenditures in the biennium. However revenues may be insufficient to cover the estimated general fund budget in FY 04 and FY05.

### **Adjusted Growth Rates:**

The OFA calculation of the growth rate of the budget for all appropriated funds in FY 02 and FY 03 is 4.2% and 4.3%. This growth rate is calculated on all increases over the prior year and should not be confused with the spending cap limitations. The portion of the budget exempt from the spending cap is equal to about 21% of the budget and its growth rate is 6.3% in FY 02 and 2.74% in FY 03.

### **Grants to Towns and Education Funding:**

The governor's budget recommendations for statutory and other appropriated grants for FY 02 represent a \$24.7 million or 1.1% increase over estimated expenditures for FY 01 and for FY 03 represent a \$53.9 million or 2.4% increase over his recommendations for FY 02.

The governor's budget transfers \$25 million in FY 02 and \$50 million in FY 03 from the Mashantucket Pequot/Mohegan Fund to eliminate approximately one-third of the ECS cap in each year of the biennium, with the hope of fully eliminating the cap by FY 04. This change reduces funds to all towns under the Mashantucket Pequot/Mohegan grant and increases funds to towns that are capped under the ECS grant.

### **Use of Surplus:**

The Governor has proposed a distribution for the estimated FY 01 surplus that can be characterized as one-time expenses, potentially ongoing program expenses and ongoing expenditures.

One-time recommendations total \$447 million dollars. Some of the larger items include school construction, transportation congestion relief, technology and infrastructure to non-profits, transferring claims liabilities in workers' compensation, *part* of the energy contingency, residential underground storage tank clean-up, school wiring, acquisition of land and funding of the budget reserve fund.

OFA notes that \$36.2 million of surplus funds are designated for ongoing activities: higher education state matching grant funds, technology initiatives, demonstration scholarship program, minor capital improvements, the digital library, mosquito control, justice assistance grants, housing authorities, security, nutrition assistance as well as a disabilities outreach program.

Projects that are *potentially* ongoing total \$37.73 million includes: energy costs, litigation settlements, jobs funnel program, distance learning, work performance bonus, cost relating to Long Lane, a hospital outpatient data system, drug enforcement programs, and dental services for children.

### **The Budget:**

On [pages 17 - 18](#) OFA has outlined the major decreases in the general fund *current services* in FY 02 and FY 03 of \$454.0 million and \$591.7 million. [Pages 19 - 20](#) delineate the Governor's recommended major increases in *current services* funding of \$163.0 million and \$240.7 million in the two fiscal years. New and expanded programs include a centralized voter system, helicopter operation, assisted living, enhanced community services in the department of mental health and addiction services, nursing home oversight, funding of educational cost sharing, expanded school choice programs, expanded KidCare, juvenile justice beds, expanded ChildServ, pickup for federal grants and financing for workers' compensation and the core financial systems.

The Governor alters funding mechanisms by intercepting revenue or providing payment outside an appropriated account in the following areas. He eliminates funding for CTN

and assesses the cable TV companies. He implements a tax credit exchange as a refund of taxes, transfers emergency spill response activities to petroleum gross earnings tax revenues, funds school based health through federal reimbursements, shifts funding to SSBG/TANF block grants, funds energy and workers' compensation claims through another mechanism. The total of all of these changes is \$88 million dollars in each of the fiscal years.

### **Spending Cap Calculations:**

The Governor's proposed budget is \$12,889.9 million for FY 02 and \$13,446.5 million for FY 03. The Governor indicates that the proposed budget is under the cap by \$91.5 million and \$80.7million in the two fiscal years respectively.

While the proposed biennial budget *appears* to be under the cap in each year a number of budgetary changes have been made that may require adjustment. These fall into distinct areas: funding ongoing programs with surplus funds, altering funding mechanisms to shift items off-budget with no adjustment made to the base, treating certain post 1991 grants as pre 1991 grants thus making them subject to cap exclusions as grants to distressed municipalities and the treatment of the deficiency appropriations.

### **The Out Years:**

The Governor and OFA estimates of the expenditures and the revenues in FY 04, FY 05 and FY 06 substantially agree. Both indicate a potential shortfall in revenue to match expenditures. OFA and OPM used slightly different assumptions in deriving their estimates, but each recognize the slowing economy and the potential for decreased revenues in personal income tax.

### **Transportation Fund:**

Policy changes indicated in the budget include vision screening requirements for those age 69 or older, six year drivers license renewal, changes in the emissions and safety inspection programs and the funding source for ferry services. Town road aid is level funded. A major investment is made through the use of surplus to fund a transportation strategy that will mitigate congestion and invest in transportation strategies as recommended by the Transportation Strategy Board.

In FY 05 and FY 06, revenue shortfalls are forecast in the transportation fund.

### **Bonding:**

The Governor's recommended bond authorizations for the biennium are \$1,442.6 million and \$1,468.4 million in FY 02 and FY03. In addition the Governor proposes that \$292.5 million of the surplus be used for school construction, avoidance of debt and programmatic uses in the following areas: residential underground storage tank removal, the core financial system, the selling of workers' compensation claims and the funding of a transportation strategy.

The impact of using surplus for bonding has been to reduce the growth rate for debt service in the general fund.

## ADDITIONAL DOCUMENTS

For more detailed information, the following related documents can be found on the [OFA website](#):

- 1). **“FY 2001 – 2003 Agency Budget Comparisons in Detail”**;
- 2). **“Grants to Towns”**;
- 3). **An updated “Major Items in Governor’s Proposed Budget”**

## Revenues

### Summary

The overall differences between OFA and the governor's General Fund estimates are insignificant and are well within the margin of error for revenue estimation. However, some of our assumptions used to arrive at certain estimates are different when compared to the governor's. The primary differences are in the area of estimating Personal Income Tax, especially non-withheld (estimates and final payments) revenue, as well as the Sales and Use Tax, Corporations Tax and Refunds of Taxes.

Fiscal Year	Total General Fund Revenues		
	Gov's Estimate	OFA Estimate	Difference
			(\$ - Thousands)
FY 02	\$11,858,200	\$11,893,200	\$35,000
FY 03	\$12,400,300	\$12,465,700	\$65,400

OFA's estimates are based on the following economic conditions over the next two years.

- Connecticut's economy will slow in but will not fall into a recession.
- Unemployment will remain low, which will place additional pressure on wages especially in sectors with labor shortages (nursing, healthcare, teaching, engineering).
- Major construction projects by Pfizer, The Mohegan Tribe (The Mohegan Sun), UBS AG (Swiss Bank), and the State of Connecticut (Adriaen's Landing) will add jobs over the next two years and help offset losses in the manufacturing and insurance sectors.
- The sales of new and existing homes, especially in Fairfield and New London Counties, will be strong over the next two years.
- Lower stock prices will have a negative affect on Personal Income Taxes (discussed in more detail below) and Inheritance and Estate Taxes.

### Personal Income Taxes

#### Non-withheld Taxes

Total revenue from non-withheld income sources is anticipated to be lower by \$64.0 million in FY 02 compared to FY 01. This decrease explains the majority of the \$78.6 million difference between our estimate and the governor's. That difference narrows in FY 03 to \$21.3 million because of our higher growth rate in FY 03.

Fiscal Year	Personal Income Tax		
	Gov's Estimate	OFA Estimate	Difference
			(\$ - Thousands)
FY 02	\$4,876,600	\$4,798,000	(\$78,600)
FY 03	\$5,110,300	\$5,089,000	(\$21,300)

OFA estimates that taxes from non-withheld income will decline by 4.2% in FY 02 and increase by 4.8% in FY 03. The governor estimates that non-withheld income will be flat in FY 02 and increase by 2.0% in FY 03. The difference between our growth rates and the governor's is due to our forecast that capital gains (approximately 40% of non-withheld taxes) will decline by 25% in 2001 and be flat in 2002 and non-capital gain income sources (approximately 60% of non-withheld taxes) will grow near their historic levels of 8.0% each year. These assumptions yield a net decline in non-withheld income in FY 02 and an increase in FY 03.

We have forecasted a decline of 25% in capital gains in 2001 for the following reasons:

1. After stock values rose approximately three fold between 1994 and 2000 values dropped significantly from their peaks of early 2000.
2. The declining market caused many investors to "cash in" on their gains and realize a greater amount of gains over what they would have otherwise realized if stock prices had remained strong. Therefore, values of stock transactions in 2001 are anticipated to be lower compared to 2000.
3. Corporate profits in many sectors, which in turn affect stock prices, are expected to be weaker in 2001.
4. Based on a model developed by ECONOMY.COM using stock prices, stock trading values, and average holding periods, Connecticut is predicted to see a reduction in taxable capital gains of 45% in the 2001 income year and an additional 11% reduction in the 2002 income year. While we believe the model captures the direction of taxable realizations in 2001 verses 2000 (a sharp decrease), we do not believe that it fully accounts for the large accumulated level of unrealized gains that are still likely to be realized in 2001. Thus we think the decrease will be more in the 25% area rather than the models 45%.

### Withholding Taxes

OFA estimates that withholding taxes will grow by 6.5% in FY 02 and 7.0% in FY 03 compared to the governor's estimate of 7.0% in FY 02 and 6.5% in FY 03. These differences result in OFA's estimate being approximately \$15 million lower than the governor's estimate in FY 02 but in FY 03 the difference is negated as a result of our higher growth rate in FY 03. The difference is based on a slower national economy with real G.D.P. growth slowing to around 2.5% in 2001 and then picking up in 2002 and 2003 to around 3.0%. These G.D.P. forecasts are based on the ECONOMY.COM's forecast model and are similar to the forecasts of the Congressional Budget Office (CBO). The Connecticut economy is expected to slow in a similar manner with slower job and real personal income growth in 2001 and picking up in 2002 and 2003.

### **Other Revenue Categories**

The differences between OFA and the governor for the other revenue categories are not significant and within the margin of error of estimates for each item.

**Comparison of OFA and Governor's Estimates  
Including Previously Enacted and Proposed Revenue Changes  
(\$'s in thousands)**

