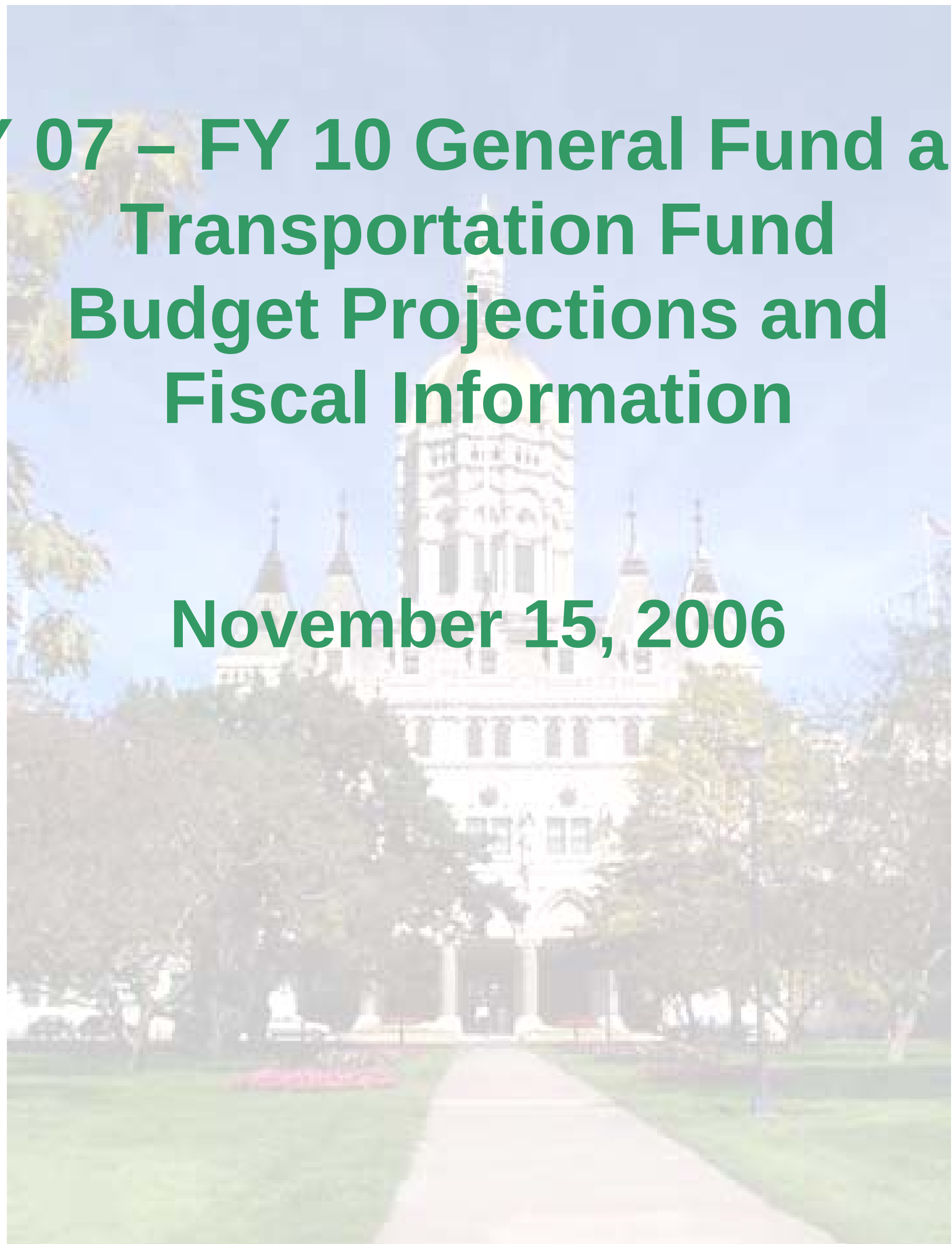
Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

FY 07 – FY 10 General Fund and Transportation Fund Budget Projections and Fiscal Information

November 15, 2006



Report Highlights

- **FY 07 General Fund surplus** is projected at **$539.6 million**. See pages 1 – 6 for details.

- **General Fund current services shortfalls are projected for FY 08 ($235.1 million), FY 09 ($533.4 million) and FY 10 ($681 million).** See pages 11 - 13 for details.

- **FY 07 Transportation Fund operating surplus** is projected at $34.9 million ($14.4 million lower than budgeted), which reduces the cumulative surplus to $168.3 million. The lower surplus projection reflects anticipated revenue reductions. See pages 14 - 17 for details.

- **Out year projections indicate that the Transportation Fund will continue to experience operating surpluses through FY 09 then begin to experience deficits in the long term, which will reduce the cumulative balance in the fund to $125.4 million by FY 11.** This is attributable to the combined effects of growth rates in expenditures accelerating faster than the anticipated growth in revenues.

Preliminary General Fund Budget Projections
FY 07 through FY 10
as of November 15, 2006

	FY 04	FY 05	FY 06	FY 07		FY 08	FY 09	FY 10
Budget Overview:								
	Surplus FY 04	**Surplus FY 05**	**Surplus Estimate FY 06**	**OFA Estimate as of Budget Passage 5/1/06 FY 07**	**OFA Revised Estimate 11/15/06 FY 07**	**OFA Current Services Estimate 11/15/06 FY 08**	**OFA Current Services Estimate 11/15/06 FY 09**	**OFA Current Services Estimate 11/15/06 FY 10**
Revenues	-	-	-	14,998.0	15,373.0	15,800.0	16,340.0	16,962.0
Expenditures	-	-	-	14,837.2	14,833.4	16,035.1	16,873.4	17,643.0
Balance	**302.2**	**363.9**	**446.2**	**160.8**	**539.6**	**(235.1)**	**(533.4)**	**(681.0)**
Maximum Allowable in Budget Reserve (Rainy Day) Fund		10.0% maximum	1,483.7					
Potential BRF Deposit		7.5% funded	1,112.3					
Extent to Which BRF Not Fully Funded		**2.5% unfunded**	**371.4**					
Spending Cap Comparisons (All Funds):								
Amount Total Appropriations (Under) Over Cap (assuming that the legislature will appropriate up to the allowed expenditure limit in FY 07 and that the appropriation will not exceed allowed expenditures in FY 08 and FY 09)				(4.0)	(4.0)	510.5	570.9	415.4

Reasons for FY 08, FY 09 & FY 10 Shortfalls:

	FY 08	FY 09	FY 10
FY 08 - Restore FY 07 Expenditures from FY 05 & FY 06 Anticipated Surplus to FY 08 Appropriations (General Fund)	322.6	-	-
FY 08 - Unavailable One-Time Revenue Shift from FY 06 to FY 07 (General Fund)	41.0	-	-
General Fund Growth Rates (Adjusted):			
Revenue	3.6%	3.4%	3.8%
Expenditures	5.8%	5.2%	4.6%

FY 07 General Fund Summary
as of November 15, 2006
(in millions)

	Budget Plan [1]	Increases (Decreases)	Projected
Revenues			
Taxes	$ 11,250.7	$ 288.9	$ 11,539.6
Other Revenue	1,119.3	62.1	1,181.4
Other Sources	2,628.0	24.0	2,652.0
Total Revenue	**$ 14,998.0**	**$ 375.0**	**$ 15,373.0**
Appropriations			
Original Appropriations - Gross	$ 14,952.2	$ -	$ 14,952.2
Plus:			
Deficiency Requirements	-	11.2	11.2
Adjudicated Claims	-	8.0	8.0
Refunds of Escheated Property	-	27.0	27.0
Less:			
Lapses [1]	(115.0)	(50.0)	(165.0)
Total Expenditures [2]	**$ 14,837.2**	**$ (3.8)**	**$ 14,833.4**
Surplus/(Deficit) from Operations for FY 07	**$ 160.8**	**$ 378.8**	**$ 539.6**

[1] The breakdown for budgeted lapses is as follows:			
unallocated budgeted lapses	$ (90.0)	$ (50.0)	$ (140.0)
general PS and OE reductions (holdbacks)	(25.0)	-	(25.0)
Total - Lapses Originally Budgeted	$ (115.0)	$ (50.0)	$ (165.0)

[2] Excludes expenditures from prior year carryforwards and appropriations from projected surplus.

Note: The General Fund realized a surplus of $302.2 million in FY 04 and $363.9 million in FY 05 and is estimated to end FY 06 with a surplus of $446.2 million for a total Budget Reserve Fund (BRF) deposit from these three years of $1,112.3 million. (It is anticipated that the State Comptroller will close the books on FY 06 by February 28, 2007.) This figure would represent the amount deposited in the Budget Reserve (Rainy Day) Fund which previously contained a zero balance because the prior BRF total of $594.7 million was exhausted when it was transferred to partially cover the $817.1 million deficit in FY 02. The maximum allowable in the Budget Reserve Fund is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 07 totaling $14,837.2 million, the maximum allowable in the Budget Reserve Fund is $1,483.7 million or $371.4 million more than potentially deposited assuming that a full $446.2 million surplus is realized from FY 06.

