Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

http://www.cga.ct.gov/ofa/

FY 08 – FY 12 General Fund and Transportation Fund Budget Projections and Fiscal Information

November 15, 2007

OFA Report Highlights

- **FY 08 General Fund surplus** is projected at **$264.4 million**. See pages 1 – 7 for details.

- **FY 09 General Fund surplus** is projected at **$223.7 million,** pending further review of revenues and technical current services expenditure changes including potential cost/caseload adjustments and the need to increase FY 09 appropriations to reflect FY 08 deficiency needs rolled forward into FY 09.

- **General Fund current services shortfalls are projected for FY 10 ($330.6 million), FY 11 ($566.9 million) and FY 12 ($374.4 million).** See pages 8 - 10 for details.

- **FY 08 Transportation Fund operating surplus** is projected at **$32.6 million** ($10.0 million higher than budgeted), which increases the cumulative surplus to $225.5 million. The higher surplus projection is attributable to an anticipated Debt Service lapse. See pages 11 - 14 for details.

- **Out year projections indicate that the Transportation Fund will continue to experience an operating surplus in FY 09, then experience operating deficits beginning in FY 10. The operating deficits are expected to reduce the cumulative balance to $53.7 million by FY 12.** 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 08 through FY 12
as of November 15, 2007

Budget Overview:

	FY 08		FY 09		FY 10	FY 11	FY 12
	OFA Estimate as of Budget Passage 6/25/07 FY 08	**OFA Revised Estimate 11/15/07 FY 08**	**OFA Estimate as of Budget Passage 9/20/07 FY 09**	**OFA Revised Estimate 11/15/07 FY 09**	**OFA Current Services Estimate 11/15/07 FY 10**	**OFA Current Services Estimate 11/15/07 FY 11**	**OFA Current Services Estimate 11/15/07 FY 12**
Revenues	16,315.6	16,572.6	17,073.1	17,341.7	18,059.9	18,851.9	19,723.6
Expenditures	16,314.9	16,308.2	17,073.0	17,118.0	18,390.5	19,418.8	20,098.0
Balance	**0.7**	**264.4**	**0.1**	**223.7**	**(330.6)**	**(566.9)**	**(374.4)**
Spending Cap Comparisons (All Funds):							
Amount Total Appropriations Over (Under) Cap (assuming that the legislature will appropriate up to the allowed expenditure limit in FY 09 and that the appropriation will not exceed allowed expenditures in FY 10 and FY 11)	690.4	690.4	(28.2)	(28.2)	258.6	324.2	(2.8)

Reasons for FY 10, FY 11 & FY 12 Spending Cap Problems and Shortfalls:

	FY 09	FY 10	FY 11	FY 12
FY 10 - Restore FY 09 Expenditures from FY 07 Anticipated Surplus to FY 10 Appropriations (General Fund)		210.0	-	-
FY 10 - Unavailable One-Time Revenue Shift from FY 07 ($80m) and FY 08 ($16m) to FY 09 (General Fund)		96.0	-	-
General Fund Growth Rates (Adjusted):				
Revenue	4.2%	4.2%	4.4%	4.6%
Expenditures	3.8%	5.8%	5.6%	3.5%

FY 08 General Fund Summary
as of November 15, 2007
(in millions)

	Budget Plan	Increases (Decreases)	Projected
Revenues			
Taxes	$ 12,453.2	$ 254.1	$ 12,707.3
Other Revenue	1,206.3	2.9	1,209.2
Other Sources	2,656.1	-	2,656.1
Total Revenue	**$ 16,315.6**	**$ 257.0**	**$ 16,572.6**
Appropriations			
Original Appropriations - Gross	$ 16,431.4	$ -	$ 16,431.4
Plus:			
Deficiency Requirements	-	43.3	43.3
Adjudicated Claims	-	6.5	6.5
Refunds of Escheated Property	-	27.0	27.0
Less:			
Lapses [1]	(116.5)	(83.5)	(200.0)
Total Expenditures [2]	**$ 16,314.9**	**$ (6.7)**	**$ 16,308.2**
Surplus/(Deficit) from Operations for FY 08	**$ 0.7**	**$ 263.7**	**$ 264.4**

[1] The breakdown for budgeted lapses is as follows:			
unallocated budgeted lapses	$ (90.5)	$ (83.5)	$ (174.0)
general PS and OE reductions (holdbacks)	(26.0)	-	(26.0)
Total - Lapses Originally Budgeted	$ (116.5)	$ (83.5)	$ (200.0)

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

Note: General Fund surpluses resulted in the following fiscal years: $302.2 million in FY 04; $363.9 million in FY 05; $446.5 million in FY 06; and an estimated $269.7 million in FY 07, each contributing toward a total Budget Reserve Fund (BRF) balance of $1,382.3 million (which represents 84.7% of full BRF capacity). It is anticipated that the Comptroller will close the books on FY 07 by December 31, 2007. The Budget Reserve (Rainy Day) Fund had been depleted when its prior $594.7 million balance was used 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 08 totaling $16,314.9 million, the maximum allowable in the Budget Reserve Fund is $1,631.5 million or $249.2 million more than potentially deposited.

FY 08 General Fund Revenue Estimates
($ - Thousands)
November 15, 2007

	Budget Plan		OFA	OFA Estimates	
	Growth Rate [1]	FY 08 Estimate	Over(Under) Plan	Growth Rate [1]	FY 08 Estimate
Taxes					
Personal Income	6.8	$7,193,900	$290,100	10.8	$7,484,000
Sales and Use	3.8	3,598,900	-	3.1	3,598,900
Corporations	-	870,000	(45,000)	(5.1)	825,000
Public Service Corporations	2.0	253,100	(5,600)	5.1	247,500
Inheritance and Estate	3.0	185,400	(20,100)	(8.1)	165,300
Insurance Companies	2.0	258,100	-	2.0	258,100
Cigarettes	-	351,500	-	0.2	351,500
Real Estate Conveyance	-	200,000	11,200	-	211,200
Oil Companies	-	134,700	23,500	6.1	158,200
Alcoholic Beverages	1.0	47,000	-	2.1	47,000
Admissions, Dues and Cabaret	2.0	34,400	-	2.9	34,400
Miscellaneous	-	145,000	-	0.4	145,000
Total Taxes		**13,272,000**	**254,100**		**13,526,100**
Refunds of Taxes		(812,800)	-		(812,800)
R & D Credit Exchange		(6,000)	-		(6,000)
Taxes Less Refunds		**12,453,200**	**254,100**		**12,707,300**
Other Revenue					
Transfer Special Revenue		282,600	2,400		285,000
Indian Gaming Payments		437,500	-		437,500
Licenses, Permits and Fees		163,600	-		163,600
Sales of Commodities and Services		38,000	(2,500)		35,500
Rentals, Fines and Escheats		52,100	3,000		55,100
Investment Income		85,000	-		85,000
Miscellaneous		148,100	-		148,100
Refunds of Payments		(600)	-		(600)
Total Other Revenue		**1,206,300**	**2,900**		**1,209,200**
Other Sources					
Federal Grants		2,643,100	-		2,643,100
Transfer to the Resources of the General Fund		(16,000)	-		(16,000)
Transfer from Tobacco Settlement Fund		115,300	-		115,300
Transfer to Other Funds		(86,300)	-		(86,300)
Total Other Sources		**2,656,100**	**-**		**2,656,100**
Total Revenue		**$16,315,600**	**$257,000**		**16,572,600**