	FY 02			FY 03		
	OFA Estimate	Governor's Estimate	Over/Under Governor	OFA Estimate	Governor's Estimate	Over/Under Governor
<b>Taxes</b>						
Personal Income	\$4,798,000	\$4,876,600	(\$78,600)	\$5,089,000	\$5,110,300	(\$21,300)
Sales and Use	3,208,500	3,178,300	30,200	3,337,000	3,303,700	33,300
Corporations	556,100	530,700	25,400	588,700	562,700	26,000
Inheritance and Estate	210,000	210,000	0	202,000	202,000	0
Public Service Corporations	164,100	165,600	(1,500)	164,100	167,400	(3,300)
Insurance Companies	209,900	209,700	200	216,600	213,700	2,900
Cigarettes	117,200	116,600	600	114,300	114,300	0
Oil Companies	44,400	36,900	7,500	46,400	32,200	14,200
Real Estate Conveyance	109,500	105,000	4,500	110,600	105,000	5,600
Alcoholic Beverages	41,000	41,800	(800)	41,000	42,200	(1,200)
Miscellaneous	43,900	39,500	4,400	44,300	36,600	7,700
Admissions, Dues and Cabaret	23,300	24,700	(1,400)	23,800	26,900	(3,100)
<b>Total Taxes</b>	<b>\$9,525,900</b>	<b>\$9,535,400</b>	<b>(\$9,500)</b>	<b>\$9,977,800</b>	<b>\$9,917,000</b>	<b>\$60,800</b>
<b>Refunds of Taxes</b>	<b>(\$813,300)</b>	<b>(\$845,900)</b>	<b>\$32,600</b>	<b>(\$845,200)</b>	<b>(\$868,100)</b>	<b>\$22,900</b>
<b>Net General Fund Taxes</b>	<b>\$8,712,600</b>	<b>\$8,689,500</b>	<b>\$23,100</b>	<b>\$9,132,600</b>	<b>\$9,048,900</b>	<b>\$83,700</b>
<b>Other Revenue</b>						
Transfer Special Revenue	\$262,300	\$265,200	(\$2,900)	\$264,100	\$270,500	(\$6,400)
Indian Gaming Payments	360,000	351,800	8,200	370,000	369,400	600
Licenses, Permits and Fees	126,500	126,500	0	124,500	124,500	0
Sales of Commodities and Services	18,200	18,200	0	18,200	18,200	0
Rentals, Fines and Escheats	44,700	44,700	0	45,300	45,300	0
Investment Income	62,700	62,700	0	61,200	61,200	0
Miscellaneous	127,900	127,900	0	136,200	136,200	0
<b>Total Other Revenue</b>	<b>\$1,002,300</b>	<b>\$997,000</b>	<b>\$5,300</b>	<b>\$1,019,500</b>	<b>\$1,025,300</b>	<b>(\$5,800)</b>
<b>Refunds of Payments</b>	<b>(\$500)</b>	<b>(\$500)</b>	<b>\$0</b>	<b>(\$500)</b>	<b>(\$500)</b>	<b>\$0</b>
<b>Net Other Revenue</b>	<b>\$1,001,800</b>	<b>\$996,500</b>	<b>\$5,300</b>	<b>\$1,019,000</b>	<b>\$1,024,800</b>	<b>(\$5,800)</b>
<b>Other Sources</b>						
Federal Grants	\$2,167,000	\$2,160,400	\$6,600	\$2,276,000	\$2,288,500	(\$12,500)
Transfer from Tobacco Settlement Fund	121,800	121,800	0	123,100	123,100	0
To Other Funds	(110,000)	(110,000)	0	(85,000)	(85,000)	0
<b>Total Other Sources</b>	<b>\$2,178,800</b>	<b>\$2,172,200</b>	<b>\$6,600</b>	<b>\$2,314,100</b>	<b>\$2,326,600</b>	<b>(\$12,500)</b>
<b>Total Revenue</b>	<b>\$11,893,200</b>	<b>\$11,858,200</b>	<b>\$35,000</b>	<b>\$12,465,700</b>	<b>\$12,400,300</b>	<b>\$65,400</b>

## Budget Growth Rates

Growth Rates		
All Appropriated Funds	FY 02	FY 03
Governor's Recommended Budget	3.6%	4.3%
OFA (including adjustments)	4.2%	4.3%

Reasons for difference:

1. Net dollar difference in FY 01 estimated expenditures: OFA is \$35.3 million higher.

This difference is due to the fact that OFA includes certain items funded from prior year surpluses, such as pre-funded Medicaid capitation payments and higher education endowment match, which represent on-going costs.

2. Net dollar difference in the FY 02 and FY 03 projected budgets: OFA is \$104.7 million and \$101.7 million higher, respectively.

This higher level is primarily the result of adjusting for various items to be funded through use of the FY 01 projected surplus for on-going costs and for those items which are being funded by other mechanisms than appropriated funds. (See separate sections on altered funding mechanisms on [page 23](#) and on the use of surplus for on-going costs on [page 26](#).)

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

3. The arithmetic growth rates shown on the following page are not to be confused with the growth rate allowed under the spending cap. The arithmetic growth rate is based on increases over the prior fiscal year. The growth rate that is currently used in calculating the spending cap is the five year average growth in personal income in Connecticut. For FY 02 that rate is 5.33%; for FY 03, it is 5.53%. However, that rate is applied only to the capped portion of the budget (not to the exempt portion that includes debt service and grants to distressed municipalities). The exempt portion is equal to about 21% of the budget in each fiscal year. It grows by 6.27% in FY 02 and by 2.74% in FY 03.

While the growth allowed by the cap is greater than the recommended budget's growth, this difference is due to the fact that the governor's recommended budget level is below the cap by \$91.5 million in FY 02 and by \$80.7 million in FY 03. However, if the various uses of surplus for ongoing costs and for the altered funding mechanisms were not used, the budget would be over the cap by about \$48.0 million in FY 02, but under it by \$89.4 million in FY 03 (since the higher budget amount in FY 02 would increase the base for the cap calculation for FY 03).

Another factor regarding the level of the budget allowed by the cap in FY 02 relates to the deficiency appropriation amount in FY 01. Due to the cap, the governor has proposed additional appropriations of \$55.6 million in FY 01, while the total deficiency need is closer to \$120 million. If the cap were allowed to be exceeded in FY 01 in order to fully fund the deficiency needs (which are ongoing operating costs primarily), there would be further room under the cap in FY 02 since the base for FY 01 would be higher by about \$64.4 million.

## FY 02 and FY 03 Budget Growth Rates (Based on OFA Adjustments)

	FY 01 OFA Est. Expend. [1]	FY 02 Gov. Rec.	Amount of Change	Percent Change (Adjusted)	FY 02 Gov. Rec.	FY 03 Gov. Rec.	Amount of Change	Percent Change (Adjusted)
<b>General Fund</b>								
Base	\$ 11,397.5	\$ 11,858.0			\$ 11,858.0	\$ 12,400.1	\$ 542.1	
Adjustments [2]	56.8	73.2			73.2	45.2	(28.0)	
<b>Subtotal [5]</b>	<b>\$ 11,454.3</b>	<b>\$ 11,931.2</b>	<b>\$ 476.9</b>	<b>4.2%</b>	<b>\$ 11,931.2</b>	<b>\$ 12,445.3</b>	<b>\$ 514.1</b>	<b>4.3%</b>
<b>Transportation Fund</b>								
Base	\$ 814.5	\$ 840.8			\$ 840.8	\$ 877.3	\$ 36.5	
Adjustments [3]	0.0	6.1			6.1	6.1	0.0	
<b>Subtotal</b>	<b>\$ 814.5</b>	<b>\$ 846.9</b>	<b>\$ 32.4</b>	<b>4.0%</b>	<b>\$ 846.9</b>	<b>\$ 883.4</b>	<b>\$ 36.5</b>	<b>4.3%</b>
<b>Other Appropriated Funds [4]</b>								
Base	\$ 206.9	\$ 191.2			\$ 191.2	\$ 169.1	(22.1)	
Adjustments [5]	0.0	25.4			25.4	50.4	25.0	
<b>Subtotal</b>	<b>\$ 206.9</b>	<b>\$ 216.6</b>	<b>\$ 9.7</b>	<b>4.7%</b>	<b>\$ 216.6</b>	<b>\$ 219.5</b>	<b>\$ 2.9</b>	<b>1.3%</b>
<b>Total [6]</b>	<b>\$ 12,475.7</b>	<b>\$ 12,994.7</b>	<b>\$ 519.0</b>	<b>4.2%</b>	<b>\$ 12,994.7</b>	<b>\$ 13,548.2</b>	<b>\$ 553.5</b>	<b>4.3%</b>

[1] General Fund and Transportation Fund estimates are as of February 5, 2001. These estimates exclude expenditures from carry forward balances (use of surplus, etc.).

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

	FY 01 Estimated	FY 02 Gov. Rec.	FY 03 Gov. Rec.
(a) Pre-fund higher education endowment match from surplus	7.7	10.4	10.6
(b) Department of Education library books from the FY 99 surplus	3.1	-	-
(c) Department of Social Services - pre-fund Medicaid capitation payments (equal to one-month's cost) from the FY 99 surplus	35.9	-	-
(d) Transfer of General Fund costs to other funds or off-budget for:			
Equipment purchases to Capital Equipment Purchase Fund (bond funds); compared to the FY 01 level of \$21.0 million	-	-	(4.0)
Move various tourism programs off budget and fund from increased Tourism Fund collections	0.1	1.0	1.0
Refunds of Payments - no longer appropriate funds, but charge directly to revenue	-	0.5	0.5
Tax Credit Exchange - to be implemented as a charge against revenue (through the Refunds of Taxes line on the revenue schedule) rather than as an appropriation item, as had been shown in the current services budget request	-	14.0	14.0
Casino regulation - allow use of recoveries by agencies; net fund the agencies	-	1.0	1.1
Department of Environmental Protection - Emergency Spill Response - move off budget	-	7.8	8.0
Department of Consumer Protection - Lemon Law enforcement - move off budget	-	0.2	0.2
Legislative Management - Connecticut Television Network (CTN) - Move off-budget and fund with an assessment on cable TV companies	-	1.8	1.6

	FY 01 Estimated	FY 02 Gov. Rec.	FY 03 Gov. Rec.
Department of Labor - Jobs First Program - provide a portion of funding from carry forward funds from other agencies and accounts	-	1.0	1.0
Energy Costs - A portion of these current costs are to be funded with an appropriation from the projected FY 01 surplus	-	10.3	10.9
Department of Social Services - Fund School Based Child Health off-budget by sending federal funds directly to the towns rather than making payments from a General Fund appropriation	-	14.3	14.3
Department of Social Services - Reduced Medicaid appropriation to reflect the elimination of a "duplicate" appropriation for Riverview Hospital operated by the Department of Children and Families. (This adjustment is included here since the FY 01 estimated expenditure includes the "duplicate" payment.)	-	17.5	18.0
Department of Social Services - Shifting of additional program funding to the SSBG/TANF block grants due to federal upward revision of allowable transfers from 4.25% to 10.0% of the block grants	-	3.2	3.2
Various uses of FY 01 Projected Surplus for On-Going Purposes - Of the 56 proposed uses, 16 are considered to be of an on-going nature; (8 others could be of a potentially on-going nature, but have been excluded from this adjustment).	-	15.1	14.9
Military Department - funding for the Radiological Instrument Maintenance program is moved to the Nuclear Emergency Preparedness Fund	-	0.1	0.1
(e) Transfers to the General Fund of costs previously paid by other funds:			
Reallocate Grants to Towns funding to the ECS grant	-	(25.0)	(50.0)
Judicial Department - transfer costs previously paid by the Criminal Injuries Compensation Fund	-	(0.4)	(0.4)
Various agencies - pick up costs previously supported by federal funds	-	(2.4)	(2.6)
(f) Reserve for Salary Adjustments - funding is provided from the FY 99 carry-forward in FY 01 and from FY 01 surplus	10.0	2.8	2.8
<b>Total General Fund</b>	<b>\$ 56.8</b>	<b>\$ 73.2</b>	<b>\$ 45.2</b>

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

	FY 01 Estimated	FY 02 Gov. Rec.	FY 03 Gov. Rec.
<b>Transfer of Transportation Fund costs off-budget for:</b>			
(a) Refunds of Payments - no longer appropriate funds, but charge directly to revenue	-	2.8	2.8
Ferry Service - move off-budget and fund from increased Tourism Fund collections	0.0	0.5	0.5
Energy Costs - A portion of these costs are to be funded with an appropriation from the projected FY 01 General Fund surplus	0.0	2.8	2.8
<b>Total Transportation Fund</b>	<b>\$ -</b>	<b>\$ 6.1</b>	<b>\$ 6.1</b>

[4] 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.

[5] Other Funds

Mashantucket Pequot / Mohegan Fund - Reallocate Grants to Towns funding to the ECS grant	0.0	25.0	50.0
Criminal Injuries Compensation Fund - transfer costs to the Judicial Department	0.0	0.4	0.4
<b>Total Other Funds</b>	<b>0.0</b>	<b>25.4</b>	<b>50.4</b>

## Governor's Significant Policy Changes Concerning Grants to Towns

The following information is a summary of the governor's significant policy changes concerning grants to towns (please also see our website at <http://cgalites/ofa/> for a town by town distribution of statutory formula grants):

- The governor's budget recommendations for statutory and other appropriated grants for FY 02 represent a \$24.7 million or 1.1% increase over estimated expenditures for FY 01 and for FY 03 represent a \$53.9 million or 2.4% increase over his recommendations for FY 02.