FY 07 General Fund Revenue Estimates
as of November 15, 2006
(in thousands)

	Budget Plan		OFA	OFA Estimates	
	Growth Rate {1}	FY 07 Estimate	Over(Under) Plan	Growth Rate {1}	FY 07 Estimate
Taxes					
Personal Income	4.9	$6,428,400	151,600	7.0	6,580,000
Sales and Use	4.5	3,534,000	(42,000)	2.9	3,492,000
Corporations	(3.1)	707,100	172,900	16.7	880,000
Public Service Corporations	2.0	232,000	(4,900)	2.0	227,100
Inheritance and Estate	5.0	158,800	-	5.0	158,800
Insurance Companies	2.0	270,200	5,100	2.0	275,300
Cigarettes	(1.5)	269,900	(1,800)	(1.5)	268,100
Real Estate Conveyance	(5.0)	197,600	(21,600)	(15.2)	176,000
Oil Companies	3.1	135,000	4,800	3.1	139,800
Alcoholic Beverages	0.0	44,200	1,800	0.0	46,000
Admissions, Dues and Cabaret	2.0	34,100	1,300	2.0	35,400
Miscellaneous	1.0	139,400	4,200	1.0	143,600
Total Taxes		**12,150,700**	**271,400**		**12,422,100**
Refunds of Taxes		(890,000)	15,000		(875,000)
R & D Credit Exchange		(10,000)	2,500		(7,500)
Taxes Less Refunds		**11,250,700**	**288,900**		**11,539,600**
Other Revenue					
Transfer Special Revenue		280,000	-		280,000
Indian Gaming Payments		438,700	(3,700)		435,000
Licenses, Permits and Fees		140,200	7,800		148,000
Sales of Commodities and Services		33,000	3,000		36,000
Rentals, Fines and Escheats		43,000	-		43,000
Investment Income		47,000	53,000		100,000
Miscellaneous		138,000	2,000		140,000
Refunds of Payments		(600)	-		(600)
Total Other Revenue		**1,119,300**	**62,100**		**1,181,400**
Other Sources					
Federal Grants		2,573,300	22,600		2,595,900
Transfer to the Resources of the General Fund		41,000	-		41,000
Transfer from Tobacco Settlement Fund		100,000	1,400		101,400
Transfer to Other Funds		(86,300)	-		(86,300)
Total Other Sources		**2,628,000**	**24,000**		**2,652,000**
Total Revenue		**14,998,000**	**375,000**		**15,373,000**

{1} Tax growth rates reflect adjustments for rate and base changes.

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General Fund and Transportation Fund Budget Projections
(as of November 15, 2006)

I. FY 07 General Fund

Our projections for the fiscal year ending June 30, 2007 indicate a **potential surplus of $539.6 million** (which represents 3.6% of the budget). This surplus assumes that in addition to the originally budgeted surplus of $160.8 million, **estimated revenues will be $375 million higher than budgeted** and **estimated expenditures will be $3.8 million lower than net appropriations.** While the projected General Fund surplus is $539.6 million, **this estimate may change if: 1) the level of currently estimated deficiencies grows, 2) any additional state funding is provided for emergency heating home assistance; or 3) revenues are adversely affected by any deterioration in economic conditions.**

Revenues

The estimated $375.0 million net increase in FY 07 General Fund revenue collections is due to projected increases of $449.0 million and decreases of $74.0 million. The four most significant increases are: (1) $151.6 million in the Personal Income Tax, (2) $187.9 million in the Corporation Business Tax ($172.9 in increased collections and $15 million in reduced refunds), (3) $53.0 million in Investment Income, and (4) $22.6 million in Federal Grants. The two most significant decreases are $42.0 million due to lower collections in Sales and Use Tax and $21.6 million in lower Real Estate Conveyance Tax. The remaining changes, consisting of $33.9 million in increases and $10.4 million in decreases, are due to a combination of relatively minor adjustments in various revenue sources.

The projected major revenue increases are as follows:

(1) **Personal Income Tax** collections are anticipated to be $151.6 million greater than originally projected due to:

a) ***Estimated Payments:*** Anticipated FY 07 collections have been increased by $113.8 million, which is composed of: (1) $10.6 million in actual third quarter 2006 estimated payment[1] collections, (2) $63.2 million in projected fourth quarter 2006 payments, and (3) $40.0 million in projected first and second quarter 2007 payments. The projections are based on a strong growth trend observed in the 2006 income year of 16% in the first quarter, 25% in the second quarter and 8.1% in the third quarter.

b) ***Final Payments:*** 2006 income year final payment[1] revenue is anticipated to be $72.4 million greater than projected. The estimate is based on the relationship between final payments and estimated payments observed in recent collection

[1] Personal Income Tax estimated and final payments are due as follows: First quarter is due April 15th, Second quarter is due June 15th, Third quarter is due September 15th, Fourth quarter is due December 15th and Final payments are due April 15th of the following year.

data (final payments equal about 70% of estimated payments). Therefore, since estimated payments are anticipated to be higher than initially forecast, final payments have also been increased to maintain this relationship.

c) ***Withholding Payments:*** Anticipated collections from withholding on wages and salaries have been lowered by $34.6 million. The adjustment was made to projected collections for the last four months (March through June) of FY 07 because of the decrease in actual collections for the same period in FY 06.

(2) **Corporation Business Tax** revenues are anticipated to be $187.9 million greater than originally projected. This figure is composed of $172.9 million in increased collections and $15.0 million in reduced refunds.

The $187.9 million increase in the Corporation Tax estimate is based on the fact that third quarter estimated payments exceeded our target by $53.0 million, which reflects a 17% growth rate (after the effect of one-time payments are removed). The third quarter results were used to develop higher growth rates for the remainder of the fiscal year, which resulted in an anticipated increase of $134.9 million for the remainder of the fiscal year.

The $15 million reduction in refunds reflects a decrease in year-to-date refunds (through October) issued to corporate taxpayers.

(3) **Investment Income** has been increased by $53.0 million based on stronger than anticipated investment income. The increase reflects: (1) the positive cash position of the Short Term Investment Fund (STIF) due to the FY 06 budget surplus and the projected FY 07 budget surplus, and (2) the continuing positive impact of the Federal Reserve Bank's interest rate increases on the rate of return for STIF.

(4) **Federal Grants** collections are anticipated to be $22.6 million greater than originally projected. Reimbursements from IV – E claims are expected to be $64.7 million greater than originally anticipated due to a delay in implementing new federal claiming rules. This will be partially off-set by a $42.1 million drop in reimbursements primarily related to lower Medicaid expenditures.

The projected major revenue decreases are as follows:

(5) **Sales and Use Tax** collections are anticipated to be $42.0 million less than originally projected. Collections for the period between February and July 2006 were anticipated to grow by 5.3% but instead only grew by 2.1%. We have reduced our growth rate assumption for the remainder of FY 07 from 4.5% to 3.0% to reflect the trend observed earlier in 2006. The reduced growth rates appear to be due to the negative impact of higher energy costs, increases in variable mortgage interest rates, and a slowdown in the housing market on discretionary consumer spending.

(6) **Real Estate Conveyance Tax** collections are anticipated to be $21.6 million less than originally projected. The projection reflects the fact that revenues during the last six months have declined by 13.6% compared to the same period a year ago and we expect this trend to continue for the remainder of the fiscal year.

Expenditures

The $3.8 million reduction in expenditures is largely attributable to $50 million in lapse (savings) increases offset by $11.2 million in deficiency needs and $35 million in other miscellaneous expenditure requirements.

- **Budgeted Lapses**

  Lapses anticipated in the budget total $115 million and given the amount of unallocated lapse already identified, our surplus projection assumes that these savings will be achieved and perhaps exceeded by $50 million. The $115 million budgeted savings includes: $90 million in unallocated budgeted lapses and $25 million in Personal Services (PS) and Other Expenses (OE) holdbacks. The Office of Policy and Management has reduced agency allotments to reflect the imposition of PS and OE holdbacks.

- **Major Unallocated Lapses**

  So far, we have identified approximately $114.1 million in unallocated lapses or $24.1 million more than the $90 million unallocated lapse anticipated in the budget. Three accounts compose $101.2 million of the $114.1 million in identified lapses, the reasons for which are described below. Given that appreciably more than the budgeted unallocated lapse has been identified, we have increased the FY 06 unallocated lapse projection by $50 million to a total of $140 million assuming that additional lapses will be realized through the end of the year. (The total FY 07 lapse is now projected to be $165 million assuming that the additional $25 million in Personal Services and Other Expenses reductions held back from agency allotments are realized.)