[1] Tax growth rates reflect adjustments for rate and base changes.

Budget Reserve Fund Status
as of November 15, 2007

Current Status:

Maximum Allowable in BRF @ 10% of net GF approps. for FY 08		1,631.5
Recent Surpluses Deposited in Budget Reserve (Rainy Day) Fund:		
FY 04	302.2	
FY 05	363.9	
FY 06	446.5	
FY 07 (estimated)	269.7	
Total - BRF (84.7% of full capacity)		1,382.3
Extent to Which BRF Not Fully Funded (15.3%)		249.2

Potential Future Status:

Maximum Allowable in BRF @ 10% of net GF approps. for FY 10 (projected)		1,817.8
Potential Future Surpluses Deposited in Budget Reserve (Rainy Day) Fund:		
Total - BRF at Conclusion of FY 07 (estimated)	1,382.3	
FY 08 (estimated)	264.4	
FY 09 (estimated)	223.7	
Total - BRF (102.9% of full capacity)		1,870.4

TABLE OF CONTENTS

General Fund and Transportation Fund Budget Projections
(as of November 15, 2007)

I. FY 08 General Fund

Our projections for the fiscal year ending June 30, 2008 indicate a **potential surplus of $264.4 million** (which represents 1.6% of the budget). This surplus assumes that in addition to the originally budgeted surplus of $0.7 million, **estimated revenues will be $257 million higher than budgeted** and **estimated expenditures will be $6.7 million lower than net appropriations.** While the projected General Fund surplus is $264.4 million, **this estimate may change if: 1) the level of currently estimated deficiencies grows; 2) energy prices continue to increase; or 3) revenues are adversely affected by any deterioration in economic conditions.**

Revenues

The estimated $257.0 million net increase in FY 08 General Fund revenue collections is due to projected increases of $330.2 million and decreases of $73.2 million. The three most significant increases are: (1) $290.1 million in the Personal Income Tax, (2) $11.2 million in the Real Estate Conveyance Tax, and (3) $23.5 million in the Oil Companies Tax. The two most significant decreases are $45.0 million due to lower collections in the Corporation Business Tax and $20.1 million in the Inheritance and Estate Tax. The remaining changes, consisting of $5.4 million in increases and $8.1 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 $290.1 million greater than originally projected due to:

> a) ***Estimated Payments:*** Anticipated FY 08 collections have been increased by $131.7 million, which is composed of: (1) $46.0 million in actual third quarter 2007 estimated payment[1] collections and (2) $85.7 million in projected fourth quarter 2007 payments. The projections are based on an increasing growth trend observed in the 2007 income year of no growth in the first quarter, 8.7% in the second quarter and 22.6% in the third quarter.
>
> b) ***Final Payments:*** 2007 income year final payment[1] revenue is anticipated to be $53.8 million greater than projected. The estimate is based on the relationship between final payments and estimated payments observed in recent collection 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.

---

[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.

c) ***Withholding Payments:*** Anticipated collections from withholding on wages and salaries have been increased by $104.6 million, which is composed of: (1) $41.6 million in actual collections compared to original forecasts through October and (2) $63.0 million in projected collections for November through June. The revised estimates assume that collections for the remainder of the year will grow by 8% compared to original estimates.

(2) **Real Estate Conveyance Tax** collections are anticipated to be $11.2 million greater than anticipated. The increase in the estimate is due to collections: (1) for the last two months of FY 07, which were stronger than anticipated and (2) the first three months of FY 08, which grew by over 28% compared to the same period last year.

(3) **Oil Companies Tax** collections are anticipated to be $23.5 million greater than originally projected. The estimate has been adjusted to reflect the recent surge in crude oil prices, which is expected to have a positive impact on collections for the remainder of the fiscal year.

The projected major revenue decreases are as follows:

(4) **Corporation Business Tax** revenues are anticipated to be $45.0 million less than originally projected based on weak third quarter estimated payments that were due on September 15th.

(5) **Inheritance and Estate Tax** collections are anticipated to be $20.1 million less than originally projected. Year to date collections are $8.4 million less than collections during the same period last year and have not met original forecasts.

Expenditures

The $6.7 million reduction in expenditures is largely attributable to $83.5 million in lapse (savings) increases offset by $43.3 million in deficiency needs and $33.5 million in other miscellaneous expenditure requirements.

- **Budgeted Lapses**

  Lapses anticipated in the budget total $116.5 million and given the amount of unallocated lapse already identified and recent historical trends, our surplus projection assumes that these savings will be achieved and perhaps exceeded by $83.5 million. The $116.5 million budgeted savings includes: $90.5 million in unallocated budgeted lapses and $26 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 $36.4 million in unallocated lapses or $54.1 million less than the $90.5 million unallocated lapse anticipated in the budget. The Debt Service account composes $25 million of the $36.4 million in identified lapses, the reasons for which are described below. Given the amount of unallocated lapse already identified and recent historical trends, we have increased the FY 08 unallocated lapse projection by $83.5 million to a total of $174 million assuming that additional lapses will be realized through the end of the year. (The total FY 08 lapse is now projected to be $200 million assuming that the additional $26 million in Personal Services and Other Expenses reductions held back from agency allotments are realized.)