Statutory and Other Appropriated Grants to Towns (\$ in Millions)						
FY 01 Est. Exp.	FY 02 Gov. Rec.	\$ Change Over FY 01	% Change Over FY 01	FY 03 Gov. Rec.	\$ Change Over FY 02	% Change Over FY 02
\$2,202.6	\$2,227.3	\$24.7	1.1%	\$2,281.2	\$53.9	2.4%

- The governor's budget transfers \$25 million in FY 02 and \$50 million in FY 03 from the Mashantucket Pequot/Mohegan Fund to eliminate approximately one-third of the ECS cap in each year of the biennium, with the hope of fully eliminating the cap by FY 04. This change reduces funds to all towns under the Mashantucket Pequot/Mohegan grant and increases funds to towns that are capped under the ECS grant.
- The governor's budget funds both the payments-in-lieu-of taxes programs for state-owned property and colleges and hospitals at FY 01 levels with no increase during the 2001-2003 biennium. The impact is summarized as follows:

	PILOT – State Property	PILOT – Colleges and Hospitals
(figures in millions)		
FY 01 Appropriation	\$63.8	\$97.2
FY 02 Current Services Level	\$70.6	\$106.1
FY 02 Governor's Recommendation	63.8	97.2
FY 02 Recommended Reduction	\$6.7	\$8.9
FY 02 Statutory Reimbursement Level	45.0%	77.0%
FY 02 Pro Rata Reimbursement Level	41.0%	71.0%
FY 03 Current Services Level	\$74.3	\$107.6
FY 03 Governor's Recommendation	63.8	97.2
FY 03 Recommended Reduction	\$10.5	\$10.4
FY 03 Statutory Reimbursement Level	45.0%	77.0%
FY 03 Pro Rata Reimbursement Level	39.0%	70.0%

- The governor's decrease of \$8.3 million in FY 02 and \$14.3 million in FY 03 from current services for the PILOT-New Manufacturing Machinery and Equipment grant results from: 1) decreasing the reimbursement level from 100% to 80% for new items being added to the program and 2) repealing the expansion of the program to trucks weighing 55,000 lbs. or more. Regarding the percentage reduction, the towns would abate the tax for 5 years and the loss of 20% would be considered a local share.
- The governor's budget eliminates funding for the low and moderate rental housing Tax Abatement grant (\$2.2 million) and the Payment in Lieu of Taxes grant (\$2.9 million) within the Department of Economic and Community Development.
- The governor recommends \$2,404.7 million in FY 02 and \$2,470.5 million in FY 03 for all appropriated grants to towns (excluding surplus). 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 governor has recommended funding Teachers' Retirement Contributions (normal cost and unfunded liability) at 100% in both years of the biennium as required by statute. This account has been funded at 85% since FY 94. Although \$214.7 million was required to fund this account in FY 01, only \$210.7 million will be required in FY 02 to fund the account at 100%, because of strong investment earnings that have been generated in the Teachers' Retirement Fund. As a policy change for the 2001-2003 biennium, the governor has recommended paying Teachers' Retirement Contributions at the beginning of the fiscal year instead of quarterly. The governor indicates that this will increase the interest earnings of the pension fund and will reduce the funding requirement by \$6.2 million in FY 02 and \$6.5 million in FY 03. Based on lower investment return assumptions utilized by OFA, the Teachers' Retirement Contributions account may experience shortfalls of \$2.2 million in FY 02 and \$2.4 million in FY 03. Also, the governor recommends that funding for the Retirees Health Service Cost increase by \$1.3 million in each year from \$5.4 million in FY 01 to \$6.7 million in FY 02 and \$8 million in FY 03. In FY 02, the governor recommends that the Municipal Retiree Health Insurance Cost be funded at the FY 01 level of \$5.3 million and increase by \$0.3 million to \$5.6 million for FY 03 over the FY 02 level. The changes associated with the Teachers' Retirement Contribution account are detailed below:

<b>Teachers' Retirement Contributions</b>			
<b>(figures in millions)</b>			
	<b>FY 01</b>	<b>FY 02</b>	<b>FY 03</b>
Estimated/Gross Recommended	\$214.7	\$210.7	\$221.2
% Funding Level	85.0%	100.0%	100.0%
Savings from Paying at beginning of Year per Governor	-	(6.2)	(6.5)
Net Recommended	-	\$204.5	\$214.7
Potential Shortfall based on Interest Rate Assumptions	-	\$(2.2)	\$(2.4)

**Grant Payments to Towns for FY 02 and FY 03**  
(in millions)

	FY 01 Est. Exp.	FY 02 Gov. Rec.	\$ Change Over FY 01	% Change Over FY 01	FY 03 Gov. Rec.	\$ Change Over FY 02	% Change Over FY 02
<b>A. Statutory and Other Appropriated Grants</b>							
<u><b>Statutory</b></u>							
Town Aid Road Fund Grant	\$ 35.0	\$ 35.0	\$ 0.0	0.0%	\$ 35.0	\$ 0.0	0.0%
Public School Pupil Transportation	46.1	47.5	1.4	3.0%	50.0	2.5	5.3%
Non-Public School Pupil Transportation	4.6	5.0	0.4	8.7%	5.3	0.3	6.0%
Adult Education	16.9	18.2	1.3	7.7%	19.1	0.9	4.9%
Education Cost Sharing Grant	1,385.5	1,453.0	67.5	4.9%	1,511.5	58.5	4.0%
PILOT: State Owned Property	63.8	63.8	0.0	0.0%	63.8	0.0	0.0%
PILOT: Colleges & Hospitals	97.2	97.2	0.0	0.0%	97.2	0.0	0.0%
Mashantucket Pequot and Mohegan Fund Grant	127.4	110.0	(17.4)	-13.7%	85.0	(25.0)	-22.7%
Local Capital Improvement (LoCIP) Program	30.0	30.0	0.0	0.0%	30.0	0.0	0.0%
Miscellaneous Statutory Grants	30.8	30.7	(0.1)	-0.3%	30.7	0.0	0.0%
<b>Total - Statutory Grants [1]</b>	<b>\$ 1,837.3</b>	<b>\$ 1,890.4</b>	<b>\$ 53.1</b>	<b>2.9%</b>	<b>\$ 1,927.6</b>	<b>\$ 37.2</b>	<b>2.0%</b>
<u><b>Other Appropriated Grants</b></u>							
Property Tax Relief - Elderly Freeze Program	\$ 3.6	\$ 2.5	\$ (1.1)	-30.6%	\$ 1.8	\$ (0.7)	-28.0%
PILOT - New Manufacturing Equipment	76.6	73.7	(2.9)	-3.8%	73.5	(0.2)	-0.3%
Tax Abatement - Low & Moderate Rental Housing Projects	2.2	0.0	(2.2)	-100.0%	0.0	0.0	-
Payment in Lieu of Taxes - Moderate Rental Housing Projects	2.9	0.0	(2.9)	-100.0%	0.0	0.0	-
School Based Child Health	9.3	0.0	(9.3)	-100.0%	0.0	0.0	-
Priority School District Changes:							
Priority School Districts	20.1	83.1	63.0	313.4%	83.1	0.0	0.0%
Early Childhood (School Readiness) [2]	42.1	2.8	(39.3)	-93.3%	2.8	0.0	0.0%
Extended School Hours & Support Programs	3.2	0.0	(3.2)	-100.0%	0.0	0.0	-
Early Reading Success	20.4	2.2	(18.2)	-89.2%	2.2	0.0	0.0%
School Accountability [3]	3.7	0.0	(3.7)	-100.0%	0.0	0.0	-
Total - Priority School District Changes	89.5	88.1	(1.4)	-1.6%	88.1	0.0	0.0%
Excess Cost - Student Based	57.5	59.5	2.0	3.5%	62.0	2.5	4.2%
Excess Cost - Equity	11.5	5.8	(5.7)	-49.6%	5.8	0.0	0.0%
Student Achievement Grant	1.5	0.0	(1.5)	-100.0%	0.0	0.0	-
OPEN Choice Program	6.6	7.1	0.5	7.6%	8.7	1.6	22.5%
Transitional School Districts	2.5	0.0	(2.5)	-100.0%	0.0	0.0	-
Magnet Schools [3]	34.7	33.3	(1.4)	-4.0%	45.2	11.9	35.7%
Others	66.9	66.9	0.0	0.0%	68.5	1.6	2.4%
<b>Total - Other Appropriated Grants</b>	<b>\$ 365.3</b>	<b>\$ 336.9</b>	<b>\$ (28.4)</b>	<b>-7.8%</b>	<b>\$ 353.6</b>	<b>\$ 16.7</b>	<b>5.0%</b>
<b>Total - Statutory and Other Appropriated Grants [4]</b>	<b>\$ 2,202.6</b>	<b>\$ 2,227.3</b>	<b>\$ 24.7</b>	<b>1.1%</b>	<b>\$ 2,281.2</b>	<b>\$ 53.9</b>	<b>2.4%</b>

<b>B. Surplus Appropriations [5]</b>	<b>FY 00</b>	<b>FY 01</b>
One-Time Surplus Revenue Sharing	\$ 34.0	\$ 0.0
School Wiring	20.0	10.0
School Construction	296.9	120.0
Teacher Training	2.5	5.0
ECS-Hartford Supplemental Aid	5.7	0.0
Statewide Digital Library	2.0	4.0
<b>Total - Surplus Appropriations</b>	<b>\$ 361.1</b>	<b>\$ 139.0</b>

[1] Please also see our website at <http://cgalites/ofa/> for a town by town distribution of statutory formula grants.

[2] FY 01 estimated expenditures for Early Childhood, which is actually an Other Current Expense account rather than a Grant Payment to Towns, are shown (1) because payments are made to towns from this program and (2) so that the expenditure base is adjusted on a comparable basis to reflect the transfer of \$37.3 million to Priority School Districts beginning in FY 02. The FY 01 estimated expenditure for Early Childhood includes \$2 million from the Department of Social Services' Child Day Care Centers account, which is transferred to the state Department of Education for payments to towns. Funding for this program is eliminated in the governor's FY 02 and FY 03 recommendations.

[3] The FY 01 level is higher due to the use of FY 00 surplus.

[4] FY 01 estimated expenditures reflect original plus any surplus appropriations, but exclude carry forwards and any other transfers. Our listing of appropriated Grant Payments to Towns is different from the governor's in that it includes the Early Childhood program and excludes all of the Teachers' Retirement Board payments on behalf of teachers.

[5] Surplus may be authorized to be expended for one or two years after the year in which the appropriation is made.

## Expenditure Levels

In presenting his budget recommendations for the General Fund, the governor proposed an expenditure level that is \$419 million below the current services budget projections for FY 02, and \$525.3 million below projections for FY 03. (See table below.)

	<b>FY 02</b>	<b>FY 03</b>
<b>General Fund Expenditures</b>	<b>(in millions)</b>	
Net Current Services Projection	\$12,277.0	\$12,925.4
Governor's Recommended	<u>11,858.0</u>	<u>12,400.1</u>
Net Reductions to Current Services	\$ (419.0)	\$ (525.3)
Percentage Reduction	(3.4%)	(4.1%)

A listing of the major spending changes will be found starting on [page 17](#).

