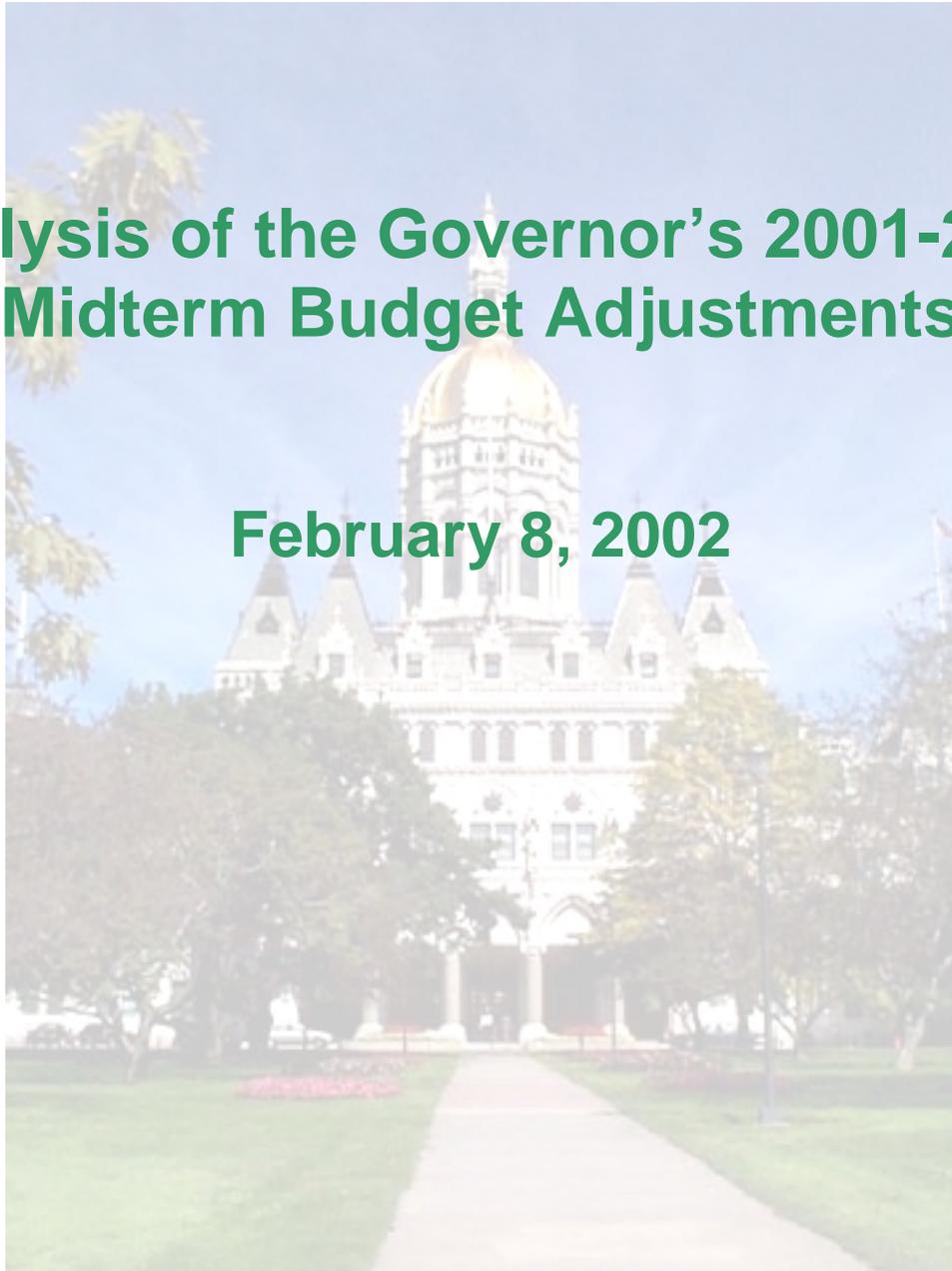


**Connecticut General Assembly**  
**OFFICE OF FISCAL ANALYSIS**

**Analysis of the Governor's 2001-2003  
Midterm Budget Adjustments**

**February 8, 2002**



# **Analysis of the Governor's 2001-2003 Midterm Budget Adjustments**

## **Summary Table of the Comparison of the Office of Fiscal Analysis' and Governor's Projected General Fund Shortfalls for FY 02 and FY 03**

### **Introduction and Highlights**

#### **Section 1. OFA vs. Governor General Fund Shortfall Comparison**

OFA is currently projecting shortfalls that exceed the governor's estimate by \$233.7 million in FY 02 and \$173.7 million in FY 03. This is largely attributable to OFA's projected revenue shortfall which exceeds the governor's estimates by \$208.8 million in FY 02 and \$156.8 million in FY 03.

#### **Section 2. Additional Surplus Appropriation Reductions**

The governor has recommended additional surplus appropriation reductions of \$157.3 million. Of this total, the governor transfers \$83.5 million to cover FY 02 deficiencies and \$73.8 million to FY 02 General Fund revenues.

#### **Section 3. Governor's FY 03 Midterm Adjustments**

##### **Program Expenditures Changes**

The governor has recommended \$52.6 million in program expansions and \$204.2 million in expenditure reductions.

##### **Impact of the Governor's Recommendations on Grants to Towns**

The governor's budget recommendations represent a \$63.5 million decrease over the amount originally appropriated for FY 03 and a \$12.3 million or 0.6% increase over estimated expenditures for FY 02. Note: this analysis does not include grants provided through the FY 01 surplus such as the \$31 million provided for revenues sharing in FY 02.

#### **Section 4. Governor's FY 02 and FY 03 General Fund Revenue Changes**

The Governor has recommended increases to revenue amounting to \$42.5 million in FY 02 and \$482 million in FY 03.

#### **Section 5. Transfer from Budget Reserve Fund**

The governor has recommended that \$122.5 million be transferred from the Budget Reserve (Rainy Day) Fund in order to cover his projected remaining FY 02 deficit.

#### **Section 6. Governor's Recommended Transportation Fund Projections: FY 02 - FY 06**

Both the governor's and OFA's projections anticipate that the cumulative balance of \$135.7 million in the Transportation Fund will decline to under \$100 million by FY 06 and that operating deficits will begin in FY 04.

**Summary Table of the  
Comparison of OFA's and Governor's  
Projected Shortfalls for FY 02 and FY 03**

See Section  
for Detailed  
Explanation

	FY 02		FY 03	
	OFA	Governor	OFA	Governor
Gross Deficit:				
1 Beginning Balance	0.1	0.1	0.6	0.6
Revenue Shortfall	(676.4)	(467.6)	(682.6)	(525.8)
Additional Expenditure Requirements	(88.7)	(83.6)	(112.4)	(108.0)
<b>Shortfall Prior to Savings Measures</b>	<b>(765.0)</b>	<b>(551.1)</b>	<b>(794.4)</b>	<b>(633.2)</b>
<b>Savings Measures Implemented after Passage of the Original Budget:</b>				
Operating Budget Reductions (SA 01-1, Nov. 15, 2001 Special Session)	35.3	35.3	-	-
Surplus Approp. Reductions (SA 01-1, Nov. 15, 2001 Special Session)	129.0	128.8	-	-
Allotment Reductions (as implemented by the Governor on 9/28/01-\$20.3m and 12/20/01-\$12.7m)	33.0	33.3	-	-
Other Savings (including targetable lapses-\$8.9m and carryforward reductions-\$7.1m) [2]	16.0	16.0	-	-
Total Savings Measures Implemented after Passage of the Original Budget	213.3	213.4	-	-
<b>Current Shortfall After Implemented Savings</b>	<b>(551.7)</b>	<b>(337.7)</b>	<b>(794.4)</b>	<b>(633.2)</b>
<b>Governor's 2001-2003 Midterm Budget Recommendations:</b>				
<b>FY 02:</b>				
2 Additional Surplus Appropriation Reductions	157.3	157.3	-	-
Forced Lapses	13.6	13.6	-	-
Additional Carryforward Reductions	1.8	1.8	-	-
Increase the Cigarette Tax effective 4/1/02	40.8	42.5	-	-
Change Effective Date of the Hospital Sales Tax (SB 33)	(18.0)	-	-	-
Total - FY 02 Governor's Recommendations	195.5	215.2	-	-
<b>FY 03:</b>				
3 Expenditure Changes				
Expansion Options	-	-	(52.6)	(52.6)
Reduction Options	-	-	204.2	204.2
4 Revenue Changes			469.5	482.0
Total - FY 03 Governor's Recommendations	-	-	621.1	633.6
<b>Revised Shortfall based on 2/6/02 Gov. Recommendations</b>	<b>(356.2)</b>	<b>(122.5)</b>	<b>(173.3)</b>	<b>0.4</b>
5 Transfer from Budget Reserve Fund per Gov. Recommendations	122.5	122.5	-	-
<b>Remaining Shortfall/(Surplus) based on 2/6/02 Gov. Recs.</b>	<b>(233.7)</b>	<b>-</b>	<b>(173.3)</b>	<b>0.4</b>

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## Section 1: OFA vs. Governor General Fund Revenue Shortfall Comparison

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OFA is currently projecting shortfalls that exceed the governor's estimate by \$233.7 million in FY 02 and \$173.7 million in FY 03. This is largely attributable to OFA's projected revenue shortfall that exceeds the governor's estimates by \$208.8 million in FY 02 and \$156.8 million in FY 03 as indicated in the table below.