Unallocated Lapses

(figures in $ millions)

Debt Service	25.0
Total – Significant Identified Lapsing Appropriations	25.0
Other Identified Lapses (less than $3 million each)	11.4
Total – All Identified Lapses	36.4
Increase in Projected Lapse Above Amount Already Identified	137.6
Total – Revised Projected Unallocated Lapses Anticipated	174.0
Total – Unallocated Lapses Anticipated in the Budget	90.5
Total – Unallocated Lapse Increase Projected by OFA	83.5

Debt Service – The projected lapse in the General Fund debt service account is $25 million, which is in addition to the $20 million legislative reduction made in the budget act (a total projected reduction of $45 million). The $25 million estimate is composed of: (1) $10.5 million in savings due to changes in the issuance schedule and lower than anticipated interest rates, (2) $10.0 million in premiums* received on nontaxable General Obligation (GO) bonds, (3) $1.0 million in refunding savings, and (4) $3.5 million in savings from a variety of other sources such as arbitrage rebate payments, rebate fees and trustee fees. (*Bond purchasers pay a premium to receive a higher interest rate than the one at which the bonds would otherwise have sold.)

- **Deficiencies**

The $83.5 million lapse increase is offset by $43.3 million in projected deficiencies. These net deficiencies are occurring within the Department of Correction ($16 million), the Department of Education ($15.4 million), and the Department of Mental Health and Addiction Services ($11.9 million). Please see the explanations for all FY 08 projected deficiencies which begin on page 5.

Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of $6.5 million and Refunds of Escheated Property at $27 million.

- **State Employee Collective Bargaining**

Of the 33 collective bargaining contracts, two bargaining units (Judicial Marshals and State Technical College Faculty) have contracts that expire on June 30, 2007 and are not funded in FY 08 and FY 09. Five bargaining units have contracts that expire on June 30, 2008 and are not funded in FY 09.

Collective Bargaining Contracts

The 33 collective bargaining contracts become unsettled in the following fiscal years:

FY	Unsettled Contracts
08	2
09	5
10	11
11	8
12	7

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

General Fund surpluses resulted in the following fiscal years: $302.2 million in FY 04; $363.9 million in FY 05; $446.5 million in FY 06; and an estimated $269.7 million in FY 07, each contributing toward a total Budget Reserve Fund (BRF) balance of $1,382.3 million (which represents 84.7% of full BRF capacity). It is anticipated that the Comptroller will close the books on FY 07 by December 31, 2007. The Budget Reserve (Rainy Day) Fund had been depleted when its prior $594.7 million balance was used 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 08 totaling $16,314.9 million, the maximum allowable in the Budget Reserve Fund is $1,631.5 million or $249.2 million more than potentially deposited.

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 08 General Fund Deficiencies
as of November 15, 2007

Department of Mental Health and Addiction Services

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(9,000,000)	$(11,898,659)	$2,797,622	$(9,101,037)

The Department of Mental Health and Addiction Services has a projected net deficiency of $11.9 million, which represents 1.9% of its FY 08 appropriation of $637.2 million. This assumes that a Personal Services holdback of $1,943,400 and an Other Expenses holdback of $854,222 are not released. If the holdbacks were released, an estimated remaining deficiency of $9.1 million would result.

This deficiency is primarily due to Personal Services ($9.6 million), Other Expenses ($1.6 million) and Professional Services ($565,000). The Personal Services shortfall is largely due to increased staffing and overtime costs incurred at the Connecticut Valley Hospital in reaction to the federal Department of Justice and Centers for Medicare/Medicaid Services review and recommendations. The Other Expenses deficiency is due to the continuing increase in utility costs at state facilities. It is anticipated that bond funds will cover approximately $1.9 million in premises repair needs at agency facilities.

Department of Education

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(0)	$(15,400,000)	$1,425,349	$(13,974,651)

The state Department of Education (SDE) has a projected net deficiency of $15.4 million, which represents 0.6% of its FY 08 appropriation of $2,552.9 million. This assumes that a Personal Services holdback of $993,453 and an Other Expenses holdback of $431,896 are not released. If the holdbacks were released, an estimated remaining deficiency of $14 million would result.

The deficiency is occurring in payments to towns involving Magnet Schools ($10 million) and the Excess Cost – Student Based grant ($5.4 million). The Magnet School shortfall is due to higher than projected enrollments. Actual magnet school enrollments are not known until October 1st of the fiscal year. The shortfall in the Excess Cost – Student Based grant is due to special education costs running at higher than anticipated rates.

The FY 08 budget provided for a 4% increase over FY 07 full funding needs. Historically special education costs increase anywhere from 4% to 10% per year.

Department of Correction

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(16,000,000)	**$(16,000,000)**	**$4,978,462**	**$(11,021,538)**

The Department of Correction has a projected net deficiency of $16.0 million, which represents 2.4% of its FY 08 appropriation of $662.8 million. This assumes that a Personal Services holdback of $3,178,318 and an Other Expenses holdback of $1,800,144 are not released. If the holdbacks were released, an estimated remaining deficiency of $11,021,538 would result.

The $16.0 million deficiency occurs in three areas: Personal Services ($3.4 million), Other Expenses ($6.1 million), and Inmate Medical Services ($6.5 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 of approximately 19,800 is 600 inmates more than FY 07 averages.

The shortfall in Other Expenses is driven by operational demands on food, clothing, bedding, and other related living supplies associated with an increasing offender population. Additionally, an estimated $2.3 million of the Other Expenses deficiency is related to increased electricity costs, representing double-digit inflationary increases.

The shortfall in Inmate Medical Services is due to increased expenses related to the increased inmate population, John Dempsey Hospital inpatient care, and additional position costs to meet consent decree and stipulated settlement agreements.

Total OFA Net Deficiencies
$(43,298,659)

Summary of General Fund Lapsing Appropriations and Other Reductions for FY 08 as of November 15, 2007 (figures in millions)

Debt Service		25.0		
Total - Significant Identified Lapsing Appropriations	$	25.0		
Other Identified Lapses (less than $3 million each)		11.4		
Total – All Identified Lapses	$	36.4		
Increase in Projected Lapse Given Amount Already Identified		137.6		
Subtotal			$	174.0
Other Reductions:				
Personal Services Reduction (holdback)	$	15.0		
Other Expenses Reduction (holdback)		11.0		
Subtotal				26.0

Total Revised Projected Lapses Anticipated	***$***	***200.0***
Total Lapses Anticipated in the Budget		***116.5***
Lapse Increase Projected by OFA	***$***	***83.5***

II. FY 09 through FY 12 General Fund Budget Projections

Our current services analysis indicates a potential General Fund surplus in FY 09 of $223.7 million and shortfalls of $330.6 million in FY 10, $566.9 million in FY 11, and $374.4 million in FY 12. Current services expenditures would exceed the spending cap by $258.6 million in FY 08 and $324.2 million in FY 09 and would be below the spending cap by $2.8 million in FY 10. These estimates assume that the legislature will appropriate up to the allowed expenditure limit in FY 09 and that the appropriation will not exceed allowed expenditures in FY 10 and FY 11.