Unallocated Lapses

(figures in $ millions)

Department of Social Services	$44.2
Debt Service	40.0
State Employee Health Service Cost	17.0
Total – Significant Identified Lapsing Appropriations	101.2
Other Identified Lapses (less than $3 million each)	12.9
Total – All Identified Lapses	114.1
Increase in Projected Lapse Above Amount Already Identified	25.9
Total – Revised Projected Unallocated Lapses Anticipated	140.0
Total – Unallocated Lapses Anticipated in the Budget	90.0
Total – Unallocated Lapse Increase Projected by OFA	50.0

Department of Social Services – DSS has a significant projected lapse of $44.2 million. This lapse is primarily driven by the estimated $45 million lapse in the Medicaid program. Pharmaceutical expenditures are below those of the initial FY 07 projections. However, due to the change over to Medicare Part D drug coverage for dual eligible clients there are uncertainties as to how expenditures will track for the rest of the fiscal year

Another significant lapse is expected under the ConnPACE account. Enrollment in the ConnPACE program has continued to decline through the first three months of the fiscal year. The appropriation assumed average FY 07 monthly enrollment of 50,475. However, average enrollment is now projected to be 42,800. Additional savings are accruing in response to lower than expected average Medicare Part D premiums, and lower coverage gap (aka "doughnut hole") costs due to a significant portion of ConnPACE beneficiaries delaying Part D enrollment. These factors contribute to a projected lapse of $17.8 million.

The Temporary Family Assistance account also has a projected lapse of $6.7 million, as enrollment continues to decline. The appropriation assumed average FY 07 monthly enrollment of 22,500. However, average enrollment is now projected to be 22,350.

These lapses are partially offset by projected deficiencies in the HUSKY ($3.75 million), Child Care Subsidies ($7.9 million), State Administered General Assistance ($9.5 million) and Medicare Part D Supplemental Needs ($5 million) accounts. The HUSKY and SAGA account have seen increased medical costs as well as higher than anticipated enrollment. The pace of enrollment in the Child Care Subsidies program has increased, resulting in an estimated average caseload of 11,070, rather than the average caseload of 9,600 assumed in the original FY 07 appropriation.

Debt Service – The projected lapse in the General Fund debt service account is $40 million. It is composed of $45.7 million in reductions from the following sources: (1) $20 million in savings due to changes in the issuance schedule and lower than anticipated interest rates, (2) $22.7 million in premiums* received on General Obligation (GO) bonds, (3) $0.5 million in refunding savings, and (4) $2.5 million in savings from a variety of other sources such as arbitrage rebate payments, rebate fees and trustee fees. This will be partially offset by $5.7 million in increased expenditures from the following sources: (1) $5.2 million to defease bonds issued in 1996 by a nursing home in Bridgeport with a state-backed special capital reserve fund (SCRF), and (2) $0.5 million for the issuance of Tax Incremental Financing (TIF) bonds for the Cabela's project in East Hartford. (*Bond purchasers pay a premium to receive a higher interest rate than the one at which the bonds would otherwise have sold.)

State Employees Health Service Cost – The lapse of $17 million is due to lower than anticipated expenditures in the state employee health service cost account. The account was budgeted based upon enrollment figures that were higher than the actual enrollment. This lapse represents less than 4% of the total available funds in the account.

- **Deficiencies**

The $50 million lapse increase is offset by $11.2 million in projected deficiencies. These net deficiencies are occurring within the Department of Correction ($6.8 million), the Department of Mental Health and Addiction Services ($4.2 million), and the Public Defender Services Commission ($.2 million). Please see the explanations for all FY 07 projected deficiencies which begin on page 7.

Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of $8 million and Refunds of Escheated Property at $27 million.

- **State Employee Wage Increases**

All 32 collective bargaining contracts are settled and funded through FY 07. There are 14 unsettled contracts in FY 08 and 4 unsettled contracts in FY 09 that will require funding in the 2007-2009 biennial budget in addition to the other 14 contracts that will remain settled through this period.

Collective Bargaining Contracts

The 32 settled contracts for FY 07 expire in the following fiscal years:

FY	Unsettled Contracts
08	14
09	4
10	11
11	3

- **Budget Reserve (Rainy Day) Fund Status**

The General Fund realized a surplus of $302.2 million in FY 04 and $363.9 million in FY 05 and is estimated to end FY 06 with a surplus of $446.2 million for a total Budget Reserve Fund (BRF) deposit from these three years of $1,112.3 million. (It is anticipated that the State Comptroller will close the books on FY 06 by February 28, 2007.) This figure would represent the amount deposited in the Budget Reserve (Rainy Day) Fund which previously contained a zero balance because the prior BRF total of $594.7 million was exhausted when it was transferred to partially cover the $817.1 million deficit in FY 02. The maximum allowable in the Budget Reserve Fund is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 07 totaling $14,837.2 million, the maximum allowable in the Budget Reserve Fund is $1,483.7 million or $371.4 million more than potentially deposited assuming that a full $446.2 million surplus is realized from FY 06.

The $594.7 million balance that remained in the Budget Reserve Fund in FY 01 was used to partially cover the $817.1 million deficit in FY 02. The remaining FY 02 deficit balance of $222.4 million was carried forward into FY 03 and financed with the issuance of Economic Recovery Notes during the fiscal year. It should be noted that PA 03-2 (the deficit mitigation act) increased the maximum allowable in the Budget Reserve Fund from 7.5% to 10% of the amount of the net General Fund appropriations for the fiscal year in progress. PA 02-118 had previously increased the maximum from 5% to 7.5%.

PA 03-1 (September 8 Special Session) authorized the State Treasurer to issue 5-year, tax exempt, general obligation Economic Recovery Notes to finance the $96.6 million General Fund deficit in FY 03. The act provided that no principal would be paid during the fiscal year of issuance. The remaining deficits from FY 02 and FY 03 have been extinguished by intercepting anticipated surplus funds in both FY 05 ($137.7 million) and FY 06 ($85.5 million).

Projected FY 07 General Fund Deficiencies
as of November 15, 2006

Department of Mental Health and Addiction Services

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(3,800,000)	$(4,150,000)	$2,564,249	$(1,585,751)

The Department of Mental Health and Addiction Services has a projected net deficiency of $4.2 million, which represents .8% of its FY 07 appropriation of $509.2 million. This assumes that a Personal Services holdback of $1,720,863 and an Other Expenses holdback of $843,386 are not released. If the holdbacks were released, an estimated remaining deficiency of $1.6 million would result.

Of the projected deficiency of $4.2 million, the Personal Services account has a $2 million projected shortfall due to overtime costs and projected staffing needs at inpatient facilities. The Behavioral Health Medications account has a projected deficiency of $1.25 million due to the continued increases in prices for behavioral medications. The Other Expenses account has a projected $.9 million shortfall due to unanticipated telephone installation and repairs. In addition to these deficiencies, the Other Expenses account also has a projected deficiency of $1.1 million due to increased fuel and electricity costs at DMHAS facilities. It is anticipated that the energy shortfall will be funded through the OPM-Energy Contingency account.

Department of Correction

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(6,800,000)	$(6,800,000)	$4,665,442	$(2,134,558)

The Department of Correction has a projected net deficiency of $6.8 million, which represents 1.1% of its FY 07 appropriation of $617.3 million. This assumes that a Personal Services holdback of $2,810,525 and an Other Expenses holdback of $1,854,917 are not released. If the holdbacks were released, an estimated remaining deficiency of $2,134,558 would result.

The $6.8 million deficiency occurs in three areas: Personal Services ($3.0 million), Other Expenses ($2.3 million), and Inmate Medical Services ($1.5 million).

The majority of the PS deficiency is due to staffing and overtime costs associated with supervising an increasing incarcerated population. The current offender population reached a high in October of approximately 19,163 incarcerated inmates. Overtime costs in FY 07 are currently projected at $56.4 million which is $4.9 million higher than that of FY 06.

The shortfall in Other Expenses is driven by operational demands on food, clothing, bedding, and other related living supplies. Additionally, an estimated $1.7 million of the Other Expenses deficiency is related to increased energy costs. It is anticipated that the energy shortfall will be funded through the OPM-Energy Contingency Fund.

The shortfall in Inmate Medical Services is due to increased expenses related to an increasing offender population.

Public Defender Services Commission

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Lapse
$(450,000)	**$(240,000)**	**$256,984**	**$16,984**

The Public Defender Services Commission has a projected, net deficiency of $240,000, which represents .5% of its FY 07 General Fund appropriation of $51 million. This assumes that estimated lapses in Personal Services ($150,000) and Other Expenses ($60,000) are transferred to partially cover the $450,000 gross deficiency, but that the Personal Services holdback of $223,460 and the Other Expenses holdback of $33,524 are not released. If the holdbacks were released, an estimated lapse of $16,984 would result.