<b>General Fund Revenue Shortfall Comparison</b>			
<b>(in millions)</b>			
	<b>OFA</b>	<b>Governor</b>	<b>Difference</b>
<b>FY 02</b>	\$676.4	\$467.6	\$208.8
<b>FY 03</b>	\$682.6	\$525.8	\$156.8

Comparing Office of Fiscal Analysis' revenue estimates to the governor's (prior to the governor's proposed changes) reveals that OFA's General Fund estimate is \$208.8 million below the governor's estimate in FY 02 and \$156.8 million in FY 03. After accounting for the governor's proposed changes, the difference increases to \$228.5 million in FY 02 and \$159.3 million in FY 03.

The primary reasons for the difference between the two offices' estimates are in the base estimates for Personal Income Tax and Sales and Use Tax. The Office of Fiscal Analysis' base estimates are clearly detailed in our January 31st statement on budget projections for FY 02 and FY 03. In addition, OFA differs with the estimated fiscal impact of some of the governor's revenue proposals.

A detailed comparison of the Governor's and OFA's base revenue estimates and revenue estimates including the Governor's proposed changes are contained in the two tables at the end of this section.

### ***Income Tax Estimates***

OFA's FY 02 income tax estimate (before revenue changes) is lower than the governor's by \$167.0 million in FY 02 and \$153.0 million in FY 03. The primary reason for the difference is due to growth rate assumptions for withholding taxes (wages and salaries) and for non-withheld income sources (capital gains, interest, partnership distributions) for FY 02. Since OFA's and the governor's growth rates are similar for FY 03, the difference of \$153 million in FY 03 results from the carry forward of the difference in FY 02.

Year-to-date withholding tax collections through January have declined by -1.8% compared to the same period last year. OFA estimates that total FY 02 receipts from withholding taxes will grow by -0.5% compared to the governor's estimate of 1%. This

difference results in OFA's estimate being approximately \$47 million lower than the governor's.

Year-to-date non-withheld tax collections through January have declined by -13.5% compared to the same period last year. OFA estimates that FY 02 receipts from non-withheld income sources will grow by -14% compared to the governor's estimate of -7%. This difference results in OFA's estimate being approximately \$120 million lower than the governor's. The fourth quarter-estimated payments received through January are a leading indicator of the level of final payments due in April. The relationship of estimated payment revenue to final payments has ranged from 60% to 74% over the last seven years with 67% being the average. We have used the average to project final payment revenue.

### *Sales Tax Estimates*

OFA's FY 02 sales tax estimate (before the governor's proposed changes) is lower than the governor's by \$29.8 million. The primary reason for the differences is because of a lower growth rate assumption for FY 02 (OFA: 1.7%, Governor: 4.0%). Year-to-date tax collections through December are up by 0.8% compared to the same period last year. Therefore, collections for the rest of the year must grow by 3.3% to meet OFA's estimate and 4.9% to meet the governor's estimate. OFA differs with governor on the fiscal impact of changing the effective date of the suspension of the sales tax on hospital services, which causes the gap between our FY 02 estimates to increase to \$48.3 million after adjusting for revenue changes.

OFA's FY 03 sales tax estimate (after the governor's proposed changes) is lower than the governor's by \$66 million. In FY 03, OFA assumes collections will grow by 4.0% compared to the governor's 5.5%.

**Comparision of OFA and Governor's FY 02 & FY 03 Base Estimates  
as of February 8, 2002  
(\$'s in Thousands)**

	FY 01	FY 02	FY 02	FY 02	FY 03	FY 03	FY 03
	Actual	OFA Estimate	Governor's Estimate	Over/Under Governor	OFA Estimate	Governor's Estimate	Over/Under Governor
<b>Taxes</b>							
Personal Income	\$4,744,200	\$4,485,000	\$4,652,000	(\$167,000)	\$4,709,900	\$4,862,900	(\$153,000)
Sales and Use	3,125,100	3,060,000	3,089,800	(29,800)	3,161,000	3,229,600	(68,600)
Corporations	550,500	430,000	431,200	(1,200)	474,700	463,500	11,200
Inheritance and Estate	252,800	150,000	160,000	(10,000)	142,300	129,000	13,300
Public Service Corporations	180,600	180,400	181,400	(1,000)	187,800	184,000	3,800
Insurance Companies	191,100	192,000	192,000	0	198,300	194,100	4,200
Cigarettes	119,500	119,000	117,000	2,000	117,800	115,000	2,800
Oil Companies	64,500	46,400	42,000	4,400	45,600	46,500	(900)
Real Estate Conveyance	112,300	110,000	110,000	0	111,100	105,000	6,100
Alcoholic Beverages	41,100	41,000	41,000	0	41,000	41,900	(900)
Miscellaneous	35,100	36,100	36,100	0	35,300	35,300	0
Admissions, Dues and Cabaret	25,800	25,300	25,300	0	25,800	26,700	(900)
<b>Total Taxes</b>	<b>\$9,442,600</b>	<b>\$8,875,200</b>	<b>\$9,077,800</b>	<b>(\$202,600)</b>	<b>\$9,250,600</b>	<b>\$9,433,500</b>	<b>(\$182,900)</b>
Refunds of Taxes	(\$735,500)	(\$780,000)	(\$782,500)	\$2,500	(\$790,000)	(\$808,900)	\$18,900
R & D Tax Credit Exchange	0	(20,000)	(16,000)	(4,000)	(20,000)	(20,000)	0
<b>Net General Fund Taxes</b>	<b>\$8,707,100</b>	<b>\$8,075,200</b>	<b>\$8,279,300</b>	<b>(\$204,100)</b>	<b>\$8,440,600</b>	<b>\$8,604,600</b>	<b>(\$164,000)</b>
<b>Other Revenue</b>							
Transfer Special Revenue	\$258,200	\$278,000	\$279,200	(\$1,200)	\$270,500	\$273,000	(\$2,500)
Indian Gaming Payments	332,400	376,000	380,000	(4,000)	390,000	399,000	(9,000)
Licenses, Permits and Fees	124,300	128,200	128,200	0	124,200	125,000	(800)
Sales of Commodities and Services	31,300	28,800	28,800	0	30,000	30,800	(800)
Rentals, Fines and Escheats	48,200	51,200	51,200	0	52,400	53,400	(1,000)
Investment Income	67,900	34,000	34,100	(100)	24,000	49,800	(25,800)
Miscellaneous	125,600	114,500	115,100	(600)	122,700	118,700	4,000
<b>Total Other Revenue</b>	<b>\$987,900</b>	<b>\$1,010,700</b>	<b>\$1,016,600</b>	<b>(\$5,900)</b>	<b>\$1,013,800</b>	<b>\$1,049,700</b>	<b>(\$35,900)</b>
Refunds of Payments	0	(500)	(500)	\$0	(500)	(500)	\$0
<b>Net Other Revenue</b>	<b>\$987,900</b>	<b>\$1,010,200</b>	<b>\$1,016,100</b>	<b>(\$5,900)</b>	<b>\$1,013,300</b>	<b>\$1,049,200</b>	<b>(\$35,900)</b>
<b>Other Sources</b>							
Federal Grants	\$2,237,100	\$2,160,000	\$2,158,800	\$1,200	\$2,281,500	\$2,238,400	\$43,100
Transfer from Tobacco Settlement Fund	138,800	120,000	120,000	0	121,000	121,000	0
Transfers to the Recourses of the General Fund	0	-	-	-	-	-	-
To Other Funds	(85,400)	(147,700)	(147,700)	0	(107,000)	(107,000)	0
<b>Total Other Sources</b>	<b>\$2,290,500</b>	<b>\$2,132,300</b>	<b>\$2,131,100</b>	<b>\$1,200</b>	<b>\$2,295,500</b>	<b>\$2,252,400</b>	<b>\$43,100</b>
<b>Total Revenue</b>	<b>\$11,985,500</b>	<b>\$11,217,700</b>	<b>\$11,426,500</b>	<b>(\$208,800)</b>	<b>\$11,749,400</b>	<b>\$11,906,200</b>	<b>(\$156,800)</b>

**Comparison of OFA and Governor's FY 02 & FY 03 Estimates Including Revenue Changes  
as of February 8, 2002  
(\$'s in Thousands)**