The FY 09 surplus assumes continued revenue growth offset by modest additional current services expenditure requirements. The FY 10 through FY 12 shortfalls are attributable to: 1) the ongoing impact of $210 million in FY 09 Teachers' Retirement expenditures from FY 07 anticipated surplus that will need to be restored to FY 10 appropriations; 2) $80 million one-time revenues provided in FY 09 from FY 07 anticipated surplus and a $16 million revenue transfer from FY 08 to FY 09 that are no longer available in FY 10; and 3) expenditure growth which is anticipated to exceed revenue growth in FY 10 and FY 11.

The projections in this report are based on present law, existing policy commitments, estimated caseload and workload requirements. The FY 09 through FY 12 figures are also based on using FY 08 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 09 through FY 12 Revenues

The projections for FY 09 though FY 12 were developed using the revised FY 08 estimates adjusted for one-time revenue changes. They assume that annual revenue collections will grow between 4.2% and 4.6%, and that the state will experience modest economic growth throughout this period.

FY 09 through FY 12 Expenditures

The FY 09 projection of $17,118 million represents a $809.8 million or 3.8% (adjusted) increase over FY 08, the FY 10 projection of $18,390.5 million represents a $1,272.5 million or 5.8% (adjusted) increase over FY 09, the FY 11 projection of $19,418.8 million represents a $1,028.3 million or 5.6% increase over FY 10, and the FY 12 projection of $20,098 million represents a $679.2 million or 3.5% increase over FY 11.

Pending further review, these projections exclude potential technical current services changes including potential cost/caseload adjustments beginning in FY 09. These projections include costs associated with collective bargaining contracts which may be approved and the need to increase future year appropriations to reflect FY 08 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 08 and each subsequent year's estimated expenditure level. The guidelines utilized assume 4.5% to 5% salary increases for state employees in subsequent years (which includes 3% to 3.5% 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 09 through FY 12 increases include:

Major General Fund Appropriation Increases for FY 09 through FY 12
as of November 15, 2007
(figures in $ millions)

	FY 09	**FY 10**	**FY 11**	**FY 12**
DSS – Medicaid	131.3	186.2	195.5	205.3
Debt Service	116.9	91.6	25.3	13.4
SDE – ECS	80.0	83.8	87.0	90.0
Retired State Employees Health Service	41.3	24.2	25.4	26.7
State Employee Health Service Cost	35.5	25.0	26.3	27.5
OPM – PILOT-New Manufacturing	29.3	33.8	31.5	32.8
State Employees Retirement	22.6	25.1	25.9	28.1
SDE – Magnet Schools	22.0	4.0	4.0	4.0
TRB – Retirement Contributions	20.7	369.5	27.9	29.1
DCF – Board & Care Accounts	20.2	15.5	11.2	16.6
DDS – Community Residential Services	19.9	19.7	20.7	21.7
DDS – Employment Opportunities	10.3	6.8	7.2	7.4
SDE – Excess Cost-Student Based	10.0	10.0	11.0	11.0
Various – Juvenile Juris. Age Change	5.0	26.0	42.5	21.5
Judicial – Youthful Offender Services	0.1	5.8	12.4	2.0
SDE – Transp. of School Children	0.0	20.0	3.0	3.0
Generally Accepted Accounting Principles (GAAP)	0.0	55.4	70.6	0.0
27th Payroll Cost	0.0	0.0	133.0	(133.0)
Total – Major General Fund Increases	565.1	1,002.4	760.4	407.1

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. FY 10 and beyond reflect actuarial estimates based on the elimination of the Cost of Living Adjustment Reserve Account (CLARA), but without the issuance of $2 billion in pension obligation bonds.

Implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 2009 under current law. Our projections include the impact of the conversion to GAAP in FY 10, which adds approximately $55.4 million to the budget on a net expenditure basis in that year and increases to approximately $126 million including amortization of the GAAP deficit in each of the following 15 fiscal years. The

Comptroller's monthly report dated November 1, 2007 indicates that the unaudited cumulative General Fund GAAP deficit as of June 30, 2006 was $1.059 billion and that the figure is anticipated to increase in FY 07.

Our projections also include $133 million for the 27th state employee payroll, which will occur in FY 11.

III. Transportation Fund

FY 08

The FY 08 budget plan for the Special Transportation Fund (STF) anticipated a $22.6 million operating surplus; however, our latest projections indicate a potential $10 million increase in surplus attributable to an anticipated Debt Service lapse. Exhibits I and II show that the revised un-audited cumulative surplus for the STF at the end of FY 08 will be $225.5 million. The current projections have no other significant changes in either expenditures or revenues.

FY 09 and the Out Years

The STF projections indicate that the fund will continue to experience an annual operating surplus in FY 09, despite annual revenues growing by about 3.5% and expenditures growing by about 5.0% (see schedule on page 14.) Beginning in FY 10, the Transportation Fund will begin experiencing operating deficits as a result of expenditures continuing to increase faster than revenues. The increases in expenditures are partly due to full implementation of anticipated Rail and Bus subsidies and increases in the Town Aid Road Grant program.

Rail and Bus subsidies are anticipated to increase above current expenditure levels from $10 million in FY 10 to $30 million in FY 12. The increases result from the implementation of the Transportation Initiatives enacted from 2005 through 2007. Our estimates assume that $8 million of the $30 million Town Aid Road Grant program that were previously funded from anticipated General Fund surpluses will be funded from the Transportation Fund in the out-years. The estimates also reflect additional costs each year of $600,000 for the grant to Tweed-New Haven Airport and of $1.1 million per year for DMV to implement the vision screening program beginning in FY 10.