The net deficiency results from an expected shortfall in the Special Public Defenders – Non-Contractual account because the number of case assignments and billed hours are greater than budgeted. These Special Public Defenders represent clients in about 2,000 new felony, habeas and appellate matters each year. They are typically assigned to these cases when it is determined that a conflict of interest prohibits representation by an Assistant Public Defender employed by the state.

"Watch List" for
Potential Additional FY 07 Deficiencies
as of November 15, 2006
(figures in $)

Agency / Account / Description	Potential Magnitude of FY 07 Net Deficiency Minimum	Maximum
General Fund:		
Department of Children and Families - The department is experiencing higher than budgeted expenditures for emergency needs ($2.1 million) and other non-categorical services ($7.4 million), as well as board and care of children in subsidized adoption ($1.9 million). Significant lapses (primarily related to foster care and other out-of-home residential services) are expected to be available to offset most of these projected shortfalls. It is anticipated that any remaining funding needs can be accommodated by the release and transfer of held back Personal Services ($1.8 million) and Other Expenses ($1.2 million) dollars. Should the held back funds not be released a deficiency appropriation of approximately $3 million (0.4% of the agency's original appropriation of $788 million) would be required. The Office of Policy and Management currently projects a departmental deficiency of $5.5 million.	-	3,000,000
Workers' Compensation Claims - Department of Administrative Services - The Department of Administrative Services Workers' Compensation account funds the workers' compensation claims costs for state employees in 84 agencies that do not receive a direct appropriation. The DAS workers' compensation claims account could have a deficiency of up to $750,000. The potential deficiency is being driven by significant increases in medical and indemnity costs in the months of July and August. Our estimate assumes that the increased July and August costs are partially mitigated by lower than budgeted requirements in September and October (to-date).	-	750,000

Summary of General Fund Lapsing Appropriations and Other Reductions for FY 07 as of November 15, 2006 (figures in millions)

Department of Social Services	$	44.2		
Debt Service		40.0		
Retired State Employee Health Service Cost		17.0		
Total - Significant Identified Lapsing Appropriations	$	101.2		
Other Identified Lapses (less than $3 million each)		12.9		
Total – All Identified Lapses	$	114.1		
Increase in Projected Lapse Given Amount Already Identified		25.9		
Subtotal			$	140.0
Other Reductions:				
Personal Services Reduction (holdback)	$	14.0		
Other Expenses Reduction (holdback)		11.0		
Subtotal				25.0

Total Revised Projected Lapses Anticipated	**$**	***165.0***
Total Lapses Anticipated in the Budget		***115.0***
Lapse Increase Projected by OFA	**$**	***50.0***

II. FY 08 through FY 10 General Fund Budget Projections

Our current services analysis indicates a potential General Fund surplus in FY 07 of $539.6 million and shortfalls of $235.1 million in FY 08, $533.4 million in FY 09, and $681 million in FY 10. Current services expenditures would exceed the spending cap in the remaining three years by $510.5 million in FY 08, $570.9 million in FY 09 and $415.4 million in FY 10. These estimates assume that the legislature will appropriate up to the allowed expenditure limit in FY 07 and that the appropriation will not exceed allowed expenditures in FY 08 and FY 09.

The FY 08 through FY 10 shortfalls are attributable to: 1) the ongoing impact of $322.6 million in FY 07 expenditures from FY 05 and FY 06 anticipated surplus that will need to be restored to FY 08 appropriations; 2) unavailable one-time revenues amounting to $41 million in FY 08; and 3) expenditure growth which is anticipated to exceed revenue growth.

The $322.6 million in ongoing surplus expenditures includes the following items:

FY 07 Expenditures from FY 05 & FY 06 Anticipated Surplus That Need to be Restored to FY 08 Appropriations	
TRB – Teachers' Retirement	$175.5
DSS – One-Time Revenue that Reduced FY 07 Approp.	40.0
SDE – ECS	32.2
Early Retirement Incentive Plan (ERIP) Accruals	21.2
State Employees Health Service Cost	18.0
OPM – Private Providers (from Contingency Needs)	8.0
SDE – Priority School Districts	7.8
Non-ERIP Accruals	7.5
Remaining FY 06 Carryforwards	4.7
DECD – Housing PILOT	2.2
DMHAS – Community Health Strategy Board	2.0
DECD – Tax Abatement	1.7
SDE – Magnet Schools	1.0
DMHAS – Extend COLA to Federal Contracts	0.8
Total	$322.6

The projections in this report are based on present law, existing policy commitments, estimated caseload and workload requirements. The FY 08 through FY 10 figures are also based on using FY 07 as the baseline for revenue and expenditure projections and assume modest growth in the state and national economy. These estimates show the direction of revenues and spending if current laws and policies remain unchanged. They are not forecasts of what will actually occur, since policymakers will likely seek to alter current priorities.

FY 08 through FY 10 Revenues

The projections for FY 08 though FY 10 were developed using the revised FY 07 estimates adjusted for one-time revenue changes. They assume that annual revenue collections will grow between 3.4% and 4.0%, and that the state will experience modest economic growth throughout this period.

FY 08 through FY 10 Expenditures

The FY 08 projection of $16,035.1 million represents a $1,201.7 million or 5.8% (adjusted) increase over FY 07, the FY 09 projection of $16,873.4 million represents a $838.3 million or 5.2% increase over FY 08 and the FY 10 projection of $17,627.5 million represents a $769.6 million or 4.6% increase over FY 09.

These projections assume technical current services changes including potential cost/caseload adjustments, costs associated with collective bargaining contracts which may be approved and the need to increase future year appropriations to reflect FY 07 deficiency needs rolled forward into the out-years.

These projections have been developed by applying inflationary guidelines and other specific growth factors to the FY 07 and each subsequent year's estimated expenditure level. The guidelines utilized assume 4.5% salary increases for state employees in subsequent years (which includes 3% for cost of living adjustments and 1.5% for Annual Increments) and 2% in each year for other accounts; however, each major appropriated account has been examined individually and adjusted as necessary to reflect amounts anticipated to be required based on present law and caseload projections.

Several accounts with major FY 08 through FY 10 increases include:

Major General Fund Appropriation Increases for FY 08 through FY 10
as of November 15, 2006
(figures in $ millions)

	FY 08	**FY 09**	**FY 10**
DSS – Medicaid	213.1	170.6	179.1
Teachers' Retirement Contributions	196.1	21.6	22.8
Debt Service	63.3	99.5	97.3
SDE – ECS	54.8	20.0	20.0
DCF – Board & Care Accounts	49.2	16.7	24.8
State Employee Health Service Cost	43.6	47.7	24.0
Generally Accepted Accounting Principles (GAAP)	39.0	69.0	0.0
DMR – Community Residential Services	28.6	24.7	25.7
Phase-Out Property Tax on Machinery	26.9	29.2	32.9
SDE – Transp. of School Children	22.4	4.9	4.7
Retired State Employees Health Service	21.7	47.6	23.3
DSS – St. Admin. General Asst. (SAGA)	20.1	23.4	26.5
SDE – Excess Cost-Student Based	18.0	9.3	9.1
SDE – Magnet Schools	9.9	17.0	14.2
State Employees Retirement	9.7	27.7	28.0
Total – Major General Fund Increases	816.4	628.9	532.4

The increases for Teachers' Retirement Contributions indicated above allow 100% funding of normal cost plus 40-year amortization of unfunded liabilities in accordance with current law.

Implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 2007 under current law. Our projections include the impact of the conversion to GAAP in FY 08, which adds approximately $39 million to the budget on a net expenditure basis in that year and increases to approximately $108 million including amortization of the GAAP deficit in each of the following 15 fiscal years. The Comptroller's monthly report dated November 1, 2006 indicates that the unaudited cumulative General Fund GAAP deficit as of June 30, 2005 was $1.038 billion and that the figure is anticipated to increase in FY 06.

III. Transportation Fund

FY 07

The FY 07 budget plan for the Special Transportation Fund (STF) anticipated a $49.3 million operating surplus; however, our latest projections indicate a potential $14.4 million reduction in surplus to $34.9 million. This difference reflects net decreases in revenue collections primarily from the impact of incorporating actual FY 06 collections into the revised FY 07 estimates. No significant differences in expenditures are projected. Exhibits I and II show that the revised un-audited cumulative surplus for the STF at the end of FY 07 will be $168.3 million.

FY 08 and the Out Years

Out year projections indicate that the Transportation Fund will continue to experience operating surpluses through FY 09 then begin to experience deficits in the long term, which will reduce the cumulative balance in the fund to $125.4 million by FY 11. This is attributable to the combined effects of growth rates in expenditures accelerating faster than the anticipated growth in revenues.

The STF out-year projections for FY 08 and FY 09 indicate that despite annual revenues growing by about 3.5% and expenditures growing by about 5.0%, the fund will experience annual operating surpluses (see schedule on page 17). Beginning in FY 10 the Transportation Fund will begin experiencing operating deficits as a result of expenditures increasing even faster than revenues. The increases in expenditures are partly due to full implementation of anticipated Rail and Bus subsidies.