	FY 01	OFA	FY 02	Over/Under	OFA	FY 03	Over/Under
	Actual	Estimate	Governor's	Governor	Estimate	Governor's	Governor
			Estimate	Estimate		Estimate	Estimate
<b>Taxes</b>							
Personal Income	\$4,744,200	\$4,485,000	\$4,652,000	(\$167,000)	\$4,719,400	\$4,870,900	(\$151,500)
Sales and Use	3,125,100	3,043,500	3,091,800	(48,300)	3,178,600	3,244,600	(66,000)
Corporations	550,500	430,000	431,200	(1,200)	474,700	463,500	11,200
Inheritance and Estate	252,800	150,000	160,000	(10,000)	142,300	129,000	13,300
Public Service Corporations	180,600	180,400	181,400	(1,000)	187,800	184,000	3,800
Insurance Companies	191,100	206,000	206,000	0	213,900	209,700	4,200
Cigarettes	119,500	158,300	157,500	800	234,000	237,000	(3,000)
Oil Companies	64,500	46,400	42,000	4,400	49,600	51,500	(1,900)
Real Estate Conveyance	112,300	110,000	110,000	0	111,100	105,000	6,100
Alcoholic Beverages	41,100	41,000	41,000	0	41,000	41,900	(900)
Miscellaneous	35,100	36,100	36,100	0	38,100	37,900	200
Admissions, Dues and Cabaret	25,800	25,300	25,300	0	25,800	26,700	(900)
<b>Total Taxes</b>	<b>\$9,442,600</b>	<b>\$8,912,000</b>	<b>\$9,134,300</b>	<b>(\$222,300)</b>	<b>\$9,416,300</b>	<b>\$9,601,700</b>	<b>(\$185,400)</b>
Refunds of Taxes	(\$735,500)	(\$780,000)	(\$782,500)	\$2,500	(\$790,000)	(\$808,900)	\$18,900
R & D Tax Credit Exchange	0	(20,000)	(16,000)	(4,000)	(20,000)	(20,000)	0
<b>Net General Fund Taxes</b>	<b>\$8,707,100</b>	<b>\$8,112,000</b>	<b>\$8,335,800</b>	<b>(\$223,800)</b>	<b>\$8,606,300</b>	<b>\$8,772,800</b>	<b>(\$166,500)</b>
<b>Other Revenue</b>							
Transfer Special Revenue	\$258,200	\$278,000	\$279,200	(1,200)	\$270,500	\$273,000	(2,500)
Indian Gaming Payments	332,400	376,000	380,000	(4,000)	390,000	399,000	(9,000)
Licenses, Permits and Fees	124,300	128,200	128,200	0	126,700	127,500	(800)
Sales of Commodities and Services	31,300	28,800	28,800	0	30,000	30,800	(800)
Rentals, Fines and Escheats	48,200	51,200	51,200	0	60,400	68,400	(8,000)
Investment Income	67,900	34,000	34,100	(100)	34,000	49,800	(15,800)
Miscellaneous	125,600	114,500	115,100	(600)	122,700	118,700	4,000
<b>Total Other Revenue</b>	<b>\$987,900</b>	<b>\$1,010,700</b>	<b>\$1,016,600</b>	<b>(\$5,900)</b>	<b>\$1,034,300</b>	<b>\$1,067,200</b>	<b>(\$32,900)</b>
<b>Refunds of Payments</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>\$987,900</b>	<b>\$1,010,200</b>	<b>\$1,016,100</b>	<b>(\$5,900)</b>	<b>\$1,033,800</b>	<b>\$1,066,700</b>	<b>(\$32,900)</b>
<b>Other Sources</b>							
Federal Grants	\$2,237,100	\$2,160,000	\$2,158,800	\$1,200	\$2,333,800	\$2,290,700	\$43,100
Transfer from Tobacco Settlement Fund	138,800	120,000	120,000	0	137,000	137,000	0
Transfers to the Recourses of the General Fund	0	\$212,800	212,800		240,000	243,000	(3,000)
To Other Funds	(85,400)	(147,700)	(147,700)	0	(122,000)	(122,000)	0
<b>Total Other Sources</b>	<b>\$2,290,500</b>	<b>\$2,345,100</b>	<b>\$2,343,900</b>	<b>\$1,200</b>	<b>\$2,588,800</b>	<b>\$2,548,700</b>	<b>\$40,100</b>
<b>Total Revenue</b>	<b>\$11,985,500</b>	<b>\$11,467,300</b>	<b>\$11,695,800</b>	<b>(\$228,500)</b>	<b>\$12,228,900</b>	<b>\$12,388,200</b>	<b>(\$159,300)</b>

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## Section 2: Additional Surplus Appropriation Reductions

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The governor has recommended additional surplus appropriation reductions of \$157.3 million. Of this total, the governor transfers \$83.5 million to cover FY 02 deficiencies and \$73.8 million to FY 02 General Fund revenues. The \$157.3 million reduction is in addition to the other changes indicated below:

- (1) the \$31.9 million reduction that occurred due to a lower level of surplus being realized than originally anticipated in accordance with the provisions of Section 47(w) of SA 01-1 (June Special Session) so that \$30.7 million could be transferred to fully fund the Budget Reserve (Rainy Day) Fund; and
- (2) the \$129 million reduction made during November in accordance with SA 01-1 (November 15, 2001 Special Session).

<b>FY 01 Surplus Appropriation Reductions (in millions)</b>	
Original Surplus Appropriation	\$608.1
Amount Reduced by 5.91% due to Lower Surplus	<u>(31.9)</u>
Revised Appropriation	\$576.2
November Special Session Changes	<u>(129.0)</u>
Balance after November Special Session	\$447.2
Governor's Recommended Midterm Changes	<u>(157.3)</u>
<b>Balance After Governor's Midterm Changes</b>	<b>\$289.9</b>

See **Appendix A** for a complete listing of all surplus appropriation reductions.

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## Section 3: Program Expenditures Changes

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The Governor's Midterm Budget Adjustments for FY 03 recommends \$52.6 million in program expansions and \$204.2 million in expenditure reductions. The significant program changes are outlined in this section by major budget area.

### *Human Services and Health*

#### **Department of Social Services**

**Hospitals** – The Governor recommends an additional \$15 million for the urban disproportionate share payment program bringing the total funding for FY 03 to \$30 million. Currently, there are nine hospitals receiving payments in the urban DSH program. Payments to those hospitals would double under the Governor's recommended funding level. As part of the Governor's deficit mitigation plan, it is recommended that the last five quarters of "hold harmless" payments currently being made to three hospitals (Stamford, Saint Francis, and Hartford) would not be paid from FY01 surplus but would instead be used to reduce the projected FY 02 deficit. The loss to Hartford and Saint Francis would be substantially offset by the increase in their urban DSH payments. Stamford Hospital does not receive any urban DSH funds and thus would lose all of the last five quarters (FY02-Q4 and FY03-Q1 thru Q4) of hold harmless payments. It should be further noted that hold harmless payments would cease at the end of FY 03.

**Nursing Homes** – Nursing home staffing increase included in the original FY03 budget is repealed for a savings of \$7 million. Additionally, the 2 percent nursing home rate increase included in the original FY 03 budget (at a cost of \$25 million) will be delayed by one month, for a savings of \$2.1 million. Nursing homes will also be required to be dually licensed for both Medicaid and Medicare. This will allow all facilities to bill Medicare for the first 100 days of care following hospital release, for a state savings of \$1.9 million. The budget also continues to assume a \$10 million savings due to a change in policy concerning the beginning date for the penalty period on the transfer of assets.

**Physician Reimbursement** – The Governor eliminates \$3.9 million originally included in the FY 03 budget for rate relief to physicians serving dually eligible Medicare/Medicaid clients.

**Home Health** – The Governor recommends an additional \$2.5 million for certain home health providers in financial distress, and an additional \$1.2 million for a .5% rate increase to all home health providers.

**ConnPACE** – The Governor continues funding for the expanded ConnPACE income limits to 233 percent of the federal poverty limit effective April 1, 2002 that was passed during the June Special Session. The Governor also recommends implementing an asset test for ConnPACE eligibility. This asset test is expected to save \$1.9 million in FY

03. In addition the legislature authorized the executive branch to seek federal reimbursement on the state ConnPACE expenditures. It also directed the executive branch to expand ConnPACE to 300 percent of the federal poverty limit if the federal government agrees to provide matching funds.

**Assisted Living** – The Governor proposes two assisted living pilots to allow up to 75 individuals in private pay assisted living facilities to continue to receive state funded services after exhausting their personal resources. This is expected to result in a net savings of \$250,000 by delaying entry into more expensive long-term care facilities.

**HUSKY HMO's** – The Governor recommends several changes concerning HUSKY providers. First, the tax credit for commercial enrollees is repealed, for a savings of \$14 million. In its place, a 4% increase in the monthly capitation rate is provided, at a cost of \$19.5 million in FY 03. The original FY 03 budget also included a 3% rate increase for HUSKY providers, effective July 1, 2002. The Governor recommends that this increase be delayed until January 1, 2003, for a savings of \$8.5 million.

**HUSKY** – The governor recommends enrolling adults with incomes between 100% and 150% of poverty, currently served under the HUSKY A program, in the HUSKY B program, with a \$30 premium fee per month. Due to the monthly premium and the lower benefit package in HUSKY B, this is expected to save \$5.6 million in FY03. Additionally, funding for HUSKY outreach efforts is severely reduced and the Childrens' Health Initiative is eliminated, for a savings of \$4 million.

**Health Insurance** – The Governor provides \$1.5 million for start-up funding for a federal waiver program to establish a capped, non-entitlement program to subsidize small employer health insurance. This program would provide subsidies to private pool-based health insurance plans to offset employee premium shares. Subsidies would be available for 3,000 to 4,000 low-income employees when fully funded at \$3 million in FY 04.