FY 08 Transportation Fund Summary
as of November 15, 2007
(in millions)

	Budget Plan	Increase/ (Decrease)	Revised Estimates
Revenues			
Taxes	707.0	0.0	707.0
Other Revenue	414.4	0.0	414.4
Total Revenue	1,121.4	0.0	1,121.4
Appropriations			
Original Appropriations - Gross	1,109.8	0.0	1,109.8
Plus: Deficiency requirements	0.0	0.0	0.0
Less:			
Lapses:			
Debt Service	0.0	(10.0)	(10.0)
Unallocated	(11.0)	0.0	(11.0)
Total Lapses	(11.0)	(10.0)	(21.0)
Total Expenditures	1,098.8	(10.0)	1,088.8
Surplus from Operations FY 08	**22.6**	10.0	**32.6**
Plus: Cumulative Surplus as of June 30, 2007 [1]			**192.9**
Projected Fund Balance as of June 30, 2008			**225.5**

[1] Per the November 1, 2007 Comptroller's Letter to Governor Rell, the FY 07 ending balance was $192.9 million in the Transportation Fund.

FY 08 Transportation Fund Revenue Estimates
as of November 15, 2007
(in millions)

	FY 08 Budget Plan	OFA Over/(Under) Budget Plan	FY 08 OFA Estimates
Taxes			
Motor Fuels	516.0	0.0	516.0
Petroleum Products Tax	127.8	0.0	127.8
Sales Tax - DMV	72.0	0.0	72.0
Refunds of Taxes	(8.8)	0.0	(8.8)
Total Taxes Less Refunds	**707.0**	**0.0**	**707.0**
Other Revenue			
Motor Vehicles Receipts	236.6	0.0	236.6
License, Permits, and Fees	164.0	0.0	164.0
Interest Income	47.0	0.0	47.0
Transfers to Conservation Fund	(3.0)	0.0	(3.0)
Transfers to Emissions Fund	(6.5)	0.0	(6.5)
Transfers to TSB Sub-Account [1]	(20.8)	0.0	(20.8)
Refunds of Payments	(2.9)	0.0	(2.9)
Total - Other Revenue	**414.4**	**0.0**	**414.4**
Total Revenue	**1,121.4**	**0.0**	**1,121.4**

[1] Section 96 of PA 07-7 (June Special Session) credits $5.5 million on deposit in the Special Transportation Fund to the TSB projects account.

Transportation Fund Projections FY 07 - FY 12
as of November 15, 2007
(in Millions)

Transportation Fund	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12
	Preliminary	Estimate	Estimate	|-----------Out-Year Projections-----------|		
Beginning Balance as of July 1st	**$133.4**	**$192.9**	**$225.5**	**$238.3**	**$201.0**	**$138.5**
REVENUES						
Taxes						
Motor Fuels Tax	478.2	516.0	523.6	528.4	533.3	538.3
Petroleum Products Tax	141.0	127.8	141.9	141.9	165.3	165.3
Sales Tax - DMV	67.9	72.0	74.0	75.0	76.0	77.0
Refund of Taxes	(7.9)	(8.8)	(9.0)	(9.1)	(9.2)	(9.2)
Total - Taxes less Refunds	**$679.2**	**$707.0**	**$730.5**	**$736.2**	**$765.4**	**$771.4**
Other Revenue						
Motor Vehicle Receipts	224.7	236.6	241.3	244.0	245.0	250.0
License, Permits and Fees	170.4	164.0	166.0	168.0	170.0	172.0
Interest Income	46.0	47.0	47.0	46.0	44.0	44.0
Transfers to Other Funds	(7.0)	(9.5)	(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 Revenue	**$434.1**	**$438.1**	**$444.8**	**$448.5**	**$449.5**	**$456.5**
Less Refunds of Payments	(2.7)	(2.9)	(3.0)	(3.1)	(3.2)	(3.2)
Less Transfers to TSB Account [1, 2]	(20.3)	(20.8)	(15.3)	(15.3)	(15.3)	(15.3)
TOTAL REVENUE	**$1,090.3**	**$1,121.4**	**$1,157.0**	**$1,166.3**	**$1,196.4**	**$1,209.4**
EXPENDITURES						
Debt Service	441.3	436.2	449.5	471.5	480.4	496.8
DOT Budgeted Expenses	439.8	481.1	507.3	536.1	565.4	585.7
DMV Budgeted Expenses	58.9	61.4	62.5	64.9	66.3	67.8
Other Budgeted Expenses	127.2	131.1	145.9	152.1	167.8	164.9
Subtotal - Expenditures	**$1,067.2**	**$1,109.8**	**$1,165.2**	**$1,224.6**	**$1,279.9**	**$1,315.2**
Less Unallocated Lapses	(36.4)	(21.0)	(21.0)	(21.0)	(21.0)	(21.0)
TOTAL EXPENDITURES	**$1,030.8**	**$1,088.8**	**$1,144.2**	**$1,203.6**	**$1,258.9**	**$1,294.2**
OPERATING SURPLUS/(DEFICIT)	**$59.5**	**$32.6**	**$12.8**	**($37.3)**	**($62.5)**	**($84.8)**
Ending Balance as of June 30th	**$192.9**	**$225.5**	**$238.3**	**$201.0**	**$138.5**	**$53.7**
DEBT SERVICE RATIO [3]	**2.5**	**2.6**	**2.6**	**2.5**	**2.5**	**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] Section 96 of PA 07-7 (June Special Session) credits $5.5 million on deposit in the Special Transportation Fund to the TSB projects account.
[3] 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 08 through FY12

	FY 08	FY 09	FY 10	FY 11	FY 12
MASHANTUCKET PEQUOT AND MOHEGAN FUND					
Beginning Balance	0	0	0	0	0
Revenue	92,999,851	92,999,851	92,999,851	92,999,851	92,999,851
Expenditures	92,999,851	92,999,851	92,999,851	92,999,851	92,999,851
Ending Balance	0	0	0	0	0

NOTES:

[1] In FY 07,08,09 there are significant surplus approps for these grants.

[2] For FY 08 and FY 09, the surplus appropriations of $6.7 million is anticipated to be the current services level for the out-years.

	FY 08	FY 09	FY 10	FY 11	FY 12
REGIONAL MARKET OPERATION FUND					
Beginning Balance	1,011,580	843,048	910,543	1,008,953	1,080,449
Revenue	1,050,684	1,080,815	1,080,815	1,080,815	1,080,815
Expenditures	1,219,216	1,013,320	982,405	1,009,319	1,012,321
Ending Balance	843,048	910,543	1,008,953	1,080,449	1,148,943
BANKING FUND					
Beginning Balance	48,926,478	45,437,827	50,773,958	47,180,647	52,676,862
Revenue	16,180,435	24,297,264	16,665,848	25,026,182	17,165,823
Expenditures	19,669,086	18,961,133	20,259,159	19,529,967	20,866,933
Ending Balance	45,437,827	50,773,958	47,180,647	52,676,862	48,975,753

[3] There is a significant decrease in revenues every two years since the Consumer Credit Division renews their licensees every two years.