**Major Decreases in General Fund Current Services  
(Reductions of \$1 Million or More)**

	<u>FY 02</u>	<u>FY 03</u>
<b>Office of Policy and Management</b>		
Reduce New Manufacturing Machinery and Equipment Grant State Contribution to 80% for New Participants in the Program and Repeal 55,000 Pound Truck Exemption.	-8,300,000	-14,300,000
<b>Department of Public Safety</b>		
Continue FY 2001 Allotment Recision related to Fleet Purchase	-1,700,000	-1,700,000
<b>Department of Labor</b>		
Eliminate Funding for Community Employment Incentive Program	-2,633,071	-2,633,071
<b>Department of Economic and Community Development</b>		
Eliminate Payment in Lieu of Taxes Grant	-2,900,000	-2,900,000
Eliminate Tax Abatement Grant	-2,243,276	-2,243,276
Revised Schedule in Assisted Living Demonstration Program Construction	-1,731,690	-200,551
<b>Total</b>	<b>-6,874,966</b>	<b>-5,343,827</b>
<b>Department of Public Health</b>		
Reduce Grants to Community Health Centers to Reflect Federally Mandated Reimbursement from the Department of Social Services	-1,307,061	-1,307,061
<b>Department of Mental Health and Addiction Services</b>		
Reduce Funding General Assistance Managed Care to Reflect Changes in Eligibility	-4,000,000	-4,000,000
Eliminate the Pre-Trial Alcohol Education Program	-1,226,321	-1,226,321
Eliminate the Pre-Trial Drug Education Program	-1,148,352	-1,148,352
Restructuring of the Provision of Laboratory Services in the General Assistance Behavioral Health Program	-1,000,000	-1,000,000
<b>Total</b>	<b>-7,374,673</b>	<b>-7,374,673</b>
<b>Department of Social Services</b>		
Restructure the Hospital Reimbursement System	-124,700,000	-141,610,000
Restructure the State Administered General Assistance Program	-11,930,000	-12,690,000
Limit Rate Increases for Long Term Care Facilities	-10,131,381	-18,481,360
Foster Self Sufficiency by Limiting Extensions to Two Six-Month Periods for the Majority of Temporary Family Assistance (TFA) Clients	-9,360,404	-11,638,761
Restructure the Pharmacy Program	-8,900,000	-12,600,000
Defer Cost-of-Living Adjustments for Clients on Public Assistance	-6,639,549	-11,836,856
Eliminate School Readiness Funding and Reallocate Funds to Maintain Child Care Provider Background Checks	-6,304,681	-5,804,681
Close Intake to the Child Care Certificate Program	-4,300,000	-14,500,000
Enhance Compliance with Employment Requirements for TFA Clients	-2,672,583	-3,953,911
Continue FY 2001 Allotment Recision related to Various Accounts	-2,608,243	-2,608,243
Eliminate Medicare Distinct Parts	-2,600,000	-2,700,000
Enhance Medicaid Recoveries	-2,500,000	-2,500,000
Reduce Child Support Disregard for TFA Clients from \$100 to \$50 Consistent with Federal Rules	-1,380,000	-1,700,000
Close Intake to the State-Funded Food Stamp Program for Non-Citizens	-900,000	-1,300,000
Provide \$2.5 Million for the Development of a Decision Support System from the FY 2001 Surplus	0	-9,750,000
Seek Federal Waiver Revising the Transfer of Asset Penalty Period to Begin at the Time of Medicaid Eligibility	0	-7,200,000
Restrict Certain Medical Rate Increases in Medicaid and SAGA	0	-5,130,000
<b>Total</b>	<b>-194,926,841</b>	<b>-266,003,812</b>

	<u>FY 02</u>	<u>FY 03</u>
<b>Department of Education</b>		
Reduce the Excess Cost - Equity (Special Education) Grant	-5,750,000	-5,750,000
Eliminate the Transitional School Districts Grant	-2,500,000	-2,500,000
Eliminate the Student Achievement Grant	-1,500,000	-1,500,000
<b>Total</b>	<b>-9,750,000</b>	<b>-9,750,000</b>
<b>University of Connecticut</b>		
Reduce State Appropriations for Operating Expenses	-7,723,387	-8,074,760
<b>University of Connecticut Health Center</b>		
Reduce State Appropriations for Operating Expenses	-1,464,231	-5,076,536
<b>Teachers' Retirement Board</b>		
Modify Pension Payment Schedule	-6,189,961	-6,499,459
<b>Community - Technical Colleges</b>		
Reduce State Appropriations for Operating Expenses	-6,317,728	-5,865,029
<b>Connecticut State University</b>		
Reduce State Appropriations for Operating Expenses	-5,416,453	-6,540,394
<b>Judicial Department</b>		
Adjust Funding for Permanent Part-Time Positions	-4,379,923	-4,379,923
Adjust Sheriffs Transition Account	-1,320,300	-1,827,150
Eliminate Youth in Crisis Program	-1,040,749	-1,609,505
<b>Total</b>	<b>-6,740,972</b>	<b>-7,816,578</b>
<b>Debt Service - State Treasurer</b>		
Reduce Debt Service for Revised Interest Rates	-20,229,708	-20,020,085
<b>PILOT-State Property</b>		
Fund Payments to Towns for Loss of Taxes on State Property at Current Level	-4,612,984	-4,682,159
<b>PILOT-Private Tax Exempt Property</b>		
Fund Payments to Towns for Loss of Taxes on Private Tax Exempt Property at Current Level	-8,537,167	-9,769,770
<b>Mashantucket Pequot/Mohegan Grants to Towns</b>		
Reallocate Grants to Towns Funding to Educational Cost Sharing Grant	-25,000,000	-50,000,000
<b>Comptroller Miscellaneous - Fringe Benefits</b>		
Reduce State Appropriations for Operating Expenses in Higher Education	-6,943,000	-8,689,000
<b>Reduce Agency Personal Services</b>		
	-83,210,647	-96,812,220
<b>Transfer Equipment to CEPF</b>		
	-21,872,448	-17,355,634
<b>Reduce Inflation and Other Miscellaneous Reductions</b>		
	-16,846,421	-36,071,233
<b>Total - Above Items</b>	<b>-453,971,719</b>	<b>-591,685,301</b>

**Major Increases in General Fund Current Services  
(Greater than \$1 Million)**

The following increases reflect significant amounts required to continue existing programs or to fund projects that are becoming operational as a result of prior action of the General Assembly. Such costs may include increases due to: annualizing partial year expenses from program implementation in the prior year; cost and caseload changes; grant formula requirements; and the fiscal impact of new facilities becoming operational during the biennium.

	<u>FY 02</u>	<u>FY 03</u>
<b>Department of Information Technology</b>		
Fund Lease Costs for New Facility. The annualized increase in the lease over FY 01 is about \$2.1 million. DPW paid \$2.895 in FY 01 for 1/2 year. DOIT will pay about \$5 million per year beginning in FY 02 with a \$890,000 reimbursement by Judicial.	2,100,000	2,100,000
<b>Department of Public Safety</b>		
Provide Funding for New Trooper Training Class	3,900,000	4,100,000
Provide funding for maintenance costs associated with the Connecticut Telecommunication System for Radio and Computer Aided Dispatch/Records Management System	2,217,844	2,284,757
<b>Total</b>	<b>6,117,844</b>	<b>6,384,757</b>
<b>Department of Mental Retardation</b>		
Annualize Early Intervention, Day and Community Placement Programs	8,730,399	11,294,014
Provide Cost of Living Increases for Private Providers	8,145,037	13,743,233
Provide Funding for Children with Mental Retardation Aging Out of the Department of Children and Families and Local School Districts	3,498,660	7,081,288
Provide Funding for Cooperative Placements growth	2,589,407	4,209,971
Provide Day programs for High School Graduates	2,523,585	5,107,736
Fund Early Intervention Growth	1,805,610	2,068,285
<b>Total</b>	<b>27,292,698</b>	<b>43,504,527</b>
<b>Department of Mental Health and Addiction Services</b>		
Provide Cost of Living Increases for Private Providers	9,723,228	13,238,389
<b>Department of Social Services</b>		
Reflect Annualization of HUSKY Expansion to Include Newly Eligible Adults	25,614,000	31,640,000
<b>Department of Education</b>		
Increase funding for Education Cost Sharing Grant	40,000,000	75,000,000
Re-estimate Excess Cost - Student Based (Special Education) Grant	8,000,000	8,000,000
Re-estimate Miscellaneous Grants and OCE's	2,240,482	5,351,812
Test Additional Special Education and Bilingual Students	623,200	1,231,200
Increase Faculty in the Vocational-Technical Schools because of Enrollment Growth	600,000	1,200,000
<b>Total</b>	<b>51,463,682</b>	<b>90,783,012</b>
<b>University of Connecticut</b>		
Enhance Regional Campus Programs	1,525,000	4,250,250
Provide Funding for New Facilities	1,000,908	1,310,218
<b>Total</b>	<b>2,525,908</b>	<b>5,560,468</b>

	<u>FY 02</u>	<u>FY 03</u>
<b>Connecticut State University</b>		
Fund New Facilities	397,272	1,234,811
<b>Department of Children and Families</b>		
Cost and Caseload Update - Board and Care for Children	17,613,072	25,268,327
Annualize Cost of 75 New Specialized Residential Beds	6,005,000	4,855,000
Provide Cost of Living Increases for Private Providers	2,894,687	3,456,220
Increase Foster & Subsidized Guardianship Rates	2,309,590	2,309,590
Fund Cogeneration Plant at CT Juvenile Training School	1,915,000	1,950,610
Fund Connecticut Juvenile Training School Operating Costs	1,564,344	1,564,344
Increase Single Cost Accounting Residential Provider Rates	1,500,000	3,000,000
Increase Subsidized Adoption Rates	670,567	1,135,593
<b>Total</b>	<b>34,472,260</b>	<b>43,539,684</b>
<b>Judicial Department</b>		
Annualize 60 Adult Probation Officers	1,862,666	1,862,666
Provide Cost of Living Increases for Private Providers	1,419,533	887,629
<b>Total</b>	<b>3,282,199</b>	<b>2,750,295</b>
<b>Total - Above Items</b>	<b>162,989,091</b>	<b>240,735,943</b>

**New and Expanded General Fund Programs  
Recommended by the Governor for FY 02 and FY 03**

The following increase represent new and expanded initiatives recommended by the governor for the biennium.