**Pharmacy Savings Efforts** –The Governor recommends achieving \$26 million in pharmacy savings through a variety of initiatives including: reducing the dispensing fee from \$4.10 to \$3.50 (\$3.7 million); reducing AWP from –12 % to –13.5% (\$5.6 million); implementing maximum allowable cost for generic drugs (\$4.2 million); allowing voluntary mail order (\$2.5 milion); and make nursing home drug return policy mandatory (\$3.7 million). Additional savings will be achieved through the full implementation of prior years' initiatives in the areas of generic drug substitution and prior authorization (\$5 million). These savings are spread among the Medicaid, ConnPACE and SAGA programs.

**SAGA Medical Services** – SAGA medical services will be moved to a flat-grant or risk-based approach and will have prescription services utilize the federal supply schedule through FQHC's. These efforts are expected to save \$4.5 million in FY 03. The Governor further proposes eliminating durable medical equipment, home health, vision, and other practitioner services from the SAGA medical program. This results in an additional \$4.1 million in savings. Transportation services for SAGA clients were eliminated in the FY 02 budget.

**Child Care** – The Governor eliminates \$7 million originally budgeted for FY 03 in anticipation of supplemental federal revenue. It no longer appears that the state will receive this supplemental revenue.

**Elderly Health Screening** – The governor recommends eliminating one of the four state Elderly Health Screening programs, for a savings of \$314,000. The program slated to be eliminated provides full-health screenings that could be reimbursed under Medicare if the agency pursued such payments.

## **Department of Children and Families**

**LINK Computer System** - The sum of \$4 million is recommended to allow the department to enhance its statewide computer system to meet consent decree mandates and other federal requirements.

**Reintegrate Juvenile Offenders into the Community** - A reallocation of \$2 million is recommended to reflect reducing the population of juvenile offenders in residential treatment by approximately 22 through a corresponding expansion of community-based support services.

**Residential Treatment** - A net saving of \$3 million is recommended. This reflects \$9.5 million less going to support the placement of children and youth in high-cost residential placements in response to an expansion of lesser cost therapeutic foster care placements (a \$3.2 million increase) and other community-based services (a \$3.3 million increase).

**Workers' Compensation Claims** - The sum of \$1 million is recommended to account for greater than anticipated claims costs.

**Covenant to Care** - A \$229,000 reduction is recommended to reflect elimination of support for the Adopt a Social Worker program as well as Latino and African American foster and adoptive parent recruitment activities performed by this contractor.

## **Department of Mental Health and Addiction Services**

**Blue Hills** – The Governor recommends transferring substance abuse services currently located at Blue Hills Hospital in Hartford to the Capitol Region Mental Health Center (CRMHC). Administrative staff and/or psychiatric beds would be relocated from CRMHC to Cedarcrest Hospital in Newington. This is expected to save \$900,000 in FY 03.

**Restructure State Services** – The Governor recommends privatizing certain residential services currently being provided by staff at the Southeast Mental Health Authority and River Valley Services. This change would eliminate 476 positions for a savings of \$1.1 million.

**Connecticut Mental Health Center** – the Governor recommends reducing the state contracts with CMHC by \$1 million. This will decrease state support for research activities.

**Reconfigure Agency Management** – The Governor recommends savings of \$1.35 million by reducing agency management by 10 percent.

## **Office of Health Care Access**

**Eliminate Office of Health Care Access** - A transfer of \$2.7 million is recommended to reflect the transfer of the Office of Health Care Access to the Department of Public Health. All functions now performed by OHCA would be continued, but under the auspices of a newly established Division of Hospitals and Health Care Planning. This division would report to the Commissioner of Public Health.

## **Department of Public Health**

**Division of Hospitals and Health Care Planning** - For further detail *see write-up above* entitled Eliminate Office of Health Care Access.

**Bio-terrorism Preparedness** - The sum of \$500,000 is recommended to support nine new positions intended to enhance surveillance support, environmental health activities, response to non-biological incidents and public health laboratory services.

**Children with Special Health Care Needs** - The sum of \$575,000 is recommended to support two Case Managers to provide care coordination for additional families, as well as an expansion of existing community respite programs for children and families served by the Children with Special Health Care Needs program.

**Community Health Centers** - A reduction of \$1.3 million is recommended for community health centers.

## **Department of Mental Retardation**

**Waiting List** – No change in funding for individuals waiting for services.

## **Private Providers**

**Supplemental Funding** -The governor has recommended an additional \$3 million under the budgets of the Departments of Children and Families, Mental Health and Addiction Services and Mental Retardation to aid private providers. Each agency will be provided a pool of funds to be used at their discretion to address extraordinary costs of certain providers associated with staffing, medical needs or other situations of extreme financial distress. Funding will allow the departments to renegotiate FY 03 contracts with private providers who are experiencing extraordinary costs.

**Cost of Living Adjustments** - Funding of \$7.5 million that was included in the adopted 2001-2003 biennial budget for private provider cost of living adjustments (COLA's) has been reallocated from the Office of Policy and Management (OPM) to various agencies (Department of Mental Retardation, Mental Health and Addiction Services, Children and

Families, Social Services, Corrections, the Council to Administer the Children's Trust Fund, and the Judicial Branch). The 1.5% COLA for FY 03 that was adopted as part of the biennial budget has been preserved in the governor's FY 03 adjustments.

## ***Education***

### **Department of Higher Education**

The Governor's budget proposes a recalculation of the Connecticut Independent College Student Grant (CICSG), which is represented by a reduction of \$2.3 million. The result of the recalculation is that those private universities whose endowments exceed \$100 million would no longer receive CICSG grants. The following universities are impacted: Yale, Wesleyan, Connecticut College, Trinity and Fairfield University.

### **Connecticut State University and Regional Community-Technical Colleges**

The Governor's budget proposes that the administration functions and central offices of the Connecticut State University System (CSU) and the Regional Community-Technical Colleges (CTC) be merged. The merger results in a savings of \$2.5 million in FY 03 and \$5.1 million in FY 04.

### **Constituent Units of Higher Education**

In addition to the reductions described above related to the CICSG program and the proposed merger of CSU and CTC, the block grants of the constituent units of higher education were recommended to be reduced by a total of almost \$7 million. Thus, the Governor's total proposed FY 03 reduction to higher education is approximately \$11.7 million. It should also be noted that the FY 03 budgets for these same agencies do increase by about \$27 million over FY 02 estimated expenditures.

### **Department of Education**

The governor's recommended budget provides for 18 additional teaching positions within the vocational-technical schools and an additional \$3.1 million in funding to provide for the positions and to provide adequate funding for the previously authorized 30 new positions provided under the current FY 03 budget.

***Please refer to the grants to towns at the end of this section for a summary of the governor's recommendations concerning education aid.***

## ***Labor and Workforce Development***

### **Office of Workforce Development**

The Governor establishes a permanent Other Current Expense account by adding \$1 million for to the agency budget of the Office of Workforce Competitiveness for Job Funnels. The Job Funnels program provides construction jobs and training to individuals on temporary assistance. The initiative does not specify the cities that will be involved with this program. In FY 02 this construction jobs initiative included Hartford and New Haven. Funds in the amount of \$2 million were appropriated to the OWC in FY02 through the FY01 surplus.

## ***General Government***

### **Office of Policy and Management**

**Grants to Distressed Municipalities** - The grants to distressed municipalities exempts a portion of real estate and personal property located in distressed municipalities for up to five years. The governor recommends an additional \$2.7 million for the increased qualifying business construction and personal property in the southeast portion of the state.

**Repeal Commercial Truck Exemption** - The governor recommends eliminating the local property tax exemption for trucks involved in interstate commerce with a gross vehicle weight over 55,000 lbs, thus reducing the New Manufacturing Machinery and Equipment PILOT by \$1.3 million.

### **Secretary of the State**

**Transfer Costs to Commercial Recording Division** -The governor recommends transferring \$1.25 million for agency Other Expenses to the Commercial Recording Division Account which is a restricted non-lapsing account within the General Fund. This fund is maintained by the SOTS and is finance by fees from corporate filings.

### **Debt Service**

The Governor's recommended \$21 million reduction in General Fund debt service is mainly due to lower than budgeted interest rates for General Obligation (GO) bonds issued in the Fall of 2001, bond premiums and refunding savings. It also includes a \$1.4 million increase for replacement of \$50 million in FY 01 budget surplus for school construction grants-in-aid with an authorization of \$50 million in GO bonds.

### **Reserve for Salary Adjustment**

The approval of the Maintenance (NP-2) Arbitration Award and the New England Health Care Employees Union, District 1199 (P-1) and (NP-6) Arbitration Award exceeded the

budgeted resources of the Reserve for Salary Adjustment Account. The governor recommends increasing the Transportation Reserve for Salary Adjustment Account by \$1.8 million primarily for the Maintenance award, and increasing the General Fund Reserve for Salary Adjustment Account by \$11.6 million (\$9.5 million of the 1199 arbitration award and \$2.1 million for Maintenance Award).

## **Department of Administrative Services**

**Expand DAS collections activities** - The governor proposes adding \$324,552 to the Department of Administrative Services' (DAS) budget for eight durational positions to expand the departments' collections activities. The increased collections would come from moneys owed to the state from 1) the estate of decedents for aid or care provided by the state and 2) for the costs of incarceration from inmates. The governor estimates an annual revenue increase of \$3.5 million. It should be noted that the revenue gain is not reflected in the governor's revenue estimates.