	FY 08	FY 09	FY 10	FY 11	FY 12
INSURANCE FUND					
Beginning Balance	8,593,207	7,835,555	7,205,530	7,177,454	7,471,646
Revenue	22,653,000	23,600,000	25,050,000	26,250,000	26,950,000
Expenditures	23,410,652	24,230,025	25,078,076	25,955,808	26,994,041
Ending Balance	7,835,555	7,205,530	7,177,454	7,471,646	7,427,605

[4] Ending balances are comprised of a June 1st industry assessment (25% of current year's expenditures) due by June 30th, to prefund the agencies (DOI & OHA) for the next FY's quarter until the new assessment calculation is done in July/Aug and mailed on Sept 1st.

	FY 08	FY 09	FY 10	FY 11	FY 12
CONSUMER COUNSEL AND PUBLIC UTILITY CONTROL FUND					
Beginning Balance	8,532,048	8,098,512	8,341,467	8,591,712	8,849,464
Revenue	20,996,157	22,636,984	23,652,005	24,712,592	25,820,791
Expenditures	21,429,693	22,394,029	23,401,760	24,454,840	25,555,307
Ending Balance	8,098,512	8,341,467	8,591,712	8,849,464	9,114,948

	FY 08	FY 09	FY 10	FY 11	FY 12
WORKERS' COMPENSATION FUND					
Beginning Balance	14,078,712	14,176,333	14,270,837	14,385,231	14,409,913
Revenue	23,800,000	24,100,000	24,600,000	25,000,000	25,500,000
Expenditures	23,702,379	24,005,496	24,485,606	24,975,318	25,474,824
Ending Balance	14,176,333	14,270,837	14,385,231	14,409,913	14,435,089
CRIMINAL INJURIES COMPENSATION FUND					
Beginning Balance	6,323,978	5,798,978	6,173,978	6,548,978	6,923,978
Revenue	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Expenditures	3,525,000	2,625,000	2,625,000	2,625,000	2,625,000
Ending Balance	5,798,978	6,173,978	6,548,978	6,923,978	7,298,978
SOLDIERS, SAILORS AND MARINES' FUND					
Trust Fund Value as of June 30, 2007 was $61.6 million					
Special Revenue Fund Balance - Beginning	(3,444,418)	(3,982,388)	(4,524,941)	(5,105,002)	(5,724,356)
Estimated Revenue	2,700,000	2,754,000	2,809,080	2,865,262	2,922,567
Estimated Expenditures	3,237,970	3,296,553	3,389,141	3,484,616	3,583,078
Difference Rev/Exp	(537,970)	(542,553)	(580,061)	(619,354)	(660,511)
Special Revenue Fund Balance - Ending	(3,982,388)	(4,524,941)	(5,105,002)	(5,724,356)	(6,384,868)

[5] SSMF expends dollars that are allocated to the agency based on the level of appropriation.

[6] Interest earned from the trust fund is reflected in the special revenue fund to support the expenditures (the average interest earned over the past years is $2.66 million).

[7] As of June 30, 2007 the SSMF special revenue fund had a negative balance of $3.44 million due to cumulative years of expenditures exceeding interest income.

	FY 08	FY 09	FY 10	FY 11	FY 12
TOTAL					
Beginning Balance	84,021,585	78,207,865	83,151,372	79,787,973	85,687,956
Revenue	183,380,127	194,468,914	189,857,599	200,934,702	195,439,847
Expenditures	189,193,847	189,525,407	193,220,998	195,034,719	199,111,355
Ending Balance	81,652,283	87,133,760	84,312,914	90,792,958	87,740,804

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). We anticipate that the final report will be completed by January 2008.

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 08 through FY 12. 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 April 2007 at an interest rate of 4.0% while the interest rate assumptions used for the projections in the table below are around 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 08 – FY 12 Projections for General Obligation and Special Tax Obligation Bonds

	$ Billions				
	FY 08	FY 09	FY 10	FY 11	FY 12
General Obligation (GO) Bond Projections					
Bond Authorizations[1]	1.5	1.4	1.4	1.4	1.4
Bond Allocations[2]	1.3	1.3	1.3	1.3	1.3
Bond Issuance[3]	1.3	1.3	1.3	1.3	1.3
Debt Service[4]	1.4	1.5	1.6	1.6	1.7
Special Tax Obligation (STO) Bond Projections					
Bond Authorizations[5]	0.5	0.3	0.3	0.3	0.3

FY 08 – FY 12 Projections for General Obligation and Special Tax Obligation Bonds

	$ Billions				
	FY 08	FY 09	FY 10	FY 11	FY 12
Bond Allocations[5]	0.5	0.5	0.5	0.5	0.5
Bond Issuance[5]	0.4	0.4	0.5	0.5	0.5
Debt Service[5]	0.4	0.4	0.5	0.5	0.5

[1] FY 08 and FY 09 are based on authorizations made during the 2007 legislative session. FY 10 - FY 12 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 and the CSUS infrastructure program. The estimates do not include any issuance of pension obligation bonds.

[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 and the CSUS 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 and the CSUS 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 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) and the CSUS infrastructure renewal program are also included in this category. The revenue stream from the state's General Fund pays debt service on GO bonds. It should be noted that the figures do not include pension obligation bonds authorized under PA 07-186 because the Office of the State Treasurer has not determined the timing of their issuance.