Rail and Bus subsidies are anticipated to increase $10 million in FY 08 to up to $30 million by FY 11 above current expenditure levels. The increases result from the implementation of the Transportation Initiatives recently enacted. The estimates also reflect additional costs of $1.1 million per year beginning in FY 08 for the Department of Motor Vehicles (DMV) to implement the vision screening program.

FY 07 Transportation Fund Summary
as of November 15, 2006
(in millions)

	Budget Plan	Increase/ (Decrease)	Revised Estimates
Revenues			
Taxes	694.0	(9.8)	684.2
Other Revenues	411.5	(4.6)	406.9
Total Revenue	1,105.5	(14.4)	1,091.1
Appropriations			
Original Appropriations - Gross	1,067.2	0.0	1,067.2
Plus:			
Deficiency requirements	0.0	0.0	0.0
Less:			
Lapses:			
Debt Service	0.0	(1.0)	(1.0)
Unallocated	(11.0)	1.0	(10.0)
Total Lapses	(11.0)	0.0	(11.0)
Total Expenditures	1,056.2	0.0	1,056.2
Surplus/(Deficit) from Operations FY 07	**49.3**	(14.4)	**34.9**
Plus: Cumulative Surplus as of June 30, 2006[1]	**135.9**	(2.5)	**133.4**
Projected Fund Balance as of June 30, 2007	**185.2**	(16.9)	**168.3**

[1] Per the October 2, 2006 Comptroller's Letter to Governor Rell, the Fiscal Year 2006 ending balance was $133.4 million in the Transportation Fund.

FY 07 Transportation Fund Revenue Estimates
as of November 15, 2006
(in millions)

	FY 07 Budget Plan	OFA Over/(Under) Budget Plan	FY 07 OFA Estimates
Taxes			
Motor Fuels	488.6	(6.4)	482.2
Petroleum Products Tax	141.0	0.0	141.0
Sales Tax - DMV	73.0	(3.0)	70.0
Refunds of Taxes	(8.6)	(0.4)	(9.0)
Total Taxes Less Refunds	**694.0**	**(9.8)**	**684.2**
Other Sources			
Motor Vehicles Receipts	243.0	(11.0)	232.0
License, Permits, and Fees	159.0	3.0	162.0
Interest Income	40.0	3.0	43.0
Transfers to Conservation Fund	(3.0)	0.0	(3.0)
Refunds of Payments	(3.2)	0.4	(2.8)
Transfers to Emissions Fund	(4.0)	0.0	(4.0)
Transfers to TSB Sub Account	(20.3)	0.0	(20.3)
Total - Other Sources	**411.5**	**(4.6)**	**406.9**
Total Revenue	**1,105.5**	**(14.4)**	**1,091.1**

Transportation Fund Projections for FY 06 through FY 11
as of November 15, 2006
(in millions)

Transportation Fund	FY 06		FY 07	FY 08	FY 09	FY 10	FY 11
	Preliminary		Estimate				
Beginning Balance as of July 1st	**$133.1**		**$133.4**	**$168.3**	**$179.4**	**$180.4**	**$154.5**
REVENUES							
Taxes							
Motor Fuels Tax	480.9		482.2	487.0	491.9	496.8	501.5
Petroleum Products Tax	43.5		141.0	164.0	180.9	180.9	200.9
Sales Tax - DMV	68.4		70.0	72.0	74.0	76.0	78.0
Refund of Taxes	(8.9)		(9.0)	(9.2)	(9.3)	(9.4)	(9.5)
Total - Taxes less Refunds	**$583.9**		**$684.2**	**$713.8**	**$737.5**	**$744.3**	**$770.9**
Other Revenue Sources							
Motor Vehicle Receipts	227.3		232.0	238.9	246.0	253.4	261.4
License, Permits and Fees	160.5		162.0	164.0	166.0	168.0	170.0
Interest Income	40.1		43.0	45.0	46.0	47.0	47.0
Transfers to Other Funds	(4.6)		(7.0)	(9.5)	(9.5)	(9.5)	(9.5)
Release from Debt Service Reserves	0.0		0.0	0.0	0.0	0.0	0.0
Total - Other Sources	**$423.3**		**$430.0**	**$438.4**	**$448.5**	**$458.9**	**$468.9**
Less Refunds of Payments	(2.7)		(2.8)	(2.9)	(3.0)	(3.1)	(3.2)
Less Transfers to TSB Account (1)	(25.3)		(20.3)	(15.3)	(15.3)	(15.3)	(15.3)
TOTAL REVENUE	**$979.2**		**$1,091.1**	**$1,134.0**	**$1,167.7**	**$1,184.8**	**$1,221.3**
EXPENDITURES							
Debt Service	425.8		441.3	459.6	478.4	498.6	497.9
DOT Budgeted Expenses	402.4	[2]	439.8	481.5	500.9	516.5	548.8
DMV Budgeted Expenses	55.3		58.9	61.9	63.4	64.8	66.2
Other Budgeted Expenses	107.6		127.2	130.9	135.0	141.8	148.5
Subtotal - Expenditures	**$991.1**		**$1,067.2**	**$1,133.9**	**$1,177.7**	**$1,221.7**	**$1,261.4**
Less Unallocated Lapses	(12.2)	[3]	(11.0)	(11.0)	(11.0)	(11.0)	(11.0)
TOTAL EXPENDITURES	**$978.9**		**$1,056.2**	**$1,122.9**	**$1,166.7**	**$1,210.7**	**$1,250.4**
OPERATING SURPLUS/(DEFICIT)	**$0.3**		**$34.9**	**$11.1**	**$1.0**	**($25.9)**	**($29.1)**
Ending Balance as of June 30th	**$133.4**		**$168.3**	**$179.4**	**$180.4**	**$154.5**	**$125.4**
DEBT SERVICE RATIO [4]	**2.4**		**2.5**	**2.5**	**2.5**	**2.4**	**2.5**

(1) Incremental revenue from the various DMV fee changes allocated to the Transportation Strategy Board (TSB) and deposited in the TSB projects account.
(2) DOT expenditures do not include $7.9 million for Town Aid Road Grant that the Comptroller reflected as expenditures in the Transportation Fund that resulted from a FY 05 Surplus General Fund appropriation.
(3) Lapse adjusted by $3 million in order to arrive to the Comptroller's FY 06 Operating Surplus figure.
(4) Pledged revenues for reserves required under the Indentures in an amount at least two (2) times the aggregate Principal and Interest Requirements on all outstanding Bonds and Notes.

IV. Other Appropriated Funds Projected Revenues, Expenditures and Ending Balances for FY 07 through FY 10

	FY 07	FY 08	FY 09	FY 10
MASHANTUCKET PEQUOT AND MOHEGAN FUND				
Beginning Balance	0	0	0	0
Revenue	86,300,000	86,300,000	86,300,000	86,300,000
Expenditures	86,300,000	86,300,000	86,300,000	86,300,000
Ending Balance	0	0	0	0
REGIONAL MARKET OPERATION FUND				
Beginning Balance	825,226	909,322	862,118	859,018
Revenue	985,000	985,000	985,000	985,000
Expenditures	900,904	1,032,204	988,100	921,905
Ending Balance	909,322	862,118	859,018	922,113
BANKING FUND				
Beginning Balance	45,577,563	42,432,196	47,342,021	47,430,028
Revenue	16,180,435	24,297,264	19,800,000	24,297,264
Expenditures	19,325,802	19,387,439	19,711,993	19,387,439
Ending Balance	42,432,196	47,342,021	47,430,028	52,339,853
INSURANCE FUND				
Beginning Balance	7,272,000	7,246,535	7,237,436	7,134,362
Revenue	22,694,535	23,340,901	23,746,926	24,000,000
Expenditures	22,720,000	23,350,000	23,850,000	24,100,000
Ending Balance	7,246,535	7,237,436	7,134,362	7,034,362

	FY 07	FY 08	FY 09	FY 10
CONSUMER COUNSEL AND PUBLIC UTILITY CONTROL FUND				
Beginning Balance	5,924,276	6,023,710	6,299,209	6,260,716
Revenue	19,379,485	19,500,000	20,000,000	21,000,000
Expenditures	19,280,051	19,224,501	20,038,493	20,888,093
Ending Balance	6,023,710	6,299,209	6,260,716	6,372,623
WORKERS' COMPENSATION FUND				
Beginning Balance	11,638,775	11,931,602	11,603,262	11,630,686
Revenue	21,000,000	21,900,000	22,200,000	23,200,000
Expenditures	20,707,173	22,228,340	22,172,576	23,170,342
Ending Balance	11,931,602	11,603,262	11,630,686	11,660,344
CRIMINAL INJURIES COMPENSATION FUND				
Beginning Balance	5,103,163	5,338,593	5,574,023	5,809,453
Revenue	2,260,430	2,260,430	2,260,430	2,260,430
Expenditures	2,025,000	2,025,000	2,025,000	2,025,000
Ending Balance	5,338,593	5,574,023	5,809,453	6,044,883
SOLDIERS, SAILORS AND MARINES' FUND				
Trust Fund Value as of June 30, 2006: $59.4 million				
Special Revenue Fund Balance - Beginning	($2,988,232)	($3,617,815)	($4,288,977)	($5,003,669)
Estimated Revenue	2,800,000	2,856,000	2,913,120	2,971,382
Estimated Expenditures	3,429,583	3,527,162	3,627,812	3,731,639
Difference Rev/Exp	($629,583)	($671,162)	($714,692)	($760,257)
Special Revenue Fund Balance - Ending	(3,617,815)	(4,288,977)	(5,003,669)	(5,763,926)

NOTES:

1) SSMF expends dollars that are allocated to the agency based on the level of appropriation.