## **State Insurance and Risk Management Board**

The Governor's budget adds \$2,217,940 to the State Insurance and Risk Management Board to cover an increase in premiums due to the World Trade center attacks. The board purchases insurance coverage for the state's buildings and property to protect against losses. After the World Trade Center attacks, the insurance companies increased premiums to cover their losses.

## ***Justice***

### **Department of Correction**

**Program Expansion** - The Governor's budget proposes that funding (\$4.5 million) be provided for the operation of a 600-bed expansion at MacDougall Correctional Institution, located in Suffield, CT. The facility is scheduled to open March 2003. The Governor is also proposing to increase the statutory cap on out-of-state inmate transfers from 500 to 1,000.

**Inmate Pay** - the budget includes a \$1.0 million reduction by reducing the pay to inmates. Inmates earn from \$.75 to \$2.25 per day depending on their work assignments. This will reduce these inmate payments by about 30%.

### **Judicial Department**

**Increase Certain Court Filing Fees** – It is recommended to increase the following fees:

- Jury Fee;
- Entry Fee for Small Claims;
- Motion to Modify Judgment; and
- Application Fee Wage/Property Execution.

The revenue from these fees is deposited into the General Fund. The estimated total revenue increase would be \$1.3 million.

**Eliminate Funding for Youth in Crisis** – It is recommended to eliminate the \$675,000 FY 03 appropriation for Youth in Crisis. This program, which was established by PA 00-177, provides educational and mental health services to 16 and 17 year old troubled youth. The Governor has reduced funding for this program by \$400,000 in FY 02 (through a rescission and a lapse).

**Probate Court Subsidy** - the budget includes the elimination of the \$500,000 General Fund appropriation for the probate court. The probate court administration fund balance is over \$20 million.

**Judges' Salaries** - the Governor proposes increasing judges' and family support magistrates' salaries on 7/1/03, 4/1/04, and 4/1/05 by 6.9%-8.0% depending on the date. A superior court judge's salary would be \$155,000 at the end of the implementation. This proposal does not include any funding as the impact does not occur until FY 04.

**Parole/Probation Officers** - the budget includes \$416,000 for three additional parole officers, one clerical and community services to assist in additional demand related to a Supreme Court decision that will allow certain inmates to be released earlier. It also includes the pick-up of expiring federal funds of \$800,000 for 25 juvenile probation officers. Funding for other probation officer expansions have not been included.

**OPM Drug Enforcement Program (Grants to Towns)** - The FY 03 appropriation is recommended to be reduced by \$2,037,051 in order to reflect the annualization of certain FY 02 allotment rescissions, forced lapses and operating budget reductions. This reduction is offset by an authorization in the Back of the Budget to carry forward into FY 03 up to \$2,037,051 from the FY 02 appropriation. (See Section 11(d) HB 5019, “An Act Making Adjustments to the State Budget for the Biennium Ending June 20, 2003, and Making Appropriations Therefor.”) It is anticipated that the full amount of the authorized carry forward will be met.

**Note:** The President’s proposed budget for FY 2003 includes significant reductions and restructures of various federal criminal justice grants including the E. Byrne Formula Grant, the Local Law Enforcement Block Grant and the Criminal Alien Assistance Grant. The implementation of these proposals could eliminate or reduce funding for various criminal justice programs in the state.

## ***Economic Development and Environment***

### **Department of Economic Development**

**Housing Tax Abatement Grant** -The governor recommends elimination of the \$2,243,276 Tax Abatement grant program in FY 03. The governor recommended eliminating this program in FY 01 and FY 02, the legislature restored funding in both years at the current services level. The Tax Abatement grant program is for

municipalities that have privately owned, non-profit, low and moderate rental housing projects.

**Housing Payment in Lieu of Taxes (PILOT) Grant** - The governor recommends elimination of the \$2,900,000 Payment in Lieu of Taxes in FY 03. The governor recommended eliminating this program in FY 01 and FY 02, the legislature provided funding in both years at the current services level. The PILOT grant program is for municipalities that have low and moderate rental housing projects operated by housing authorities.

**Subsidized Assisted Living Demonstration Project** - The governor recommends reducing funding by \$869,625 to reflect delays in construction and start-up of new assisted living facilities.

## **Department of Environment Protection**

**Title-V Fund Transfer** - Three million dollars of the balance in the Title-V account is proposed to be transferred to the General Fund (HB5019 Sec. 26(a)). The Title-V account is used to administer and operate the program to permit major sources of air pollution and other sources subject to federal clean air act requirements. The account revenue is derived from permit fees. It is very unlikely that federal EPA will allow this transfer to take place. The state of Rhode Island tried to transfer funds from their Title V account for other uses and were instructed to either restore the funds to the account or return the funds to the permitted sources.

**Staff Newly Acquired Parks** - Funds for FY03 of \$336,000 are provided to staff and maintain 2 new state parks, Gardner Lake in Salem and Salt Rock in Sprague.

**Mosquitoes** - The additional funds (\$1.4 million) which had been provided for surveillance and testing for West Nile virus through GF surplus are not included in FY 03. Funding initially provided for Eastern Equine Encephalitis is still included in the budgets of the Department of Environmental Protection and the Agricultural Experiment Station.

**Reduction In Transfers To Conservation Fund** - The Governor proposes to repeal the transfer of \$2 million dollars to the Conservation Fund. This includes \$1 million in one time revenue from the Petroleum Gross Earnings Tax and \$1 million of ongoing revenue from the motor fuels tax. Although fee increases are proposed for the Bureau of Natural Resources to prevent a pending deficit in the Conservation Fund, these increases are not anticipated to cover current costs in conjunction with this revenue loss.

## ***Transportation***

### **Transportation Strategy Board, Department of Transportation**

The governor proposes eliminating \$15,764,264 more in FY 01 surplus funds, and replacing them with \$15 million more in bond funds. (The November Special Session

cut \$15 million in FY 01 surplus funds and replaced them with \$12 million in bond funds.) This would result in total funding of \$43.28 million, \$27 million in bond funds and \$16.28 million in FY 01 surplus funds.

## *Grants to Towns*

The following information is a summary of the governor's significant policy changes concerning **grants to towns**:

- The governor's budget recommendations represent a \$63.5 million decrease over the amount originally appropriated for FY 03 and a \$12.3 million or 0.6% increase over estimated expenditures for FY 02. [1] Note that this analysis does not include grants provided through the FY 02 surplus such as the \$31 million provided for revenues sharing in FY 02.
- The governor's budget recommendation for the Pequot/Mohegan aid grant provides for minimum impact aid to Ledyard, Montville, Norwich, North Stonington and Preston of \$500,000. Since the FY 03 original appropriation remains at \$135 million the increase in aid to these five towns necessitates a decrease in the aid shares of the remaining 164 towns.
- Significant changes were primarily limited to grants provided through the Department of Education. The net reduction from the original FY 03 appropriation in education grants to towns is \$56.4 million this includes an increase of \$14.4 million due to technical adjustments and a decrease of \$70.8 million from FY 03 current service levels.

Grant	FY 02 Estimate	FY 03	FY 03	Reduction
		Current Services	Governor's Recommended	
Vocational Agriculture	\$2.8	\$2.8	\$2.5	(\$0.3)
Transportation of School Children	48.0	50.0	47.8	(2.2)
Adult Education	18.2	19.4	17.8	(1.6)
ECS	1,453.9	1,518.4	1,469.5	(48.9)
Excess Cost - Student Based	66.0	80.0	71.0	(9.0)
Excess Cost – Equity	8.5	7.5	0.0	(7.5)
Non-public School Transportation	4.7	5.0	4.7	(0.3)
Transitional School Districts	1.0	1.0	0.0	(1.0)
<b>Total</b>	<b>\$1,603.1</b>	<b>\$1,684.1</b>	<b>\$1,613.3</b>	<b>(\$70.8)</b>

[1] Source: *FY 2002-2003 Governor's Midterm Budget Adjustments*, February 6, 2002

***Governor's Significant Policy Revisions Concerning  
Grants to Towns***

**Comparison of Revised Budget for FY 03 with Original Budget for FY 03**

Agency / Grant	1 Estimated FY 02	2 Original FY 03	3 Revised FY 03	3-2 Difference Rev. - Orig.	Comment
<b>DECD</b>					
Tax Abatement	[1]	2.2	-	(2.2)	Program eliminated.
Payment in Lieu of Taxes	[1]	2.9	-	(2.9)	Program eliminated.
<b>SDE</b>					
ECS	1,458.8	1,515.5	1,469.5	(46.0)	Reductions are made in the phase-out of the cap (\$50.0 million down to \$40.0 million); the COLA is eliminated and all towns receive an across-the-board reduction of 2%.
Excess Cost - Equity	8.5	7.5	-	(7.5)	Program eliminated.
Excess Cost - Student Based	66.0	69.0	71.0	2.0	The reduction of the threshold for excess cost reimbursement from five times to four and one-half times the average per pupil expenditure is delayed until FY 04. This change reduces aid to local and regional school districts by \$9.0 million.
Adult Education	18.2	18.6	17.8	(0.8)	A cap on state expenditures for this grant results in a reduction of state aid of \$1.62 million.
Public School Transportation	48.0	50.0	47.8	(2.2)	A cap on state expenditures for this grant results in a reduction of state aid of \$2.2 million.
Non-public School Transportation	4.7	5.3	4.7	(0.6)	A cap on state expenditures for this grant results in a reduction of state aid of \$240,000.
Transitional School Districts	1.0	1.0	-	(1.0)	Program eliminated.
<b>Non-Functional</b>					
Mashantucket-Pequot	135.0	135.0	135.0	0.0	Grants to the host communities (Ledyard, Norwich, Montville, North Stonington and Preston) are increased which results in reductions in aid to all other communities all else being equal.
<b>Total - Above Items</b>	\$ 1,740.2	\$ 1,807.0	\$ 1,745.3	\$ (61.2)	
<b>All Others</b>	361.9	370.8	368.5	(2.3)	
<b>Grand Total</b>	\$ 2,102.1	\$ 2,177.8	\$ 2,114.3	\$ (63.5)	

[1] Although \$2.2 million and \$2.9 million were provided for the Tax Abatement and Payment in Lieu of Taxes programs in FY 02 these funds have not been expended due to the FY 02 savings program.