	<u>FY 02</u>	<u>FY 03</u>
<b>Legislative Management</b>		
Increase 20 Positions over two years to Enhance Services [1]	796,417	896,090
<b>Auditors of Public Accounts</b>		
Fund 2 Positions to Support Auditing of State Agencies	0	77,801
<b>Commission on the Status of Women</b>		
Enhance Funding for Research Projects	30,000	30,000
<b>Commission on Children</b>		
Fund an Additional Full-time Position [1]	45,212	48,384
<b>Latino and Puerto Rican Affairs Commission</b>		
Fund an Additional Full-time Executive Secretary Position [1]	34,362	36,632
<b>African-American Affairs Commission</b>		
Fund a New Legislative Analyst and Office Assistant Position over two years [1]	26,259	63,420
<b>Secretary of the State</b>		
Expand Centralized Voter Registration System	429,738	429,738
<b>Freedom of Information Commission</b>		
Add One Position for Public Education Program	61,427	63,799
<b>Department of Administrative Services</b>		
Add Funding for the Hospital Billing System	140,000	140,000
<b>Department of Public Safety</b>		
Provide Funds for Helicopter Operations	368,760	368,760
<b>Department of Consumer Protection</b>		
Add 5 Positions for Consumer Hotline in the Regulation of the Trade Practices Unit	140,000	147,000
<b>Office of the Child Advocate</b>		
Add two and a half positions to enhance child advocacy	153,000	161,580
<b>Department of Economic and Community Development</b>		
Provide Funding for Housing and Urban Development Assisted Living Pilots	488,540	481,220
<b>Office of the Chief Medical Examiner</b>		
Increase Staff for Field Inspector Program	62,000	94,000
<b>Department of Mental Health and Addiction Services</b>		
Enhance Community Services	10,000,000	20,000,000
Increase Rates for Hospitals	2,127,893	1,593,664
<b>Total</b>	<b>12,127,893</b>	<b>21,593,664</b>

	<u>FY 02</u>	<u>FY 03</u>
<b>Department of Social Services</b>		
Provide Additional Staff and Resources to Strengthen Financial Oversight of Nursing Homes by Tightening Certificate of Need Reviews and Increasing the Number of Homes Audited	695,000	695,000
Provide Funding for Breast and Cervical Cancer Treatment	500,000	500,000
<b>Total</b>	<b>1,195,000</b>	<b>1,195,000</b>
<b>Department of Education</b>		
Phase-out the Education Cost Sharing Growth Cap	25,000,000	50,000,000
Expand School Choice Programs	3,274,570	18,273,620
Increase funding for the Primary Mental Health Grant	300,000	300,000
<b>Total</b>	<b>28,574,570</b>	<b>68,573,620</b>
<b>Teachers' Retirement Board</b>		
Funding for New Assistant Administrator Position	70,000	75,000
<b>Department of Correction</b>		
Provide Funding for a Community Justice Center	0	5,000,000
<b>Department of Children and Families</b>		
Expand Connecticut Community KidCare	8,995,000	18,795,000
Provide Additional Revocation Beds for Juvenile Justice	1,099,563	1,143,535
<b>Total</b>	<b>10,094,563</b>	<b>19,938,535</b>
<b>Council to Administer the Children's Trust Fund</b>		
Expand ChildServ	225,000	450,000
<b>Judicial Department</b>		
Pick Up Expiring Federal Funds	771,883	784,224
<b>State Marshal Commission</b>		
Reallocate Funds and Positions from the Judicial Department	224,605	228,483
<b>Debt Service - State Treasurer</b>		
Provide Financing for Workers' Compensation Bonds	1,650,000	9,135,000
Provide Financing for Core Financial Systems	0	3,512,500
<b>Total</b>	<b>1,650,000</b>	<b>12,647,500</b>
<b>Total - Above Items</b>	<b>57,709,229</b>	<b>133,524,450</b>

[1] Although the governor is required by Sec. 4-73 (f) to reflect amounts requested by the legislative branch in his budget recommendations, he proposes to remove funding for these positions through his legislative lapse adjustments, which eliminate a total of \$6.1 million for FY 02 and \$5.2 million for FY 03.

**Altered Funding Mechanisms**  
**Recommended by the Governor in the General Fund for FY 02 and FY 03**

The following decreases represent items that had been budgeted in FY 01 and are not funded through an appropriation in FY 02, but continue to be funded by intercepting revenue or providing payment outside an appropriated account (see spending cap explanation on [page 29](#)).

	<u>FY 02</u>	<u>FY 03</u>
<b>Legislative Management</b>		
Eliminate Funding for CTN through lapse adjustment with intent of supporting through assessments on cable TV companies	-1,800,000	-1,600,000
<b>Department of Revenue Services</b>		
Implement the Tax Credit Exchange as a Refund of Taxes	-14,000,000	-14,000,000
<b>Casino Regulation</b>		
Allow the use of recoveries by Special Revenue, Public Safety and Consumer Protection and fund these agencies on a net basis for indirect costs related to casino regulation activities	-1,011,809	-1,066,445
<b>Military Department</b>		
Move Radiological Instrument Maintenance to the Nuclear Emergency Preparedness Fund Budget	-100,000	-100,000
<b>Department of Consumer Protection</b>		
Fund the state-run Lemon Law Arbitration Program from required automobile manufacturer contributions	-174,907	-181,221
<b>Department of Labor</b>		
Reduce Jobs First Employment Services due to Carryforward	-1,000,000	-1,000,000
<b>Department of Environmental Protection</b>		
Transfer Emergency Spill Response Activities to Petroleum Gross Earnings Tax Revenues - \$4 million would also be transferred from the FY 01 surplus for initial funding	-7,755,870	-8,041,225
<b>Connecticut Historical Commission</b>		
Fund Activities Supporting the Historical Resource Inventory and Freedom Trail from the Increase in Tourism Fund Collections	-30,000	-30,000
<b>Department of Economic and Community Development</b>		
Fund Activities Supporting the Freedom Trail, Film Commission and the Central Tourism Account from the Increase in Tourism Fund Collections	-950,000	-950,000
<b>Department of Social Services</b>		
Fund School Based Child Health through Federal Reimbursements	-14,300,000	-14,300,000
Treat collections made by the state for payment by a Medicaid Managed Care Organization to Riverview Hospital not as revenue, but as an offset to Medicaid expenditures	-17,500,000	-18,000,000
Shift additional program funding to SSBG/TANF Block Grants due to federal upward revision of allowable transfers from 4.25% to 10% of the block grants	-3,193,873	-3,193,873
<b>Total</b>	<b>-34,993,873</b>	<b>-35,493,873</b>

	<u>FY 02</u>	<u>FY 03</u>
<b>State Library</b>		
Fund Activities Supporting the Impressionists Art Trail from the Increase in Tourism Fund Collections	-50,000	-50,000
<b>Reserve for Salary Adjustments</b>		
Provide \$5.5 Million for Accrual Payments and Associated Costs Related to the Statewide Agency Personal Services Reduction from the FY 2001 Surplus	-2,750,000	-2,750,000
<b>Refunds of Payments</b>		
Make Payments through Revenue Stream. There is also a Transportation Fund impact of \$2.8 million due to payments made through revenue stream.	-450,000	-450,000
<b>Fund Excess Energy Costs from FY 2001 Surplus</b>		
The governor removes \$10.3 million in FY 02 and \$10.9 million in FY 03 and provides \$21 million in FY 02 and \$20 million in FY 03 from FY 01 surplus to an Energy Contingency account in OPM. The OPM account also funds a Special Transportation Fund energy reduction of approximately \$2.8 million per year.	-10,306,620	-10,921,638
<b>Adjust the Workers' Compensation Claims Account to Reflect the Sale of Certain Claim Liabilities to a Private Insurer</b>		
The transfer of the 700 most expensive employee WC claims to a private insurer would be funded through \$20 million in FY 01 surplus funds and \$60 million in bond funds (10-year notes). The long-term liability of the claims is estimated from \$127 million to \$160 million. The governor reduces each of the 7 Workers' Compensation Claims appropriations by 22% in FY 02 and by 21% in FY 03 (except for a 20.2% reduction in Public Safety for FY 03). This also provides for a Special Transportation Fund reduction of approximately \$900,000 per year.	-12,620,757	-12,621,804
<b>Total - Above Items [1]</b>	<b>-87,993,836</b>	<b>-89,256,206</b>

[1] Excludes funding from FY 01 surplus for ongoing/potentially ongoing items which are indicated in the analysis of the governor's recommendations concerning the use of surplus.

## **Governor's Budget Recommendations Regarding Using the Projected FY 01 General Fund Surplus**

The governor recommends disposing his projected \$501 million surplus by transferring \$4 million to support the Emergency Spill Response Fund, making \$468 million in appropriations for various programs and adding approximately \$29 million to the Budget Reserve Fund. Based on OFA's latest surplus projection of \$608 million, the governor would distribute the additional \$107 million by providing \$30 million to acquire water company land in Fairfield County and split the remaining \$77 million between transportation congestion relief (bringing the total to \$88.6 million) and school construction grants (bringing the total to \$158.6 million).

The governor recommends appropriating \$468 million from surplus for 56 items of which 32 (\$340 million) are one-time in nature, 16 (\$36.2 million) are ongoing and 8 (\$37.7 million) are potentially ongoing on an annualized basis. (The total of these annualized components does not add to \$468 million because some items within the \$468 surplus appropriations reflect higher amounts due to the fact that they are intended to cover both years of the 2001-2003 biennium. When the various components are categorized on an annualized basis, the total for these components is less than \$468 million.)

The governor has not at this point issued a declaration to exceed the spending cap for FY 01 with his recommended surplus appropriations.

## **Impact of FY 01 Appropriations Carried Forward into the 2001-2003 Biennium on OFA Projected FY 01 Surplus**

Back of the budget carry forwards proposed by the governor would reduce the lapse estimate and thus the surplus projected by OFA on February 5, 2001 by \$10.9 million from \$608 million to \$597.1 million.



		<b>Governor's Proposal as of 2/7/01</b>	<b>One-Time</b>	<b>Ongoing</b>	<b>Potentially Ongoing</b>	<b>OFA Comment</b>
Wkforce Compet.	Jobs Funnel Projects (\$2.5m in FY 02 & \$2.5m in FY 03)	5.00			2.50	Potentially ongoing - depends on whether continued state support is needed.
Wkforce Compet.	School to Work (\$2.5m in FY 02 & \$2.5m in FY 03)	5.00	5.00			One-time, provided that corporate contributions make the program self-supporting in the future as intended.
Labor Dept.	Workforce Investment Act Business System (FY 02)	5.00	5.00			
DSS	Strike Contingency Costs (FY 02)	5.00	5.00			
SDE	Teacher Training (\$2.5m in FY 02 & \$2.5m in FY 03)	5.00	5.00			One-time funding to integrate technology into the public school curriculum to improve student learning.
DPW	Minor Capital Improvements (\$2m in FY 02 & \$2m in FY 03)	4.00		2.00		Ongoing funding would be needed for minor capital improvements (this funding is not shown in the governor's out-year report).
State Library	Digital Library (\$2m in FY 02 & \$2m in FY 03)	4.00		2.00		It is anticipated that the ongoing purchase of yearly subscriptions will be necessary to continually update the system.
DHE	Connecticut Futures Fund	4.00	4.00			One-time, provided that the state match for the \$11m Gear Up program that will provide scholarships for participants as they enter college, is for one year only.
Charter Oak State College	Distance Learning Consortium (\$2m in FY 02 & \$2m in FY 03)	4.00			2.00	It is anticipated that ongoing training will be necessary to teach teachers how to use computers in the classroom.
OPM	Thermal Imaging Equipment (FY 02)	3.00	3.00			One-time, provided that one unit per fire department or fire district is sufficient.
DSS	Work Performance Bonus (FY 02)	2.60			2.60	
DCF	Long Lane Transition (FY 02)	2.60	1.50		1.10	\$1.5 m for transition costs to new training school should be one-time. Uncertain whether \$1.1 m set aside for new computer tracking system will lead to ongoing operating costs.
State Comptroller	Core Financial Systems (FY 03)	2.50	2.50			In addition, \$7.5m was provided from FY 00 surplus and the governor has proposed a \$50m bond authorization. The level of any additional costs beyond the \$60m is uncertain at this time.
DSS	Decision Support and Fraud Prevention Warehouse	2.50	2.50			Costs may be funded through future savings.
DOC	Inmate Tracking System (FY 03)	2.50	2.50			
DEP	Mosquito Control (\$1.2m in FY 02 & \$1.2m in FY 03)	2.40		1.20		Ongoing - virus will unlikely be eradicated by FY 03.
DSS	Start-Up Costs Related to ConnPACE B Implementation	2.40	2.40			The ConnPACE B program requires this to be cost neutral.
OPM	Justice Assistance Grants (FY 03)	2.00		2.00		
Health Care Access	Distressed Hospital Grant/Outpatient Data Collection (FY 03)	2.00			2.00	In FY 00, \$2.1 million from FY 99 surplus was transferred from OHCA to OPM for hospital grant and assistance program. This proposed use of FY 00 surplus continues this program. It is uncertain what portion of the \$2.0 million would be devoted to hospital grants vs. data collection. It is assumed that outpatient & other data collection would be an ongoing effort, with uncertain continuing costs, even if one-time consultant fees are incurred in the first year. Unknown at this time to what extent OHCA could absorb ongoing workload.
DEP	Aerial Photo Survey (FY 02)	1.90	1.90			One-time (every 5 years).
DMV	DMV - OE for motor vehicle computer systems upgrade (FY 02)	1.80	1.80			
OPM	Drug Enforcement Program (FY 03)	1.53			1.53	Extends the Safe Neighborhood Program for an additional year.
DECD	Housing Authorities (FY 02)	1.50		1.50		Ongoing costs could be paid through bonding.
DSS	Enhance TFA Claiming in SDE and DCF	1.00	1.00			
DSS	Design and Implement Innovative Approaches for the Provision of Dental Services for Low Income Children and Adults	1.00			1.00	
DMHAS	OE for Behavioral Health Specialty Health Care Plan (FY 02)	0.65	0.65			One-time provided that this involves just setting up a new system; however, this system may lead to additional budget requirements in future years.
Legislative Mgmt.	Redistricting (FY 02)	0.60	0.60			
Military Dept.	Helicopter Renovations (FY 02)	0.60	0.60			
Ag. Exper. Station	Mosquito Control (\$.3m in FY 02 & \$.3m in FY 03)	0.60		0.30		Ongoing - virus will unlikely be eradicated by FY 03.
DoIT	Admin.-Comm. for Ed. Tech. (\$.13m in FY 02 & \$.13m in FY 03)	0.26		0.13		
DPW	OE for new statewide, 24-hour security hub for state buildings (FY 02)	0.25		0.50		FY 03 and outyear costs would need to be appropriated.
Agriculture	Regional Market Operation Fund - Capital Improvements	0.25	0.25			These improvements are typically made through the Regional Market Operation Fund.