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, 2006 and 2007 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

General Fund revenues from federal reimbursements grew by $66.7 million from FY 06 to FY 07 (or an increase of 2.62 percent). Amounts are detailed in the following table:

	Numbers in Millions of Dollars	
Federal Program	FY 06	FY 07
Medicaid	$ 1,840.9	$ 1,922.1
Dependent Children (TANF/CCDBG)	289.6	291.4
Intermediate Care Facilities for the Mentally Retarded	112.7	82.6
Foster Care/Adoption/Independent Living (Title IV-E)	109.8	99.9
Administration/Social Services	109.5	120.8
Child Support Administration	26.9	35.9
Workforce Investment Act	25.9	25.6
HUSKY B Program (SCHIP)	17.1	21.6
Soldiers' Homes	6.6	6.7
Miscellaneous Federal Aid	2.3	0.8
Child Nutrition Program	1.3	1.8
Occupational Safety and Health Administration	1.1	1.1
Medicare	0.2	0.3
TOTAL	$ 2,543.9	$ 2,610.6

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:

• Claim Federal Reimbursement/Therapeutic Group Homes (DCF):

> The agency has instituted billing for federal reimbursement of services provided to eligible children and youth in therapeutic group homes. A combined total of approximately $11.3 million annually from Medicaid and Title IV-E reimbursements are anticipated.

• Autism Spectrum/Medicaid (DDS)

Pursuant to Section 112 of PA 07-4 of the June Special Session, the Department of Developmental Services (DDS) is studying the feasibility of an amendment to the state Medicaid plan or waiver from federal law for community-based services and supports for adults who have Autism Spectrum Disorder and do not have mental retardation. As with the current Home and Community Based waiver, implementation of such amendment or waiver would result in federal reimbursement under Medicaid. The DDS also continues to maximize federal reimbursement under Medicaid through utilization of the Home & Community Based waivers (both the Comprehensive and the Individual and Family Support); and Medicaid claiming under Targeted Case Management, ICF/MR (intermediate care facilities for the mentally retarded) and Birth-to-Three. DDS generated over $331.8 million in federal reimbursement under Medicaid in FY 07.

• Medicaid/Eligibility Expansion (DSS)

There were several Medicaid program expansions authorized this year including, but not limited to, an additional 20 slots under the Katie Beckett waiver; coverage of pregnant women to 250% FPL, HUSKY parents to 185% FPL; coverage of all uninsured newborns under HUSKY for 6 months; and additional Personal Care Attendants waiver slots. There were also significant rate increases implemented for Medicaid providers. The cost of these expansions will all be 50% reimbursed by the federal government.

Another important program expansion involves the Money Follows the Person initiative, under which individuals who have lived in qualified long-term care settings for a minimum of six months who want to move into the community with home-based services are identified. The federal Money Follows the Person Rebalancing Demonstration Grant encourages states to reduce their reliance on institutional care for Medicaid recipients by transitioning individuals out of institutional settings and into community settings with appropriate supports.

As a designated recipient of this grant, Connecticut will receive enhanced federal Medicaid reimbursement for the first year of an individual's transition. DSS plans to transition 225 clients into the community by the end of the biennium and up to 700 clients over the 5 year grant period. $2.7 million has been appropriated for this purpose in FY 08; $5.6 appropriated in FY 09. Connecticut will receive an enhanced federal match of 75% for this program, totaling $24.2 million over the five year grant period.

Other Federal Funding Issues of Interest

<u>State Children's Health Insurance Program (SCHIP)</u>

FFY 2007 marks the final year of SCHIP's original 10-year authorization. The federal budget baseline, developed by the Congressional Budget Office (CBO), assumes funding of $5.04 billion annually for the next 10 years. However, the Congressional

Research Service estimates that $6 billion is required in FY 2007 to maintain services at their current level. Congress and the administration have failed to reach an agreement on either continuing or expanding the SCHIP funding. Connecticut receives an enhanced 65% federal match for all HUSKY B expenditures through SCHIP.

Medicaid Coverage of Rehabilitation Services

On 8/13/07, the Centers for Medicare & Medicaid Services (CMS) issued a proposed rule that would significantly amend the definition of Medicaid rehabilitative services. If implemented, this rule may adversely impact the state's ability to claim for certain services provided by DSS, DCF and DDS. On a national level, implementation of changes contained within the proposed rule would reduce federal spending on rehabilitative services by $2.2 billion between 2008 -2012.

The Department of Social Services has submitted comments on the proposed rule, noting the potential for a significant loss of federal funding, due primarily to:

1. An exclusion of federal financial participation (ffp) for "habilitation" services (services to support the attainment of new skills/functioning, as opposed to rehabilitation – the restoration of skills/functioning).

2. Rehabilitation services provided to clients by residential/housing programs may no longer be reimburseable, should it be found that the client was not afforded a "free choice of providers."

3. Restricting ffp for services provided to residents of an institution for mental diseases to those served by facilities having sixteen (16) or fewer beds.

4. Prohibiting ffp for services considered to be an "intrinsic element" of a non-medical program. This may compromise the state's ability to continue to receive federal reimbursement for School Based Child Health services (considered to be educational in nature).

5. Prohibiting reimbursement for rehabilitation services provided in residential programs funded by child welfare agencies.

It is uncertain when a final rule will be promulgated by CMS.

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 4.08%.

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 8.4%.

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.

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 [2]– These figures are an actuarial estimate of the cost of the future retirement payments of state employees and teachers for which the state does not have funds already set aside.

[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.

[2] The figures shown in the table below reflect the current unfunded liability for the Teachers' Retirement Funds (TRF) and do not include the impact of PA 07-186. That act authorizes the Office of the State Treasurer (OST) to issue $2 billion in Pension Obligation Bonds (POBs) for a term of 25 years and to deposit the proceeds of the bond sale in the TRF. The net impact of the act on the TRF is to decrease the fund's liability by approximately $1 billion. OST has not indicated when the POBs will be issued.

State and Teachers' Other Post Employment Benefits – This figure is an actuarial estimate of other than pension employment benefits (retiree health insurance and life insurance) for state employees and teachers 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) now requires large employers, like the State of Connecticut, to quantify the amount of non-pension retirement benefits offered to employees.

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, 2009 under current law.

Our projections include the impact of the conversion to GAAP in FY 10, which adds approximately $55.4 million to the budget on a net expenditure basis in that year and increases to approximately $126 million including amortization of the GAAP deficit in each of the following 15 fiscal years. The Comptroller's monthly report dated November 1, 2007 indicates that the unaudited cumulative General Fund GAAP deficit as of June 30, 2006 was $1.059 billion and that the figure is anticipated to increase in FY 07.