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## Section 4: Significant Revenue Changes

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### *Revenue Proposals*

OFA has analyzed the governor's revenue proposals and has identified three proposals where we differ with him of the anticipated fiscal impact. A complete list of the governor's revenue proposals can be found at the end of this section.

#### **Cigarette Tax**

The most significant on-going revenue proposal recommended by the governor is to increase the cigarette excise tax by 61-cents per pack beginning 4/1/02 (increase the tax from 50-cents/pack to \$1.11/pack). The increase in the tax is anticipated to raise approximately \$41 million in FY 02 and \$122 million in FY 03.

**Change in the Effective Date of Suspension of the Sales Tax on Hospital Services –** The change proposed by the governor would result in the state not collecting approximately \$18 million in revenue from the hospitals for sales that occurred last May and June. While the budget plan estimates did not originally anticipate this revenue, our revised FY 02 estimates issued in October 2000 and January 2001 anticipated an additional \$18 million in revenue. The governor's revenue estimates do not acknowledge any fiscal impact due to this change.

**Unclaimed Bottle Deposits –** OFA's estimate of \$8 million compared to the governor's estimate of \$15 million reflects that it is unlikely that the program operates for twelve months in FY 03.

**Title V Fund Transfer –** see page 16 for summary.

#### **One-time Uses of Revenues to Balance the Budget**

**Anthem Settlement Monies -** Anthem Insurance Company (Anthem) has completed its conversion from a mutual insurance company to a stock company. The State of Connecticut, as a large policyholder, has recently received stock in connection with the demutualization of Anthem.

The State of Connecticut received 1,645,773 shares for the State Employees & Retirees Health Insurance Plan, 587,049 shares for the HUSKY Insurance Plan, and 679 shares for the Board of Education for the Blind Industries Fund plan. These shares have been placed in a fiduciary agency fund that is managed by the Treasurer. The Treasurer has submitted a memorandum to the Governor and the Comptroller outlining the management plan for the sale of the Anthem stock.

The Governor's Budget proposes that \$98 million of the proceeds of the sale of the stock be used as general fund revenue to support increased state health care costs, specifically those for employees, retirees, and DSS clients. The Governor has not utilized the full market value of the stock as a general fund revenue. An adequate amount will remain set aside in the fiduciary fund in recognition of the premium shares state employees with Anthem coverage paid during a specified timeframe. The Governor has proposed to issue payments to employees who have contributed premium payments. The bill to implement the budget does not address the subject of payments to eligible state employees.

**Quasi Publics Agencies** - The governor recommends transferring \$100 million from some of the state's quasi-public agencies to the general fund (\$85 million from the Connecticut Housing Finance Authority, \$7.5 million from the Connecticut Development Authority, and \$7.5 million from the Connecticut Innovations, Inc).

**Tobacco Trust Fund** - \$57 million in transfers from monies received under the Tobacco Settlement Agreement, which would require legislative approval. This includes \$49 million from the Tobacco and Health Trust Fund established by PA 99-2, June Special Session and \$8 million from the Biomedical Research Trust Fund, established by PA 00-216.

The balance in the Tobacco and Health Trust Fund at the end of FY 02 is anticipated to be \$49.9 million. The governor's proposal transfers \$37 million of this balance to General Fund revenues and cancels the annual intercept of at least \$12 million which would otherwise be deposited into the Fund in FY 03, pursuant to provisions of PA 00-216.

These changes, in conjunction with projected income earnings to the fund and the honoring of statutory earmarkings enacted during the 2001 session, will result in an estimated June 30, 2003 balance in the Tobacco and Health Trust Fund of \$10.7 million<sup>[1]</sup>.

PA 00-216 also requires tobacco settlement funds in the amount of \$4 million be dedicated annually (beginning in FY 02) to the Biomedical Research Trust Fund. The governor's proposal transfers the \$4 million FY 02 balance from this fund to the General Fund and cancels the FY 03 intercept, thereby enhancing FY 03 General Fund revenues by \$8 million.

<sup>[1]</sup> This assumes disbursements of \$800,000 in FY 02 and \$441,608 in FY 03 under the authority of the Board of Trustees of the Tobacco and Health Trust Fund. Legislative action is required prior to disbursement.

**Governor's Revenue Proposals**  
**General Fund**  
(In Millions)

Tax Type	Bill #	Legislative Proposals	Effective Date	FY 02		FY 03	
				OFA	Governor	OFA	Governor
PI Tax	SB 38	Defer singles exemption for 2 years	1/1/02	-	-	10.0	9.0
	HB 5048	One-time relief for Victims of 9/11		-	-	(0.5)	(1.0)
Sales & Use Tax	SB 28	Defer phasedown on computer/data proc. services	7/1/02	-	-	13.5	9.7
	SB 33	Changes the effective date of suspending the hospital sales tax		(18.0)	0.0	-	-
	HB 5050	Additional revenue due to Cigarette Tax increase Exempt aviation services	7/1/02	1.5	2.0	6.1	7.3
				-	-	(2.0)	(2.0)
Insurance Companies	SB 33	Repeal HMO Tax Credit	1/1/01	14.0	14.0	15.6	15.6
Cigarette Tax	HB 5050	Increase Cigarette Tax 61¢ to \$1.11 per pack	4/1/02	29.3	31.5	116.2	122.0
	HB 5050	Additional Revenue due to Floor Tax on 3/31/02	Passage	10.0	9.0	-	-
Oil Companies	SB 30	Eliminate one-time transfer to Conservation Fund	7/1/02	-	-	1.0	1.0
	SB 30	Reduce Transfer to STF by \$1 million	7/1/02	-	-	1.0	1.0
	HB 5051	Convert transfer to USTF Fund to fixed \$3M quarterly	7/1/02	-	-	2.0	3.0
Misc Taxes	SB 29	Defer Gift Tax phase-down for 2 years	1/1/02	-	-	2.8	2.6
License, Permits, Fess	SB 21	Increase certain court filing fees	7/1/02	-	-	1.3	1.3
	SB 31	Transfer from New Home Constr. Guaranty Fund	7/1/02	-	-	1.2	1.2
Rents, Fines, Escheats	SB 37	Escheat unclaimed bottle deposits	4/1/02	-	-	8.0	15.0
Federal Grants	HB 5019	Revenue changes as a result of Gov's budget revisions		-	-	52.3	52.3
Trans to Resources of The General Fund	HB 5019	Transfer funds from quasi-public sources	7/1/02	-	-	100.0	100.0
	HB 5019	Transfer funds from Priv Occup Student Protect Func	7/1/02	-	-	1.0	1.0
	HB 5019	Transfer funds from DEP's Title V Emissions Program	7/1/02	-	-	0.0	3.0
	HB 5019	Transfer from Tobacco Funds	7/1/02	-	-	41.0	41.0
	HB 5019	Anthem Demutualization	7/1/02	-	-	98.0	98.0
	HB 5026	November '01 Spec Sess Tax Changes	Passage	135.8	135.8	-	-
	HB 5022	Additional FY2001 Surplus	Passage	77.0	77.0	-	-
Transfer to Other Funds	HB 5019	Repl. surplus funds for Mashantucket/Pequot Grant	7/1/02	-	-	(15.0)	(15.0)
Tobacco Settlement	HB 5019	Redirect transfer to Tobacco and Health Trust Fund	7/1/02	-	-	12.0	12.0
	HB 5019	Redirect transfer to Biomedical Research Trust Fund	7/1/02	-	-	4.0	4.0
<b>General Fund -- Total</b>				<b>249.6</b>	<b>269.3</b>	<b>469.5</b>	<b>482.0</b>

**Special Transportation Fund**  
(In Millions)

Tax Type	Legislative Proposals			FY 02		FY 03	
				OFA	Governor	OFA	Governor
Oil Companies	SB 30	Reduce transfer from Oil Companies Tax	7/1/02	-	-	(1.0)	(1.0)
Transfer Out	SB 30	Eliminate \$1M of transfer to Conservation Fund	7/1/02	-	-	1.0	1.0
<b>Special Transportation Fund -- Total</b>				<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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## Section 5. Transfer from Budget Reserve Fund

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The governor has recommended that \$122.5 million be transferred from the Budget Reserve (Rainy Day) Fund in order to cover his projected remaining FY 02 deficit.