		<b>Governor's Proposal as of 2/7/01</b>	<b>One-Time</b>	<b>Ongoing</b>	<b>Potentially Ongoing</b>	<b>OFA Comment</b>
DoIT	Commission for Educational Technology (\$.12m in FY 02 & \$.12 m in FY 03)	0.24		0.12		
OPM	Property Tax Payment (FY 02)	0.20		0.20		Ongoing costs would be covered under the state payment-in-lieu-of-taxes program.
DSS	Nutrition Assistance (\$.1m in FY 02 & \$.1m in FY 03)	0.20		0.10		
DAS	Disabilities Outreach Program (\$.05m in FY 02 & \$.05 m in FY 03)	0.10		0.05		These monies replace expired federal funds.
Fire Preven and Cntrl	Firefighters' Memorial (FY 02)	0.10	0.10			
	<b>Sub-total - Proposed Approps. of FY 01 GF Surplus [1]</b>	<b><u>467.96</u></b>	<b><u>339.98</u></b>	<b><u>36.20</u></b>	<b><u>37.73</u></b>	
	<b>Revised Balance</b>	<b>\$ 29.04</b>				
<b>C</b>	Amount available to fund the <b>Budget Reserve Fund [2]</b>	<b><u>28.90</u></b>				
	<b>Remaining Balance based on Proposals</b>	<b>\$ 0.14</b>				
	<b>Additional Surplus Projected by OFA as of 2/5/01 - \$608m Total</b>	<b>\$ 107.00</b>				
	<b>Adjusted Balance</b>	<b>\$ 107.14</b>				
<b>D</b>	<b>Governor's Proposed Disposition of Surplus beyond \$501m:</b>					
	Acquire Water Company Land in Fairfield County	30.00	30.00			
	Transportation Congestion Relief (brings total to \$88.57m)	38.57	38.57			
	School Construction Grants (brings total to \$158.57m)	<u>38.57</u>	<u>38.57</u>			
	<b>Total Governor's Additional Uses</b>	<b>\$ 107.14</b>	<b>\$ 107.14</b>			
	<b>Remaining Balance on Additional Uses</b>	<b>\$ 0.00</b>	<b>447.12</b>	<b>\$ 36.20</b>	<b>\$ 37.73</b>	

[1] The total of these annualized components does not add to \$468 million because some items within the \$468 surplus appropriations reflect higher amounts due to the fact that they are intended to cover both years of the 2001-2003 biennium. When the various components are categorized on an annualized basis, the total for these components is less than \$468 million.

[2] This \$28.9 million addition would increase the amount in the Budget Reserve Fund (BRF) from \$564 million to \$592.9 million. This would keep the BRF at its statutory limit of 5% of the governor's recommended General Fund appropriation for FY 02.

## The Spending Cap

The Governor's proposed budget is \$12,889.9 million for FY 02 and \$13,446.5 million for FY 03. The spending cap allows for appropriations to be at \$12,981.4 million placing the proposed budget \$91.5 million under the cap for FY 02. For FY 03 the spending cap is set at \$13,527.2 million and the Governor's proposed appropriation is \$13,446.5 million, leaving the budget \$80.7 million under the cap. While the proposed biennial budget appears to be significantly under the cap in each year, the Governor has made a number of budgetary changes that may require a recalculation of the spending cap.

Those changes fall into three major categories: 1) funding of ongoing programs through the use of surplus funds; 2) altering funding mechanisms to shift items off-budget (with no adjustment being made to the base); and 3) treating certain post-1991 grants as pre-1991 grants thus making them subject to spending cap exclusions as grants to distressed municipalities. Each of these areas contains expenditures that, if included in the cap calculation, would result in significantly different results.

### Funding Ongoing Programs with Surplus

The Governor's budget includes \$501 million in proposed FY 01 surplus spending. (Note: a declaration to exceed the cap has not yet been submitted by the Governor.) The Office of Fiscal Analysis examined surplus spending and concluded that \$36.2 million of the \$501 million is being used for ongoing program expenditures rather than one-time costs that will not occur in the future. For instance, within the Office of Policy and Management \$2 million is to be used for ongoing Justice Assistance grants and within the Department of Education \$2 million is to be used for the Demonstration Scholarship program which is ongoing through FY 06. In addition to items of an ongoing nature, there are also a number of expenditures that have the potential to be ongoing. Those include such programs as grants to distressed hospitals for \$2 million, \$1.1 million for operating costs related to the transition of Long Lane School at the Department of Children and Families, \$20 million related to state agency energy costs, and \$5 million for litigation costs which occur from year to year. In total, OFA identified \$37.7 million in **potentially ongoing** program expenditures which added to the previous total of **ongoing expenditures** equals \$73.9 million in program expenditures from FY 01 surplus. (see table *Governor's Budget Recommendations Regarding Using the Projected FY 01 General Fund Surplus* on [page 26](#)).

### Altered Funding Mechanisms

The Office of Fiscal Analysis identified seventeen items that had been budgeted in FY 01 that were not funded through an appropriation in FY 02, but continue to be funded by intercepting revenue or providing payment outside an appropriated account. Those items totaled \$94.5 million in FY 02 and \$95.8 million in FY 03. Those items include such mechanisms as establishing a special account for the receipt of federal Medicaid funds for the purposes of making payments to towns for reimbursable local special education expenditures. This would have required an appropriation of \$14.3 million in FY 02 and would have increased the budget by that amount.

A similar item involves payments of \$17.5 million for Medicaid services provided at DCF's Riverview Hospital. Those payments will no longer be appropriated within the Medicaid account but will instead be paid through a special account that intercepts federal reimbursement. The special account will be used to make the payments to the Riverview facility. Including these items under the spending cap for which an off-budget funding mechanism exists would significantly increase the Governor's proposed budget and its level of appropriation in relation to the spending cap (see table *Altered Funding Mechanisms Recommended by the Governor* on [page 23](#)).

### **Moving Grants from a Non-Distressed Category to a Distressed Municipality Category**

The statutory provisions used to calculate the spending cap state that general budget expenditures are exempt from the cap for "increased expenditures for statutory grants to distressed municipalities, provided such grants are in effect on July 1, 1991." This exemption of grants applies to 25 municipalities receiving funds from the state, however, grants established after 1991 are not exempt from the cap but are included in the "capped" portion of the state's budget.

The Governor's proposed budget moves four grants that were passed after 1991 into the Priority School District grant that was passed by the legislature in 1984. The significance of making this change exempts the portion of those newer grants from the spending cap by placing them in an older grant that qualifies for the statutory exemption as a grant to a distressed municipality. The Governor proposes moving four grants – early reading success, school readiness, extended school hours, and school accountability -- totaling \$63 million into the priority school district grant. By doing so, the Governor recommends removing \$45 million of funds for distressed municipalities previously appropriated under the portion of the budget subject to the spending cap and places them under an exempt or "uncapped" part of the budget. Clearly this change has a significant impact on the spending cap calculation.

### **Summary and Conclusions**

The Governor's spending cap calculation would change dramatically if any or all of the items listed above became part of the total appropriation. If the \$45 million in grant changes were put back into the capped portion of the budget, then the proposed budget would be \$46.5 million under the spending cap. Including the items identified as "altered funding mechanism" – items that had been appropriated in the current fiscal year to be paid for from non-appropriated funds in the new fiscal year – would put the Governor's budget over the cap by \$48.0 million in FY 02. Adding in ongoing expenditures that are being funded from surplus would push the budget further over the spending cap.

### Treatment of FY 01 Deficiency Appropriations

The level of current expenditures in FY 01 has required the Governor to ask the legislature for net new appropriations of \$55.5 million and to transfers \$65.7 million in available balances from agencies with surpluses to agencies in need of funds to support ongoing programs. These transfers are not considered to be “new appropriations” and therefore are not counted under the current fiscal year’s cap calculation. The \$55.5 million of new appropriations results in the FY 01 budget being at the spending cap and the transfer of funds prevents the budget from exceeding the cap. The result is not to build the full amount of the deficiencies into the base for future years’ calculations, even though they clearly go to support current on-going expenditures. By so doing, the Governor “is penalizing growth by about \$94 million (the \$89 million plus growth)” as referred to in the “*Fact Sheet on Governor Rowland’s Proposed FY 2001-03 Biennial Budget*”, page 2.

### Revenue Losses

The Governor’s budget proposal eliminates the disproportionate share program used to compensate hospitals for providing healthcare to the poor. The disproportionate share program, also referred to as the uncompensated care pool, was also a mechanism for maximizing federal revenue reimbursements.

This action changes a pattern of maximizing federal revenue. Other federal opportunities to expand state programs may or may not enhance revenues depending upon federal programmatic expenditure requirements.

The governor’s budget eliminates the sales tax on hospital services (SB 1153) and makes significant changes to Medicaid and general assistance reimbursement rates for hospitals. The table below shows that the governor’s changes have a negative impact to the General Fund of \$72.8 million in FY 02 and \$78.5 million in FY 03. This impact is a combination of a reduction in state and federal revenues, which is partially offset by a net reduction in appropriations.

In addition to the General Fund impact, the governor’s proposal provides significant “relief” from the state’s spending cap. Since net appropriations are reduced by \$109.7 million this eliminates expenditures that would have been included under the spending cap.