2) Interest earned from the trust fund is reflected in the special revenue fund to support the expenditures.

3) As of June 30, 2006 the SSMF special revenue fund had a negative balance of $2.98 million due to cumulative years of expenditures exceeding interest income.

V. Miscellaneous Fiscal Information

Tax Credits, Exemptions and Deductions

Appendix A presents a listing of the tax credits, exemptions, and deductions and an estimate of the value of each item. The estimates were formulated using data extracted from Connecticut tax returns whenever possible. Other sources include federal and other state tax expenditure estimates, data from federal tax returns, and other applicable data for Connecticut and the nation.

Each estimate measures the impact of the provision in isolation, with economic conditions and other tax provisions held constant. Because each estimate measures the impact of the provision as it exists under current conditions it does not represent the fiscal impact if the provision was repealed. In many cases, the fiscal impact of repealing a provision would greatly differ from the estimate presented in Appendix A.

The estimates in Appendix A come from the Connecticut Tax Expenditure Report published every two years pursuant to Connecticut General Statutes Section 12-7b (e). OFA is in the process of updating this report to reflect changes in the estimates as well as legislative changes that have been enacted since 2004. We anticipate that an updated version will be completed by January 2007.

Projected Bond Authorizations, Allocations and Issuances and Impact on Debt Service

Summary

The table below presents OFA's estimates for General Obligation (GO) and Special Tax Obligation (STO) bond authorizations for FY 07 through FY 11. The figures for GO bonds show that while bond allocations and bond issuance remain stable over the 5-year period, the expenditure on debt service gradually increases. This increase reflects the assumption that the state will issue GO bonds at higher interest rates over this period. For example, the state issued tax exempt GO bonds in June 2006 at an interest rate of 4.40% while the interest rate assumptions used for the projections in the table below range between 5.25% and 5.75%. The STO bond figures show increasing trends in the projections for authorizations, allocations, issuance and debt service. It should be noted that the STO debt service projections assume that bond issuances will be at higher interest rates over this period, which is consistent with the GO debt service projections.

FY 07 – FY 11 Projections for General Obligation and Special Tax Obligation Bonds

	$ Billions				
	FY 07	FY 08	FY 09	FY 10	FY 11
General Obligation (GO) Bond Projections					
Bond Authorizations[1]	1.4	1.3	1.4	1.4	1.4
Bond Allocations[2]	1.2	1.3	1.3	1.3	1.3
Bond Issuance[3]	1.2	1.3	1.3	1.3	1.3
Debt Service[4]	1.5[5]	1.4	1.5	1.6	1.6
Special Tax Obligation (STO) Bond Projections					

FY 07 – FY 11 Projections for General Obligation and Special Tax Obligation Bonds					
	$ Billions				
	FY 07	FY 08	FY 09	FY 10	FY 11
Bond Authorizations[6]	1.7	0.3	0.3	0.3	0.3
Bond Allocations[6]	0.7	0.5	0.5	0.5	0.5
Bond Issuance[6]	0.3	0.4	0.5	0.5	0.4
Debt Service[6]	0.4	0.5	0.5	0.5	0.5

[1] FY 07 is based on authorizations made during the 2005 legislative session. FY 08 - FY 11 projections are based on a 5 year average of bond authorizations adjusted for nonrecurring projects or expenses. The figures include authorizations for the UConn 21st Century infrastructure program.
[2] The estimates are based on a 5-year average of bond allocations adjusted for nonrecurring projects or expenses. The figures include the UConn 21st Century infrastructure program.
[3] The estimates are based on information supplied by the Office of the State Treasurer. The figures include the UConn 21st Century infrastructure program.

[4] The estimates are based on information supplied by the Office of the State Treasurer. OFA adjusted the projections to reflect anticipated debt service lapse for each year.

[5] The FY 07 GO debt service estimate includes $85.5 million from the FY 06 budget surplus for retirement of the Economic Recovery Notes (ERNs) that were used to cover operating deficits in FY 02 and FY 03.
[6] The figures are based on information supplied by the Office of the State Treasurer. The estimates include assumptions regarding the allocation and issuance of $1.3 billion in STO bonds authorized during the 2006 legislative session for strategic transportation projects and initiatives.

Further Explanation

General Obligation (GO) bonds finance the construction of buildings, grants and loans for housing, economic development, community care facilities, school construction grants, state parks and open space. The University of Connecticut Infrastructure Renewal Program (UConn 21st Century) is also included in this category. The revenue stream from the state's General Fund pays debt service on GO bonds.

Special Tax Obligation (STO) bonds finance the state's portion of the cost of highway and bridge construction and maintenance. In addition to the ongoing transportation infrastructure renewal program, the figures in the table also include the transportation initiatives passed during the 2005 and 2006 legislative sessions. The repayment source for STO bonds is a dedicated revenue stream from the state's motor fuels tax, motor vehicle registrations, licenses and fees.

The capital budget that is passed by the General Assembly each biennium is composed of individual bond authorizations that indicate: (1) the state agency receiving the funds, (2) a description the purpose for which the funds will be used and (3) the amount of funds for the designated purpose. Bond authorizations can be thought of as enabling legislation.

Bond allocations: For an agency to actually commit funds for a project, the bond funds authorized for the project must be allocated. This means that the State is prepared to finance the costs associated with implementation of the next phase of the project. The State Bond Commission (SBC) has statutory responsibility for the allocation process. The SBC is primarily an Executive Branch commission and is currently composed of ten members: the Governor, the Treasurer, the Comptroller, the Attorney General, the Secretary of OPM, the Commissioner of Public Works and the Senate and House

Chairmen of the Finance, Revenue and Bonding Committee and the ranking members of the Committee.

Bond issuance: Bonds are issued by the Office of the State Treasurer several times each year. The issuance schedule is planned in accordance with estimates of the scale and pattern of capital expenditures. The overall pattern of expenditure flows from the capital budget approved by the General Assembly and the flow of individual projects approved for issuance by the State Bond Commission.

Debt service is the amount of money paid by the state each year for (1) interest and principal on outstanding debt and (2) fees related to debt.

Efforts to Obtain Federal Funds

New Initiatives

OFA has reviewed budgeted FY 07 initiatives intended to preserve and/or maximize federal funding and found them to be proceeding as expected. Of note are:

- Capitol Scholarship Program (Department of Higher Education): Appropriated funds have allowed the state to not only meet maintenance of effort requirements (a prerequisite to continued receipt of $391,000 in federal funding) but also generate a new federal match of $500,000 in Special Leveraging Educational Assistance Program dollars.

- Claim Medicaid Reimbursement for Nurturing Families Network (NFN) Services (Council to Administer the Children's Trust Fund): A time study was conducted during October in order to compile data needed to proceed with institution of Medicaid claiming. An estimated $3.5 million in federal funds will be received in FY 07, based upon a 50% match of approximately 80% of NFN program costs.

- TANF/Federal Work Requirements: The Departments of Labor (DOL) and Social Services (DSS) are proceeding with budgeted initiatives to expand access to child care (DSS: $1.5 million), as well as provide education/training, work experience and employment services (DOL: $6.5 million). The state met a federal reporting deadline by submitting its Work Verification Plan to the Department of Health and Human Services on 9/28/06.

  Connecticut's TANF allocation is approximately $266.7 million. Failure to achieve work participation rates mandated within the Deficit Reduction Act of 2005 could lead to possible future penalties of up to 5% in year 1 (or about $13 million), increasing by 2% per year (or about $5 million) up to a maximum of 21% (or about $56 million).

Other Initiatives of Interest

- The DSS met a 11/1/06 filing deadline by submitting its Money Follows the Person (MFP) Rebalancing Demonstration Proposal. The intent of this initiative is to identify people who have lived in qualified long-term care settings for a minimum of 6 months who want to move into the community with home-based services. While PA 06-188 authorized the commissioner to submit the MFP proposal for 100 people, the agency hopes to transition 700 over a five year period.