Currently, the Budget Reserve Fund (BRF) contains \$594.7 million, which represents the statutory maximum of 5% of FY 02 net General Fund appropriations. The governor has proposed transferring \$122.5 million to cover his remaining projected deficit for FY 02. If this were to occur, \$472.2 million would be left in the BRF. However, OFA is projecting a remaining deficit of \$356.2 million (based on the governor's midterm recommendations) and if this were to occur, the BRF would be reduced to \$238.5 million.

<b>Impact on Budget Reserve Fund</b> <b>Based on Governor's FY 02 Midterm Adjustments</b> (in millions)		
	<b>OFA Projections</b>	<b>Governor's Projections</b>
<b>Current BRF Balance</b>	\$594.7	\$594.7
<b>Remaining Deficit</b>	<u>(356.2)</u>	<u>(122.5)</u>
<b>Revised BRF Balance</b>	\$238.5	\$472.2

Since no unappropriated surplus is anticipated for FY 02, no addition to the BRF is anticipated at this time. (If unappropriated surplus were available, \$380.9 million based on OFA projections or \$147.2 based on the governor's projections would be needed to fully fund the BRF at \$619.4 million based on 5% of the governor's recommended net General Fund appropriations for FY 03.)

<b>Amount Required to Fully Fund the BRF</b> <b>Based on the Governor's FY 03 Recommendations</b> (in millions)		
	<b>OFA Projections</b>	<b>Governor's Projections</b>
<b>Statutory Maximum</b>	\$619.4	\$619.4
<b>Revised BRF Balance</b>	<u>238.5</u>	<u>472.2</u>
<b>Amount Required to Fully Fund</b>	\$380.9	\$147.2

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## Section 6. Governor's Recommended Transportation Fund Projections: FY 02 - FY 06

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Both the governor's and OFA's projections anticipate that the cumulative balance of \$135.7 million in the Transportation Fund will decline to under \$100 million by FY 06 and that operating deficits will begin in FY 04.

**Governor's Transportation Fund Projections: FY 02 – FY 06  
(in Millions)**

	<b>FY 02</b>	<b>FY 03</b>	<b>FY 04</b>	<b>FY 05</b>	<b>FY 06</b>
<b>Beginning Fund Balance</b>	\$135.7	\$170.4	\$176.0	\$162.2	\$138.4
<b>FY Revenues</b>	879.0	883.8	895.9	902.7	902.7
<b>FY Expenditures</b>	844.3	878.2	909.7	926.5	946.7
<b>FY Surplus/(Deficit)</b>	\$34.7	\$5.6	(\$13.8)	(\$23.8)	(\$44.0)
<b>Ending Fund Balance</b>	<b>\$170.4</b>	<b>\$176.0</b>	<b>\$162.2</b>	<b>\$138.4</b>	<b>\$94.4</b>

The governor's revised budget projects that the cumulative balance in the Transportation Fund will decline from \$135.7 million on July 1, 2001 to \$94.4 million by June 30, 2006. Annual operating fund deficits will begin in FY 04. The governor's revenue estimates have an average annual increase of 0.67% (with no increase between FY 05 and FY 06), while the expenditure estimates have a 2.9% average annual increase.

While the OFA revenue and expenditure growth rates are slightly higher, 1.06% for revenues and 3.29% for expenditures, the impact on the cumulative and annual operating balances is very similar. OFA projects that the cumulative Transportation Fund balance will decline to \$97.2 million by June 30, 2006.

**OFA Transportation Fund Projections: FY 02 – FY 06  
(in Millions)**

	<b>FY 02</b>	<b>FY 03</b>	<b>FY 04</b>	<b>FY 05</b>	<b>FY 06</b>
<b>Beginning Fund Balance</b>	\$135.7	\$164.4	\$177.6	\$170.5	\$147.5
<b>FY Revenues</b>	873.0	892.1	903.5	909.7	902.7
<b>FY Expenditures</b>	844.3	878.9	910.6	932.7	960.9
<b>FY Surplus/(Deficit)</b>	\$28.7	\$13.2	(\$7.1)	(\$23.0)	(\$50.3)
<b>Ending Fund Balance</b>	<b>\$164.4</b>	<b>\$177.6</b>	<b>\$170.5</b>	<b>\$147.5</b>	<b>\$97.2</b>

**Appendix A: FY 01 Surplus Appropriation Changes [1]**

	<b>Original Surplus Appropriation</b>	<b>Amount Reduced by 5.91%</b>	<b>Revised Appropriation</b>	<b>Nov. Special Session Changes</b>	<b>Balance after Nov. Sp. Sess.</b>	<b>Gov.'s Midterm Changes [2]</b>	<b>Balance after Gov.'s Midterm Changes</b>
<b>LEGISLATIVE MANAGEMENT</b>							
Other Expenses	240,000	exempt	240,000	(240,000)	0	0	0
CTN	1,750,000	(103,451)	1,646,549	(35,000)	1,611,549	(211,549)	1,400,000
Minor Capital Improvements	785,000	(46,405)	738,595	(353,000)	385,595	(595)	385,000
Redistricting	600,000	(35,469)	564,531	0	564,531	(264,531)	300,000
<b>OFFICE OF POLICY AND MANAGEMENT</b>							
Energy Contingency	35,000,000	(2,069,015)	32,930,985	(7,600,000)	25,330,985	(11,874,579)	13,456,406
Lease Option for Adriaen's Landing	8,000,000	(472,918)	7,527,082	0	7,527,082	0	7,527,082
Litigation/Settlement	2,000,000	(118,229)	1,881,771	(750,000)	1,131,771	0	1,131,771
<b>OTHER THAN PAYMENTS TO LOCAL GOVERNMENTS</b>							
Private Provider Infrastructure/Debt Fund	18,000,000	(1,064,065)	16,935,935	(12,435,935)	4,500,000	(4,500,000)	0
Arts, Recreation & Culture Grants	10,000,000	exempt	10,000,000	(1,000,000)	9,000,000	0	9,000,000
Boundless Playgrounds	1,000,000	(59,115)	940,885	0	940,885	0	940,885
Miscellaneous Grants	6,000,000	exempt	6,000,000	(2,000,000)	4,000,000	(1,000,000)	3,000,000
<b>PAYMENTS TO LOCAL GOVERNMENTS</b>							
Municipal Revenue Sharing/Impact Aid	31,000,000	exempt	31,000,000	0	31,000,000	0	31,000,000
Relocate Hartford City Offices	6,500,000	(384,246)	6,115,754	0	6,115,754	0	6,115,754
Drug Enforcement Program	1,530,000	(90,446)	1,439,554	0	1,439,554	0	1,439,554
<b>OFFICE OF WORKFORCE COMPETITIVENESS</b>							
Jobs Funnel Projects	2,500,000	(147,787)	2,352,213	(150,000)	2,202,213	(1,202,213)	1,000,000
Workforce Development Boards	2,500,000	(147,787)	2,352,213	(500,000)	1,852,213	(1,852,213)	(0)
<b>PAYMENTS TO LOCAL GOVERNMENTS</b>							
School to Work	2,000,000	(118,229)	1,881,771	(800,000)	1,081,771	(81,771)	1,000,000
<b>DEPARTMENT OF ADMINISTRATIVE SERVICES</b>							
Disabilities Outreach Program	100,000	exempt	100,000	0	100,000	(50,000)	50,000
Hospital Billing system	280,000	exempt	280,000	0	280,000	(140,000)	140,000
<b>DEPARTMENT OF INFORMATION TECHNOLOGY</b>							
CT Technology Initiatives	7,000,000	(413,803)	6,586,197	(4,500,000)	2,086,197	0	2,086,197
Health Insurance Portability & Accountability	2,500,000	(147,787)	2,352,213	(852,213)	1,500,000	0	1,500,000
<b>DEPARTMENT OF PUBLIC WORKS</b>							
Minor Capital Improvements	2,000,000	(118,230)	1,881,770	(1,200,000)	681,770	0	681,770
Capital Projects Revolving Fund Deficit Payment	5,600,000	(331,042)	5,268,958	0	5,268,958	0	5,268,958
<b>ATTORNEY GENERAL</b>							
Computer System Upgrade	150,000	exempt	150,000	(50,000)	100,000	0	100,000