<b>General Fund Impact from Changes to Hospitals</b>		
<b>(\$ in millions)</b>		
	<b>FY 02</b>	<b>FY 03</b>
<b>Revenue Changes:</b>		
Eliminate sales tax on hospital services	(\$119.7)	(\$125.7)
Net effect to federal revenue	<u>(62.5)</u>	<u>(62.5)</u>
<b>Total</b>	<b>(\$182.5)</b>	<b>(\$188.2)</b>
<b>Appropriation Changes:</b>		
Eliminate Uncompensated Care Program	(\$207.0)	(\$207.0)
Increase Medicaid/SAGA/Husky Program	<u>97.3</u>	<u>97.3</u>
<b>Total</b>	<b>(\$109.7)</b>	<b>(\$109.7)</b>
<b>General Fund Impact</b> (reduced revenue + reduced expenditures)	<b>(\$72.8)</b>	<b>(\$78.5)</b>

## **Analysis of the Governor's General Fund Budget Recommendations for FY 02 and FY 03 and the Impact on the Out-Years**

After estimating revenues based on the Governor's proposals and reflecting revised funding requirements, OFA estimates current services surpluses amounting to \$30.2 million for FY 02 and \$65.1 million in FY 03 and shortfalls of \$28.3 million in FY 04 and \$79.2 million in FY 05 and a surplus of \$10.9 million in FY 06. With the exception of FY 06, OFA projects slightly higher surpluses and lower shortfalls than the governor. (See table on [page 34](#).)

The difference is partially due to OFA's revenue estimates, which are higher than those of the Governor by \$35 million in FY 02, \$65.4 million in FY 03, \$84 million in FY 04, \$92.9 million in FY 05 and \$76.7 million in FY 06. The differences in our estimates from the Governor's are mainly due to estimates of the Personal Income tax.

OFA's differences in expenditures include:

- 1) an additional \$.3 million beginning in FY 04 to continue funding for the Commission on Education Technology once support from surplus dollars ends in FY 03;
- 2) an additional \$2 million beginning in FY 04 to continue funding for the Minor Capital Projects once support from surplus dollars ends in FY 03;
- 3) an additional \$2 million beginning in FY 04 to provide sufficient funding for Department of Public Safety fleet purchases;
- 4) an additional \$.5 million beginning in FY 02 to provide sufficient support for the Department of Public Health's laboratory supplies, as well as recognizing the restoration of Other Expense monies diverted to school-based health centers and a traumatic brain injury planning grant in FY 00 and removed by the governor; also, a correction is made to the FY 06 inflationary adjustment for needle and syringe exchange programs;
- 5) an additional \$5.4 million in FY 04, \$11.5 million in FY 05 and \$18.6 million in FY 06 to sufficiently support anticipated pharmacy inflation and enrolment growth in the Department of Social Services ConnPACE program;
- 6) an additional \$3.8 million in FY 02, \$7.6 million in FY 03, \$12.8 million in FY 04, \$18.7 million in FY 05 and \$25.4 million in FY 06 to reflect more realistic inflationary growth based on historical trends in the state Department of Education's Excess Cost-Student Based program;
- 7) an additional \$2.2 million in FY 02 and \$2.4 million in FY 03 to reflect more realistic investment return assumptions associated with the governor's recommendation to pay Teachers' Retirement Contributions at the beginning of the fiscal year instead of quarterly and reduce the funding requirement by \$6.2 million in FY 02 and \$6.5 million in FY 03;

- 8) a reduction of \$4.1 million in FY 04 and \$2.6 million in FY 05 in the Department of Higher Education's State Matching Grant Fund to reflect more realistic current services requirements that are anticipated;
- 9) a reduction of \$1.5 million in FY 02, \$10 million in FY 03, \$16.5 million in FY 04, \$21.5 million in FY 05 and \$26 million FY 06 in Debt Service to reflect more realistic interest rate assumptions; and
- 10) an additional approximate \$30 million in to reflect conversion to Generally Accepted Accounting Principles (GAAP) in FY 04, which would annualize to approximately \$75 million including amortization of the GAAP deficit in each of the following 15 fiscal years. Under current law, implementation of Generally Accepted Accounting Principles (GAAP) is required to begin on July 1, 2003. However, the Governor's out-year estimates do not include an adjustment for conversion to GAAP in FY 04. Any further delay of GAAP implementation would eliminate OFA's projected shortfall in FY 04 and greatly diminish it in FY 05.

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

	FY 02	FY 03	FY 04	FY 05	FY 06
Overview:					
Governor's Revenues	\$ 11,858.2	\$ 12,400.3	\$ 12,927.7	\$ 13,514.3	\$ 14,116.5
Governor's Expenditures	11,858.0	12,400.1	13,007.6	13,600.5	14,084.5
Surplus / (Shortfall) Per Governor	\$ 0.2	\$ 0.2	\$ (79.9)	\$ (86.2)	\$ 32.0
OFA Revenues	11,893.2	\$ 12,465.7	\$ 13,011.7	\$ 13,607.2	\$ 14,193.2
OFA Expenditures	11,863.0	12,400.6	13,040.0	13,686.4	14,182.3
Surplus / (Shortfall) Per OFA	30.2	\$ 65.1	\$ (28.3)	\$ (79.2)	\$ 10.9
Surplus / Shortfall Per OFA More (Less) Favorable than Governor	\$ 30.0	\$ 64.9	\$ 51.6	\$ 7.0	\$ (21.1)

OFA Revenue and Expenditure Differences from Governor:

OFA Revenue Adjustments:

OFA Revenue Higher than Governor (See Revenue Schedule for Details)	\$ 35.0	\$ 65.4	\$ 84.0	\$ 92.9	\$ 76.7
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OFA Expenditure Adjustments:

DoIT - Commission On Education Technology	\$ 0.0	\$ 0.0	\$ 0.3	\$ 0.3	\$ 0.3
DPW - Minor Capital Improvements	0.0	0.0	2.0	2.0	2.0
Public Safety - Fleet Purchase	0.0	0.0	2.0	2.0	2.0
DPH - Lab Supplies & Other Misc. Adjs.	0.5	0.5	0.5	0.5	0.5
DSS - ConnPACE	0.0	0.0	5.4	11.5	18.6
SDE - Excess Cost-Student Based	3.8	7.6	12.8	18.7	25.4
TRB - Teachers' Retirement Contributions	2.2	2.4	0.0	0.0	0.0
DHE - State Matching Grant Fund	0.0	0.0	(4.1)	(2.6)	0.0
Debt Service	(1.5)	(10.0)	(16.5)	(21.5)	(26.0)
Generally Accepted Accounting Principles (GAAP)	0.0	0.0	30.0	75.0	75.0
OFA Expenditures Higher than Governor	\$ 5.0	\$ 0.5	\$ 32.4	\$ 85.9	\$ 97.8

**Out-Years Including Previously Enacted and Governor's Proposed Revenue Changes**  
(\$'s in thousands)

	<b>OFA FY 04 Estimate</b>	<b>Gov FY 04 Estimate</b>	<b>Diff FY 04</b>	<b>OFA FY 05 Estimate</b>	<b>Gov FY 05 Estimate</b>	<b>Diff FY 05</b>	<b>OFA FY 06 Estimate</b>	<b>Gov FY 06 Estimate</b>	<b>Diff FY 06</b>
<b>Taxes</b>									
Personal Income	\$5,400,000	\$5,367,900	\$32,100	\$5,725,000	\$5,640,900	\$84,100	\$6,069,000	\$5,931,700	\$137,300
Sales and Use	3,494,000	3,506,300	(12,300)	3,658,700	3,704,200	(45,500)	3,831,900	3,894,800	(62,900)
Corporations	614,400	585,100	29,300	636,000	609,600	26,400	658,300	636,200	22,100
Inheritance and Estate	201,000	201,000	0	200,700	200,700	0	200,300	199,900	400
Public Service Corporations	164,100	169,300	(5,200)	164,100	171,400	(7,300)	164,100	173,600	(9,500)
Insurance Companies	223,100	217,700	5,400	229,800	221,700	8,100	236,700	225,700	11,000
Cigarettes	111,400	113,400	(2,000)	108,600	111,800	(3,200)	105,900	110,200	(4,300)
Oil Companies	49,600	29,500	20,100	50,800	28,400	22,400	42,000	21,600	20,400
Real Estate Conveyance	111,700	106,000	5,700	113,900	107,100	6,800	116,200	108,200	8,000
Alcoholic Beverages	41,000	42,700	(1,700)	41,000	43,100	(2,100)	41,000	43,500	(2,500)
Miscellaneous	45,200	32,400	12,800	45,800	33,000	12,800	36,300	32,000	4,300
Admissions, Dues and Cabaret	24,300	27,900	(3,600)	24,800	28,900	(4,100)	25,300	29,900	(4,600)
<b>Total Taxes</b>	<b>\$10,479,800</b>	<b>\$10,399,200</b>	<b>\$80,600</b>	<b>\$10,999,200</b>	<b>\$10,900,800</b>	<b>\$98,400</b>	<b>\$11,527,000</b>	<b>\$11,407,300</b>	<b>\$119,700</b>
<b>Refunds of Taxes</b>	<b>(\$878,000)</b>	<b>(\$899,400)</b>	<b>\$21,400</b>	<b>(\$901,600)</b>	<b>(\$935,400)</b>	<b>\$33,800</b>	<b>(\$951,800)</b>	<b>(\$972,800)</b>	<b>\$21,000</b>
<b>Net General Fund Taxes</b>	<b>\$9,601,800</b>	<b>\$9,499,800</b>	<b>\$102,000</b>	<b>\$10,097,600</b>	<b>\$9,965,400</b>	<b>\$132,200</b>	<b>\$10,575,200</b>	<b>\$10,434,500</b>	<b>\$140,700</b>
<b>Other Revenue</b>									
Transfer Special Revenue	\$266,700	\$275,900	(\$9,200)	\$269,400	\$281,400	(\$12,000)	\$272,100	\$287,000	(\$14,900)
Indian Gaming Payments	375,000	387,900	(12,900)	380,000	407,300	(27,300)	385,000	427,700	(42,700)
Licenses, Permits and Fees	126,500	129,500	(3,000)	124,500	127,500	(3,000)	126,500	132,500	(6,000)
Sales of Commodities and Services	18,000	18,300	(300)	17,500	18,200	(700)	17,000	18,400	(1,400)
Rentals, Fines and Escheats	46,000	45,600	400	46,000	46,000	0	46,000	46,300	(300)
Investment Income	60,000	61,500	(1,500)	60,000	61,700	(1,700)	60,000	61,900	(1,900)
Miscellaneous	136,500	128,000	8,500	136,500	131,100	5,400	136,500	133,600	2,900
<b>Total Other Revenue</b>	<b>\$1,028,700</b>	<b>\$1,046,700</b>	<b>(\$18,000)</b>	<b>\$1,033,900</b>	<b>\$1,073,200</b>	<b>(\$39,300)</b>	<b>\$1,043,100</b>	<b>\$1,107,400</b>	<b>(\$64,300)</b>
<b>Refunds of Payments</b>	<b>(\$500)</b>	<b>(\$500)</b>	<b>\$0</b>	<b>(\$500)</b>	<b>(\$500)</b>	<b>\$0</b>	<b>(\$500)</b>	<b>(\$500)</b>	<b>\$0</b>
<b>Net Other Revenue</b>	<b>\$1,028,200</b>	<b>\$1,046,200</b>	<b>(\$18,000)</b>	<b>\$1,033,400</b>	<b>\$1,072,700</b>	<b>(\$39,300)</b>	<b>\$1,042,600</b>	<b>\$1,106,900</b>	<b>(\$64,300)</b>
<b>Other Sources</b>									
Federal Grants	2,361,100	2,361,100	\$0	2,454,400	2,454,400	\$0	2,552,300	\$2,552,000	\$300
Transfer from Tobacco Settlement Fund	105,600	105,600	0	106,800	106,800	0	108,100	108,100	0
To Other Funds	(85,000)	(85,000)	0	(85,000)	(85,000)	0	(85,000)	(85,000)	0
<b>Total Other Sources</b>	<b>\$2,381,700</b>	<b>\$2,381,700</b>	<b>\$0</b>	<b>\$2,476,200</b>	<b>\$2,476,200</b>	<b>\$0</b>	<b>\$2,575,400</b>	<b>\$2,575,100</b>	<b>\$300</b>
<b>Total Revenue</b>	<b>\$13,011,700</b>	<b>\$12,927,700</b>	<b>\$84,000</b>	<b>\$13,607,200</b>	<b>\$13,514,300</b>	<b>\$92,900</b>	<b>\$14,193,200</b>	<b>\$14,116,500</b>	<b>\$76,700</b>

# Transportation Fund

## OFA's Preliminary Out-Year Estimates (Based on the Governor's 2001-2003 Recommended Budget)

The Office of Fiscal Analysis' (OFA's) preliminary out-year estimates for the Transportation Fund (TF) indicate higher revenues each fiscal year through FY 06, than projected in the governor's budget. Expenditures are estimated to be lower than the governor's estimates in the debt service account. Thus, the OFA's status of the fund is estimated to be better than that anticipated by the governor starting in FY 02. These estimates also place the Transportation Fund in a more favorable position inasmuch as the governor's estimates show an annual shortfall beginning in FY 04. OFA's shortfall begins to show in FY 05. OFA's shortfall is \$18.8 million vs. the governor's \$33.3 million shortfall in that year. (Please refer to the Out Year Table for the Transportation Fund on [page 39](#) for further details).