If Connecticut's proposal is accepted, additional Medicaid dollars will be available for persons transitioned into the community. Congress provided $1.75 billion nationally for the MFP Demonstration. These funds may be awarded to states through fiscal year 2011. Award notifications are expected to be made by 1/1/07.

Analysis of Possible Uses of Surplus Funds

Under the Connecticut Constitution and General Statutes, the three possible uses of surplus funds are:

1. The Budget Reserve or Rainy Day Fund. Under Article 28, Section 18(c) of the Connecticut Constitution, any unappropriated General Fund surplus is first transferred to the Budget Reserve Fund (BRF) to raise the balance to 10% of net General Fund appropriations. The resources of the BRF are invested in the Short Term Investment Fund (STIF), which has a 10-year annualized rate of return of 4.09%.

2. Reduction of Bonded Indebtedness. If any additional surplus remains after the BRF transfer, Article 28 stipulates that it must be used to reduce bonded indebtedness. The average interest rate for General Obligation bonds is currently about 4.5%.

3. Reduction of unfunded pension liability in the State Employees Retirement Fund and Teachers' Retirement Fund. A currently inoperative section of the statutes[1] requires that after the transfer to the BRF, any additional surplus must be used to reduce the unfunded pension liability in the State Employees Retirement Fund by up to 5% of unfunded prior service liability, followed by the reduction of bonded indebtedness. The 10-year annualized rate of return for the Connecticut Retirement Plans and Trust Funds (which includes the State Employees Retirement Fund and the Teachers' Retirement Fund) is 8.6%.

Assuming that transfers to the BRF continue to be the first priority for unappropriated General Fund surplus, the use of any remaining surplus to reduce the unfunded liability of the State Employees Retirement Fund and/or the Teachers' Retirement Fund appears to yield the most positive long term benefits to the state.

[1] The constitutional amendment became effective 11/25/92 while CGS Sec. 4-30a became effective 6/10/92. Because the effective date of Article 28, Section 18(c) is more recent than CGS Sec. 4-30a, the constitutional amendment controls the use of unappropriated General Fund surplus and renders inoperative the portion of CGS Sec. 4-30a that transfers surplus to the pension fund.

Long-Term Obligations

Unfunded liabilities are legal commitments incurred during the current or a prior year that must be paid at some time in the future but for which no reserves have been set aside. The State of Connecticut's unfunded obligations are in four areas: (1) bonded indebtedness (debt outstanding), (2) state employee and teachers' retirement, (3) state employee post employment health and life benefits and (4) Generally Accepted Accounting Principles.

Debt Outstanding – This figure includes debt that is backed by revenue derived from the General Fund, the Special Transportation Fund and a variety of other revenue sources like the Clean Water Fund and Bradley International Airport.

State Employee Pensions and Teachers' Pensions – These figures are an estimate of the cost of the future retirement payments of current state employees and teachers for which the state does not have funds already set aside.

State Post Retirement Health and Life – This figure is an estimate of retirement benefits for current employees other than pension plans for which reserves have not been set aside. The major component of this category is retiree health insurance benefits. The Government Accounting Standards Board (GASB) has required large employers, like the State of Connecticut, to quantify the amount of non-pension retirement benefits offered to employees beginning in FY 08.

Generally Accepted Accounting Principles – This figure represents the unfunded liability associated with the state converting from a modified cash basis of accounting to an accrual basis of accounting. Under Generally Accepted Accounting Principles (GAAP), an accrual basis of accounting would be used whereby expenditures would be charged when owed (rather than paid) and all revenues would be recognized when earned (rather than received). Implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 2007 under current law. Our projections include the impact of the conversion to GAAP in FY 08, which adds approximately $39 million to the budget on a net expenditure basis in that year and increases to approximately $108 million including amortization of the GAAP deficit in each of the following 15 fiscal years. The Comptroller's monthly report dated November 1, 2006 indicates that the unaudited cumulative General Fund GAAP deficit as of June 30, 2005 was $1.038 billion and that the figure is anticipated to increase in FY 06.

The table below shows the current estimates in these areas:

Long-Term Obligations
(in billions)

Debt Outstanding[1]	$14.2
State Employee Pensions – Unfunded	6.9
Teachers' Pensions – Unfunded	5.2
State Post Retirement Health and Life – Unfunded[2]	21.5
Generally Accepted Accounting Principles (GAAP) Deficit	1.0
Total	$48.8

[1]As of 9/30/06; Source: Office of the State Treasurer

[2] Per a draft developed (11/05) pursuant to requirements of Statement 45 of the Government Accounting Standards Board (GASB). According to the report, if the state were to address this liability on an advance funding basis the GASB 45 expense would be substantially reduced to $8.4 billion.

Appendix A – State Tax Expenditure Summary

The table below summarizes state tax expenditures over $100,000 and provides estimates for the value of each.

Summary of Major Identifiable State Tax Expenditures [1]

(In Millions)

	Annual Estimate
Personal Income Tax	
Interest on US Obligations	$50.0
Dividends from Mutual Funds Derived from US Govt Obligations	5.0
Refunds of State and Local Income Taxes	30.0
Tier I Railroad Retirement Benefits	0.5
Beneficiary's share of Connecticut fiduciary adjustment	1.0
Gain on sale of Connecticut Bonds	0.5
Social Security Benefits	35.0
Other Deductions	10.0
Credit for Property Taxes Paid	275.0
Total Personal Income Tax	**$407.0**
Sales and Use Tax	
Consumer Goods	
Sales of Food Products for Human Consumption	$275.0
Items Purchased with Federal Food Stamps Coupons	1.0
Oxygen, Blood Plasma, Prostheses, Wigs, Hearing Aids, Crutches, Walkers, Wheel Chairs, Life Support Equipment, Apnea Monitors, Chairlifts, and Relate Repair Services, Reading Aids, Canes, and Support Hoses	10.0
Prescription Medicines, Syringes and Needles	200.0
Non-prescription Drugs and Medicines	15.0
Disposable Pads for Incontinence	0.5
Smoking Cessation Products	0.2
Sales to Title XVIII or XIX of Social Security Act or CHAMPUS	20.0
Clothing Under $50.00	120.0
Cloth or Fabric Purchased for Non-Commercial Sewing	0.5
Sales Tax "Free Week"	3.0
Fuel for Heating Purposes	100.0
Certain Utilities Sales	5.0
Water Companies Purchases	4.0
Motor Vehicle Fuel	175.0
Newspapers and Magazines	60.0
The first $2,500 of Burial or Cremation Services; Caskets	3.6
Bicycle Helmets	0.2
Child Car Seats	0.5
College Text Books	1.1
Passenger Cars 40 MPG Highway or greater recheck	0.1
Sub Total Consumer Goods	$994.7

[1] Estimated identifiable revenue reductions of $100,000 or more.

Summary of Major Identifiable State Tax Expenditures

(In Millions)

Business and Agricultural Exemptions	Annual Estimate
Machinery Used in Manufacturing	$100.0
Component Parts for Assembly of Manufacturing Machinery	10.0
Production Materials	10.0
Partial Exemption for Materials, Tools, Fuels, Machinery and Equipment used in Manufacturing	3.0
Replacement Parts in Enterprise Zones	0.7
Agriculture Production	5.0
Commercial Fishing	5.0
Aircraft Repair, Replacement Parts; Aircraft Repair Services; Materials, Tools, Fuel, Machinery and Equipment used in an Aircraft Manufacturing Facility	5.0
Commercial Trucks, Trailers and Combination, and Commercial Vehicles used in Inter-State Business	10.0
Motor Buses used in Inter-State Business	0.2
Aviation Fuel	2.0
Printed Material Sent Out of State	2.0
Commercial Printing	5.0
Typesetting, Color Separation and Finished Copy	0.5
Waste Treatment and Air Pollution Facilities	5.0
Motion Picture, Video, TV and Radio Production & Broadcast Equipment	2.0
Lease of Rental of Motion Pictures by Theater Owners	2.0
Motion Picture Leasing or Rental	0.5
Computer Related Cleaning Equipment	0.3
Mold, Dies, Patterns and Sand Handling Equipment for Metal Casting Foundries	0.3
Mold, Dies Patterns for Pattern shops and Metal Casting Foundries	0.3
Safety Apparel	2.5
Commercial Photographic Film and Paper Processing Materials	0.2
Biotechnology	3.5
Connecticut Resource Recovery Authority	3.0
Solid Waste to Energy Facilities	0.2
Fuel Cell Manufacturing Facility	0.1
Sub Total Business and Agricultural Exemptions	$178.3
Service Exemptions	
Drug Testing Services	$3.0
Personnel Services; Marketing, Development, Testing or Research Services; Business Services in Joint Ventures	2.0
Services Between Parent Companies and Subsidiaries	30.0
Computer and Data Processing	58.0
Certain Sales of Computer and Data Processing Services	0.3
Calibration and ISO Services	0.2
Sale of Repair or Maintenance on Vessels	3.0
Renovation & Repair for Residential Property	15.0
Patient Care Services	10.0
Tangible Property Purchased by For-Profit Hospitals	0.5
Leased Employees & Professional Contract Employees	0.2