	Original Surplus Appropriation	Amount Reduced by 5.91%	Revised Appropriation	Nov. Special Session Changes	Balance after Nov. Sp. Sess.	Gov.'s Midterm Changes [2]	Balance after Gov.'s Midterm Changes
<b>PUBLIC SAFETY</b>							
Personal Services	2,200,000	(130,052)	2,069,948	0	2,069,948	(1,905,293)	164,655
Other Expenses	250,000	exempt	250,000	0	250,000	(200,000)	50,000
One-Time Helicopter Costs	168,760	exempt	168,760	0	168,760	0	168,760
<b>DEPARTMENT OF MOTOR VEHICLES</b>							
Other Expenses	1,800,000	(106,406)	1,693,594	(1,693,594)	(0)	0	(0)
Equipment	150,000	exempt	150,000	0	150,000	0	150,000
<b>COMMISSION ON FIRE PREVENTION AND CONTROL</b>							
Firefighters' Memorial	100,000	exempt	100,000	0	100,000	0	100,000
<b>LABOR DEPARTMENT</b>							
Project SOAR	1,000,000	(59,115)	940,885	0	940,885	0	940,885
Workforce Investment Act Business System	2,000,000	(118,229)	1,881,771	(881,771)	1,000,000	0	1,000,000
CEIP Phase-Out	3,000,000	(177,344)	2,822,656	0	2,822,656	(1,411,328)	1,411,328
Individualized Development Accounts	400,000	exempt	400,000	0	400,000	(400,000)	0
<b>DEPARTMENT OF ENVIRONMENTAL PROTECTION</b>							
Mosquito Control	1,200,000	(70,938)	1,129,062	0	1,129,062	0	1,129,062
Residential Underground Storage Tank Clean-up	16,500,000	(975,393)	15,524,607	(10,500,000)	5,024,607	(5,024,607)	0
Conservation Officer Radios and Repeaters	250,000	exempt	250,000	0	250,000	0	250,000
Open Space - Water Company Land Acquisition	30,000,000	(1,773,441)	28,226,559	(28,226,559)	(0)	0	(0)
<b>DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT</b>							
Cluster Initiative	4,100,000	(242,370)	3,857,630	(2,500,000)	1,357,630	0	1,357,630
Housing Authorities	1,000,000	(59,115)	940,885	(940,885)	0	0	0
<b>AGRICULTURAL EXPERIMENT STATION</b>							
Mosquito Control	300,000	exempt	300,000	0	300,000	0	300,000
<b>DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES</b>							
Medicaid Rehabilitation Option and Specialty Health Care Plan	750,000	(44,336)	705,664	0	705,664	(152,499)	553,165
Supportive Housing	15,000,000	(886,721)	14,113,279	(6,000,000)	8,113,279	(5,113,279)	3,000,000
Community Mental Health Strategic Investment Fund	25,000,000	(1,477,868)	23,522,132	(2,000,000)	21,522,132	(9,177,132)	12,345,000
APT Relocation	1,000,000	(59,115)	940,885	0	940,885	(940,885)	0
Parking for CMHC	1,062,000	(62,780)	999,220	(999,220)	0	0	0
Clinical Work Stations	1,500,000	(88,672)	1,411,328	0	1,411,328	0	1,411,328
Capitalize Pre-Trial Account	600,000	exempt	600,000	0	600,000	0	600,000
Study Mental Health Needs of Immigrant Children	50,000	exempt	50,000	0	50,000	0	50,000

	Original Surplus Appropriation	Amount Reduced by 5.91%	Revised Appropriation	Nov. Special Session Changes	Balance after Nov. Sp. Sess.	Gov.'s Midterm Changes [2]	Balance after Gov.'s Midterm Changes
<b>DEPARTMENT OF TRANSPORTATION</b>							
Transportation Strategy Board	50,000,000	(2,955,736)	47,044,264	(15,000,000)	32,044,264	(15,764,264)	16,280,000
Dial-A-Ride/Jobs Transportation	2,000,000	(118,229)	1,881,771	(200,000)	1,681,771	(1,681,771)	(0)
<b>DEPARTMENT OF SOCIAL SERVICES</b>							
Other Expenses	2,500,000	(147,787)	2,352,213	0	2,352,213	0	2,352,213
Work Performance Bonus	2,600,000	exempt	2,600,000	0	2,600,000	0	2,600,000
<b>OTHER THAN PAYMENTS TO LOCAL GOVERNMENTS</b>							
Medicaid Excess Cost	25,000,000	(1,477,868)	23,522,132	0	23,522,132	0	23,522,132
TFA Supportive Employment	1,000,000	(59,115)	940,885	0	940,885	(940,885)	0
General Assistance Managed Care Start-Up	500,000	(29,557)	470,443	(470,443)	(0)	0	(0)
Christian Community Action/Hill Cooperative	150,000	exempt	150,000	0	150,000	(150,000)	0
Hospital Finance Restructuring Funding	29,126,000	(1,721,775)	27,404,225	0	27,404,225	(10,589,547)	16,814,678
Medicaid - CHN	2,000,000	(118,229)	1,881,771	0	1,881,771	0	1,881,771
<b>DEPARTMENT OF EDUCATION</b>							
Reading Institutes	2,000,000	(118,229)	1,881,771	0	1,881,771	(940,885)	940,886
Teacher Training	600,000	(35,469)	564,531	0	564,531	(564,531)	0
<b>OTHER THAN PAYMENTS TO LOCAL GOVERNMENTS</b>							
RESC Based Magnet Schools/Interdistricts	2,800,000	(165,521)	2,634,479	0	2,634,479	0	2,634,479
<b>PAYMENTS TO LOCAL GOVERNMENTS</b>							
School Construction Grants	125,000,000	(7,389,339)	117,610,661	(17,610,661)	100,000,000	(50,000,000)	50,000,000
School Wiring	10,000,000	(591,147)	9,408,853	(7,500,000)	1,908,853	(1,908,853)	(0)
Safe Learning Grant	500,000	(29,557)	470,443	0	470,443	0	470,443
School Accountability	2,000,000	(118,229)	1,881,771	0	1,881,771	(940,885)	940,886
Poor Performing Schools	2,800,000	(165,521)	2,634,479	0	2,634,479	(1,317,239)	1,317,240
<b>STATE LIBRARY</b>							
Digital Library	2,000,000	(118,229)	1,881,771	(500,000)	1,381,771	0	1,381,771
<b>DEPARTMENT OF HIGHER EDUCATION</b>							
Higher Education State Matching Grant Fund	19,876,000	(1,174,964)	18,701,036	0	18,701,036	(9,973,384)	8,727,652
Energy Studies Chair	500,000	(29,557)	470,443	0	470,443	0	470,443
Higher Education Asset Protection Program	650,000	(38,425)	611,575	(300,000)	311,575	0	311,575
Education and Health Initiatives	1,500,000	(88,672)	1,411,328	0	1,411,328	(132,270)	1,279,058
<b>OTHER THAN PAYMENTS TO LOCAL GOVERNMENTS</b>							
Connecticut Futures Fund	2,500,000	(147,787)	2,352,213	0	2,352,213	0	2,352,213
<b>UNIVERSITY OF CONNECTICUT</b>							
Operating Reserves	4,484,307	(265,089)	4,219,218	0	4,219,218	0	4,219,218

	Original Surplus Appropriation	Amount Reduced by 5.91%	Revised Appropriation	Nov. Special Session Changes	Balance after Nov. Sp. Sess.	Gov.'s Midterm Changes [2]	Balance after Gov.'s Midterm Changes
<b>UNIVERSITY OF CONNECTICUT HEALTH CENTER</b>							
Operating Reserves	1,856,673	(109,757)	1,746,916	0	1,746,916	0	1,746,916
Complete Geriatric Partnership	250,000	exempt	250,000	0	250,000	0	250,000
<b>CHARTER OAK STATE COLLEGE</b>							
Distance Learning Consortium	2,000,000	(118,229)	1,881,771	0	1,881,771	0	1,881,771
Operating Reserves	23,509	exempt	23,509	0	23,509	0	23,509
<b>REGIONAL COMMUNITY-TECHNICAL COLLEGES</b>							
Operating Reserves	3,457,736	(204,403)	3,253,333	0	3,253,333	0	3,253,333
<b>CONNECTICUT STATE UNIVERSITY</b>							
Operating Reserves	3,393,621	(200,613)	3,193,008	0	3,193,008	0	3,193,008
<b>DEPARTMENT OF CORRECTION</b>							
Inmate Tracking System	1,800,000	(106,406)	1,693,594	(693,594)	1,000,000	0	1,000,000
<b>DEPARTMENT OF CHILDREN AND FAMILIES</b>							
Transition Costs for Connecticut Juvenile Training School	1,000,000	(59,115)	940,885		940,885	(470,442)	470,443
Computerized Case Management System	800,000	(47,292)	752,708	(500,000)	252,708	(252,708)	0
<b>JUDICIAL DEPARTMENT</b>							
Spanish Language Interpreter Certification	60,000	exempt	60,000	0	60,000	0	60,000
<b>WORKERS' COMPENSATION CLAIMS - DEPARTMENT OF ADMINISTRATIVE SERVICES</b>							
Transfer Claims Liabilities	30,000,000	(1,773,441)	28,226,559	0	28,226,559	(1,126,559)	27,100,000
<b>MASHANTUCKET PEQUOT AND MOHEGAN FUND</b>							
<b>PAYMENTS TO LOCAL GOVERNMENTS</b>							
Grants to Towns	15,000,000	exempt	15,000,000	0	15,000,000	(15,000,000)	0
<b>TOTAL - GENERAL FUND</b>	<b>608,143,606</b>	<b>(31,923,205)</b>	<b>576,220,401</b>	<b>(128,982,875)</b>	<b>447,237,526</b>	<b>(157,256,697)</b>	<b>289,980,829</b>

[1] Totals for some items may not be exact due to rounding.

[2] Of the \$157.3 million in total reductions, the governor transfers \$83.5 million to cover FY 02 deficiencies and \$73.8 million to FY 02 General Fund revenue.