### Revenues

OFA estimates that Transportation Fund revenues will be higher in each year of the biennium compared to the governor estimates. The difference in our estimates is primarily due to higher Motor Fuels Tax estimates. Our

Total Transportation Fund Revenue (\$ - Thousands)			
Fiscal Year	Governor	OFA	Difference
FY 02	\$871,200	\$876,800	\$5,600
FY 03	\$877,400	\$884,600	\$7,200

estimates are higher than the governor because: 1) our current FY 01 Motor Fuels Tax estimate is higher than the governor's, and 2) Motor Fuels Taxes will grow by 1% per year compared to the governor's growth rate of .75% per year.

Our Transportation Fund revenue estimates for FY 04 through FY 06 are approximately \$10 million higher than the governor's. This difference is because of our differences in motor fuels taxes carries through to the out-years.

### Expenditures

The only difference in expenditures between OFA's and the governor's 2001-2003 budget and projections through FY 06 is in the debt service account where this office's projections are lower than the governor's. The difference in the debt service estimates in FY 02 and FY 03 reflects lower interest rate assumptions for this period. The difference grows from \$1.2 million in FY 02 to \$6.5 million in FY 06. The governor projects Transportation Fund Debt service requirements to grow from \$406.1 million in FY 02 to \$446.8 million in FY 06.

## **Governor's 2001-2003 Budget Highlights**

### **Department of Motor Vehicles**

**Vision Screening** - The governor recommends revising the current vision screening requirements effective July 1, 2001. In lieu of establishing this new program at Department of Motor Vehicles (DMV) branch offices, the revision makes it mandatory for drivers over the age of 69 to have their vision tested every four years at their eye doctor and at their own expense and to bring the results with them at time of renewal. This change would enable the department to implement the program without the need for additional resources.

**Six-Year Drivers License Renewal** – The governor is proposing that the renewal period for an operator's license be changed from four years to six years. The renewal fee for the six-year license would be \$53.25 which is the current four-year fee of \$35.50 plus \$17.75 for the additional two years. The change to a six-year license will generate \$20.4 million in revenue acceleration over the first four years (FY 02 to FY 05) as follows: \$3.5 million in FY 02 and FY 03; and \$6.7 million in FY 04 and FY 05. The governor has indicated that due to the elimination of 16 positions, savings of \$1.1 million (including fringe benefits) can be anticipated in the fifth year (FY 06) and subsequently thereafter.

**Emissions Program** – The governor has proposed to decentralize the emissions inspections program after the current contract expires on June 30, 2002. Approved licensed dealers and repairers would conduct the emissions inspections. The biennial inspection fee would increase from \$20 to \$25. Oversight costs would be about \$5.3 million for staff and operating requirements plus start up costs of the program.

The governor also recommends the imposition of a new \$50 "Exempt Emissions Sticker" fee and raising the Federal Clean Air Act fee on registrations from \$4 to \$10. The governor also recommends using federal congestion mitigation funds for start up costs of the program. It is anticipated that the \$50 emissions sticker fee could yield \$3.9 million in additional revenue starting in FY 03; and revenue from the additional Clean Air Act fee could yield \$8 million annually commencing in FY 02.

**Safety Inspections** – The governor is proposing to eliminate the current safety inspection of ten-year-old motor vehicles at the time of transfer of ownership. The current required inspections for salvage, composite and other mandated vehicles would continue to be performed at branch offices.

The current safety inspection contract, which was due to expire on June 30, 2002, was cancelled and the department assumed responsibility for the continuation of the program in January, 2001.

**Appropriation from FY 2001 Surplus** – The governor is providing \$1.8 million from the FY 2001 General Fund surplus for the upgrade of the Registration and Title Processing System. This one-time funding would improve record accuracy, reduce transaction time, eliminate duplicate data entries and improve reporting and statistical analyses capabilities.

## **Department of Transportation**

**Ferry Services** – The governor is proposing to fund the activities supporting the Rocky Hill/Glastonbury and the Chester ferry services from anticipated increases in Tourism Fund collections. The services will still be operated by the Department of Transportation but no longer funded by the Transportation Fund. This proposal will result in a reduction of eight (8) Permanent Full-Time positions and agency budget decreases of \$493,596 in FY 02 and \$514,489 in FY 03.

**Appropriations from FY 2001 Surplus** – The governor has recommended \$50 million from the FY 01 General Fund surplus for various congestion mitigation and transportation improvement projects. The initial transportation investment projects will be based on recommendations made by the Transportation Strategy Board in the January 31, 2001 report. In addition, the governor recommended that any FY 01 General Fund surplus over \$531 million should be divided equally between transportation initiatives and further debt avoidance on school construction.

Furthermore, it should be noted that the governor's capital budget proposes \$172.6 million in FY 02 and \$172.7 million in FY 03 to fully maximize federal TEA-21 funds set aside for Connecticut. The state and federal funds will be used for mass transportation, roadwork, bridgework and resurfacing projects.

**Town Aid Road Grant** remains at a \$35 million funding level during the biennium under the General Fund. It remains under the Department of Transportation for administrative purposes.

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

	FY 02	FY 03	FY 04	FY 05	FY 06
Overview:					
Governor's Revenues	\$ 871.2	\$ 877.4	\$ 885.6	\$ 892.4	\$ 893.0
Governor's Expenditures	840.8	877.3	898.0	925.7	947.6
Surplus / (Shortfall) Per Governor	\$ 30.4	\$ 0.1	\$ (12.4)	\$ (33.3)	\$ (54.6)
OFA Revenues	\$ 876.8	\$ 884.6	\$ 896.2	\$ 902.9	\$ 902.6
OFA Expenditures	839.6	874.5	894.0	921.7	941.1
Surplus / (Shortfall) Per OFA	\$ 37.2	\$ 10.1	\$ 2.2	\$ (18.8)	\$ (38.5)
Surplus / Shortfall Per OFA More Favorable than Governor	\$ 6.8	\$ 10.0	\$ 14.6	\$ 14.5	\$ 16.1

OFA Revenue and Expenditure Differences from Governor:

OFA Revenue Adjustments:

Increase Largely due to Motor Fuels Tax	\$ 5.6	\$ 7.2	\$ 10.6	\$ 10.5	\$ 9.6
OFA Revenue Higher than Governor	\$ 5.6	\$ 7.2	\$ 10.6	\$ 10.5	\$ 9.6

OFA Expenditure Adjustments:

Debt Service	\$ (1.2)	\$ (2.8)	\$ (4.0)	\$ (4.0)	\$ (6.5)
OFA Expenditures Lower than Governor	\$ (1.2)	\$ (2.8)	\$ (4.0)	\$ (4.0)	\$ (6.5)

## Bond Authorizations and Debt Service

The table below compares bond authorizations requested by agencies with the Governor's recommended for the 2001-2003 biennium. The figures include prior authorizations effective in FY 02 and FY 03 for UConn 2000 and economic redevelopment projects in Hartford.

The Equipment category includes the funding removed from agency operating budgets (Capital Equipment Purchase Fund), the Core Financial System, and various other automated systems. The Grants to Other Than Municipalities category is primarily funding for various economic development programs. The Grants to Municipalities category is primarily grants-in-aid for school construction, LoCIP and Urban Action. In FY 02, the Open Space & Recreation category is composed of the Recreation and Natural Heritage Trust Program and funding for the acquisition of water company lands. Bonding for the securitization for worker's compensation claims is also included in FY 02.

<b>Comparison of Agency Requested and Governor's Recommended Bond Authorizations</b>				
<b>Purpose</b>	<b>Agency Requested FY 02</b>		<b>Governor's Recommended FY 02</b>	
	\$ millions	% total	\$ millions	% total
State Buildings and Infrastructure	810.2	41%	457.3	32%
Grants to Municipalities	644.7	32%	477.4	33%
Transportation Projects*	195.9	10%	195.9	14%
Equipment	126.8	6%	123.3	9%
Grants to Other than Municipalities	77.6	4%	68.8	5%
Workers' Compensation Claims	60.0	3%	60.0	4%
Open Space & Recreation	50.0	3%	50.0	3%
Housing	<u>30.0</u>	<u>2%</u>	<u>10.0</u>	<u>1%</u>
<b>Total</b>	<b>1,995.3</b>	<b>100%</b>	<b>1,442.6</b>	<b>100%</b>
	<b>FY 03</b>		<b>FY 03</b>	
	\$ millions	% total	\$ millions	% total
State Buildings and Infrastructure	421.0	23%	299.1	20%
Grants to Municipalities	1,007.5	55%	835.9	57%
Transportation Projects*	196.0	11%	196.0	13%
Equipment	94.5	5%	39.6	3%
Grants to Other than Municipalities	72.8	4%	62.8	4%
Open Space & Recreation	25.0	1%	25.0	2%
Housing	<u>30.0</u>	<u>2%</u>	<u>10.0</u>	<u>1%</u>
<b>Total</b>	<b>1,846.8</b>	<b>100%</b>	<b>1,468.4</b>	<b>100%</b>

\*Transportation projects are funded with Special Tax Obligation bonds.

In addition to the recommended General Obligation bond authorizations listed in the table above, the Governor also proposes to use \$292.5 million of FY 01 General Fund budget surplus to avoid debt and retire miscellaneous other debts. With the exception of \$120 million for school construction grants-in-aid and \$17 million for the residential underground storage tank program, the other uses of surplus are not for ongoing capital programs. Although the development of the Core Financial System and the selling of worker's compensation claims are one-time expenses, the Governor has recommended funding both with a combination of bonding and the use of budget surplus.

The impact of using surplus on General Fund operating expenditures is to reduce the growth rate for debt service. The chart below shows annual growth rates for General Fund debt service from FY 93 to FY 03 (FY 93 through FY 00 are based on actual figures, FY 01 is based on the current expenditure estimate and FY 02 and FY 03 are based on the Governor's proposed budget.) The trend between FY 96 and FY 00 has been downward and the 2% decrease from FY 01 to FY 03 reflects the effect of using \$296.9 million of FY 00 budget surplus in lieu of bonding for school construction grants-in-aid in FY 01 and the proposed use of FY 01 budget surplus in FY 02.