Summary of Major Identifiable State Tax Expenditures

(In Millions)

	Annual Estimate
Motor Vehicle Parking	2.5
Car Washes	1.0
Amusement and Recreation Services	0.3
Massage Therapist and Electrology Services	0.3
Sales Agent Services	2.0
Advertising	20.0
Tax Preparation	4.0
Winter Boat Storage	0.3
Training Services	0.3
Non-Cable Communication Services	0.1
Sub Total Service Exemptions	$153.0
Non-Profit Organization Exemptions	
Children's Hospital and the John Dempsey Hospital	$5.0
Sales to Nonprofit organizations (combined lease, labor, and goods)	700.0
Sales by Nonprofit Hospitals, Nursing Homes and Rest Homes	0.5
Pilot Tax Credit for E-Commerce Donations to Higher Education	4.0
Sub Total Government and Charitable Organizations	$709.5
Miscellaneous Exemptions	
Motor Vehicles & Vessels Purchased by Non-Residents to use Out of State	$30.0
Vessels Brought in to the State for Storage, Maintenance or Repair	0.5
Casual or Isolated Sales	0.5
Tax on Casual Sales of Motor Vehicles, Vessels, Snowmobiles & Aircraft	2.0
Mobile Homes and Pre-Fabricated Homes	0.5
Sub Total Miscellaneous Exemptions	$33.5
Items Subject to a Lower Sales Tax Rate or Basis	
Sales of Vessels to Nonresidents	$0.5
Trade-In of Certain Construction Equipment	0.5
Trade-In of Motor Vehicles, Snowmobiles, Vessels or Farm Tractors	40.0
Coupons and Discounts and Battery Deposits and Trade-Ins of Like Kind And Trade-In of Core Parts	45.0
Licensed Motor Vehicle Dealers	0.5
Sub Total of Items Subject to a Lower Sales Tax Rate or Basis	$86.5
Total of Sales and Use Tax	**$2,155.5**

Summary of Major Identifiable State Tax Expenditures

(In Millions)

	Annual Estimate
Corporate Business Tax	
Exemptions and Deductions	
Income from Foreign Sales Corporations (FSC)	$25.0
Foreign Insurance Companies	10.0
Railroad Companies	0.8
Political Associations	2.5
Electric Cooperatives	2.8
Alternative Energy System Companies	0.3
Aero-Derived Gas Turbine Systems	0.1
Regulated Investment Co and REITs	1.1
Unpaid Loss Reserve Adjustment for Non-Life Insurance Cos	1.0
Subchapter S Corporations	26.0
Domestic Insurance Companies	20.0
Passive Investment Companies	20.0
Dividends from DISC or FSCs	25.0
Net Operating Loss Carry-Forward	50.0
Net Capital Loss Carry-Over	65.0
Capital Gains from Sales of Open Space or Watershed Land	1.0
Sub Total Exemptions and Deductions	$250.6
Credits	
Enterprise Zones	$0.6
Apprenticeship Training	0.5
Low and Moderate Income Housing and Rental Housing Programs	4.0
Neighborhood Assistance Tax Credits	2.5
Vehicles Powered by Clean Alternative Fuels or Electricity	0.5
Research and Experimentation Expenditures	10.0
Research and Development Expenses	40.0
Employer Assisted Housing Credits	0.1
Small to Medium Sized Companies Capital Goods Expenditures (Mach & Equip)	3.0
Traffic Management Programs	0.1
Credit for Personal Property Tax Paid on Data Processing Equipment	35.0
Fixed Capital Investment Credit	60.0
Human Capital Investment Credit	3.0
Donation of Land to be Preserved as Open Space or Watershed Land	0.5
Sale of Certain Credits	15.0
Insurance Reinvestment Fund Credit	0.5
Sub Total Credits	$175.3
Total Corporate Income Tax	**$425.9**
Succession Tax	
Tax Incentive for Open Space Land	$0.1
Class AA Exemption (Surviving Spouse)	90.0
Class A Exemption (Immediate Family)	105.0
Class B Exemption (Other Relatives)	20.0
Class C Exemption (All Others)	1.5
Total Succession Tax	**$216.6**

Summary of Major Identifiable State Tax Expenditures

(In Millions)

	Annual Estimate
Gifts	
Gifts under $1 Million	$0.3
Public Service Companies Gross Earnings Tax	
Exemptions and Deductions	
Sales for Resale	$50.0
Earnings to Pay for Debt Service on Energy Securitization	1.7
Railroad Companies When Certified by DOT	2.0
Propane Gas Used as Motor Fuel	0.5
Gas and Electricity Used by Industrial Consumers (SIC 2000-3999)	10.0
Gas Sold to Facility with 775 MW of Capacity	5.0
Sub Total Exemptions and Deductions	$69.2
Lowered Rate for Residential Utilities	$5.0
Credits	
Credit for Personal Property Tax Paid on Data Processing Equipment	$2.0
Credit for Rehabilitation of Historic Homes	0.5
Sub Total Credits	$2.5
Total Public Service Companies Gross Earnings Tax	**$76.7**
Petroleum Companies Gross Earnings Tax	
#2 Heating Oil used for Heating Purposes	$40.0
Propane Used for Residential Heating	1.5
Bunker Fuel Oil, Intermediate Fuel, Marine Diesel Oil & Gas Oil	0.5
Kerosene Used for Residential Heating	0.5
Fuel Used in Vessels Engaged in Interstate Commerce	0.5
Fuel Used by Industrial Consumers (SIC 2000-3999)	0.4
DOT Contracted Service Stations Along State Highways	1.5
Credit for Sale to Resellers Located Outside the State	5.0
Total Petroleum Companies Gross Earnings Tax	**$49.9**
Insurance Premiums Tax	
Ocean Marine Insurance	$0.5
State Employee Health Plans	2.0
Medicaid, HUSKY and General Assistance	7.0
Credit for Personal Property Tax Paid on Data Processing Equipment	15.0
Credit for Rehabilitation of Historic Homes	0.5
Credit for HMOs Providing Coverage Through HUSKY A/B	14.5
Insurance Guaranty Fund Payments	1.0
Insurance Reinvestment Fund	4.5
Total Insurance Premiums Tax	**$45.0**
Cigarette and Tobacco Products Taxes	
Tobacco Products Exported Out of State	$10.0

Summary of Major Identifiable State Tax Expenditures

(In Millions)

	Annual Estimate
Alcoholic Beverage Tax	
Sales to United States Military	$5.0
Admissions and Dues Taxes	
Admission Tax	
Charges less than $1.00 and Movies less than $5.00	$3.0
Hartford Civic Center, New Haven Coliseum, New Britain Beehive Stadium, New Britain Veterans Memorial Stadium, Tennis Foundation, O'Neill Convocation Center, Stafford Motor Speedway, Thompson Speedway, Waterford Speedbowl, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, Waterbury Spirit Games, New Britain Rock Cats Games, CT Expo Center	7.0
Nonprofit Theater or Playhouse, Gateway's Candlewood House and Ocean Beach Park	0.2
Carnival or Amusement Rides	0.1
Establishments subject to the Cabaret Tax before July 1, 1999	1.3
Sub Total Admissions Tax	$11.6
Dues Tax	
Portion of Dues Used to Acquire Open Space Land	$0.1
Club Locker Rentals	0.2
Sub Total Dues Tax	$0.3
Total Admissions and Dues Taxes	**$11.9**
Motor Fuels and Motor Carrier Road Taxes	
Exemptions to Motor Fuels Tax	
US Government	$1.0
Municipalities, Transit Districts and the State	10.0
Fuel Distributors	711.0
Fuel Exported Out of State	113.0
Fuel Used for Heating	100.0
Alternative Fuels Used by Covered Fleets	0.5
Aviation Fuel	45.0
Sub Total Motor Fuels Tax Exemptions	$980.5
Refunds of Motor Fuels Tax	
Vehicles not Operated on Public Highways	$3.0
CT Motor Bus Companies and Other Livery Services	1.0
High-Occupancy Commuter Vehicles	0.5
Municipalities, Transit Districts, State, US Govt, and Ambulances	0.5
Farming	0.5
Meals on Wheels for Seniors	0.5
Sub Total Refunds of Motor Fuels Tax	$6.0
Credit for Motor Carrier Road Tax on Motor Fuels Tax Paid in State	$1.0
Total Motor Fuels and Motor Carrier Road Taxes	**$987.5**
Grand Total--Major Identifiable State Tax Expenditures	**$4,391.3**