The table below shows the current estimates in these areas:

Long-Term Obligations
(in billions)

Debt Outstanding[1]	$14.4
State Employee Pensions – Unfunded	7.9
Teachers' Pensions – Unfunded	6.9
State Post Retirement Health and Life – Unfunded[2]	21.7
Teachers' Post Retirement Health and Life - Unfunded	2.2
Generally Accepted Accounting Principles (GAAP) Deficit	1.1
Total	$54.2

[1]As of 8/31/07; Source: Office of the State Treasurer

[2] Pursuant to requirements of Statement 45 of the Government Accounting Standards Board (GASB) the state quantified its liability for other post employment benefits (OPEB) with an actuarial valuation as of April 2006. According to the valuation, if the state were to address this liability on an advance funding basis, the OPEB expense would be substantially reduced to $11.4 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: FY 09 Estimates

(In Millions)

	Annual Estimate
Personal Income Tax	
Interest on US Obligations	$ 40.0
Dividends from Mutual Funds Derived from US Govt Obligations	5.0
Refunds of State and Local Income Taxes	50.0
Tier I Railroad Retirement Benefits	1.0
Beneficiary's share of Connecticut fiduciary adjustment	0.5
Gain on sale of Connecticut Bonds	0.5
Social Security Benefits	50.0
Military Retirement Income	2.5
Contributions to CHET	7.5
Other Deductions	10.0
Credit for Property Taxes Paid	350.0
Total Personal Income Tax	**$ 517.0**
Sales and Use Tax	
Consumer Goods	
Sales of Food Products for Human Consumption	$ 373.0
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	250.0
Non-prescription Drugs and Medicines	12.0
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	130.0
Cloth or Fabric Purchased for Non-Commercial Sewing	0.5
Sales Tax "Free Week"	3.0
Fuel for Heating Purposes	140.0
Certain Utilities Sales	5.0
Water Companies Purchases	4.0
Motor Vehicle Fuel	350.0
Newspapers and Magazines	60.0
The first $2,500 of Burial or Cremation Services; Caskets	4.4
Bicycle Helmets	0.2
Weatherization Products and Fluorescent Light Bulbs	7.5
Child Car Seats	0.5
College Text Books	2.3
Passenger Cars 40 MPG Highway or greater recheck	2.0
Energy Star Rated Household Appliances	7.0

Summary of Major Identifiable State Tax Expenditures: FY 09 Estimates

(In Millions)

	Annual Estimate
Solar Energy, Geothermal, and Ice Storage Systems	2.0
Sub Total Consumer Goods	$ 1,385.1
Business and Agricultural Exemptions	
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	6.0
Replacement Parts in Enterprise Zones	0.7
Agriculture Production	5.0
Commercial Fishing	5.0
Fuel Cell Manufacturing Facility	0.1
Aircraft Repair, Replacement Parts; Aircraft Repair Services; Materials, Tools, Fuel, Machinery and Equipment used in an Aircraft Manufacturing Facility	6.0
Aviation Consulting	0.2
Commercial Trucks, Trailers and Combination, and Commercial Vehicles used in Inter-State Business	12.0
Motor Buses used in Inter-State Business	0.2
Aviation Fuel	6.3
Printed Material Sent Out of State	2.0
Commercial Printing	6.5
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	0.2
Mold, Dies, Patterns and Sand Handling Equipment for Metal Casting Foundries	0.2
Mold, Dies Patterns for Pattern shops and Metal Casting Foundries	0.2
Safety Apparel	2.5
Commercial Photographic Film and Paper Processing Materials	0.2
Biotechnology	1.9
Connecticut Resource Recovery Authority	3.0
Solid Waste to Energy Facilities	0.2
Sub Total Business and Agricultural Exemptions	$ 188.4
Service Exemptions	
Drug Testing Services	$ 3.0
Personnel Services; Marketing, Development, Testing or Research Services; Business Services in Joint Ventures	4.0
Services Between Parent Companies and Subsidiaries	12.0
Computer and Data Processing	64.0
Certain Sales of Computer and Data Processing Services	0.3
Calibration and ISO Services	0.2
Sale of Repair or Maintenance on Vessels	3.8
Renovation & Repair for Residential Property	21.0
Patient Care Services	10.0

Summary of Major Identifiable State Tax Expenditures: FY 09 Estimates

(In Millions)

		Annual Estimate
Tangible Property Purchased by For-Profit Hospitals		0.5
Leased Employees & Professional Contract Employees		0.2
Motor Vehicle Parking		2.5
Car Washes		1.0
Amusement and Recreation Services		0.2
Massage Therapist and Electrology Services		0.3
Sales Agent Services		2.0
Advertising		20.0
Tax Preparation		4.0
Winter Boat Storage		0.3
Services provided by off-duty Police or Firefighter		1.0
Training Services		0.3
Non-Cable Communication Services		0.1
Marine Vessel Brokerage Services		0.2
Media Payroll Services		1.5
Sub Total Service Exemptions	$	152.4
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	$	43.0
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	$	46.5
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	**$**	**2,568.4**
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

Summary of Major Identifiable State Tax Expenditures: FY 09 Estimates

(In Millions)

		Annual Estimate
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		
Apprenticeship	$	0.3
Digital Animation Production		15.0
Displaced Worker		5.0
Donation of Land for Educational Use		0.5
Electronic Data Processing		25.0
Employment Expansion Project		1.0
Film and Digital Media Production		90.0
Fixed Capital		60.0
Historic Home Rehabilitation		0.5
Historic Structure Rehabilitation		0.5
Housing Program Contribution		5.0
Human Capital		2.5
Insurance Reinvestment		0.5
Job Creation		10.0
Machinery and Equipment		2.5
Mfg Facilities/Service Facilities/Enterprise Zones		1.5
Mixed Use Historic Structure		50.0
Motion Picture Infrastructure		10.0
Neighborhood Assistance		1.5
Open Space Land Donation		0.5
Research & Development		5.0
Research & Experimentation		10.0
Sale of Certain Credits		7.5
Traffic Reduction		0.3
Urban and Industrial Reinvestment Credit		1.0
Sub Total Credits	$	305.6
Total Corporate Income Tax	**$**	**556.2**
Public Service Companies Gross Earnings Tax		
Exemptions and Deductions		
Sales for Resale	$	75.0
Earnings to Pay for Debt Service on Energy Securization		1.0
Railroad Companies When Certified by DOT		2.0
Propane Gas Used as Motor Fuel		0.1
Gas and Electricity Used by Industrial Consumers (SIC 2000-3999)		15.0

Summary of Major Identifiable State Tax Expenditures: FY 09 Estimates

(In Millions)

		Annual Estimate
Gas Sold to Facility with 775 MW of Capacity		5.0
Sub Total Exemptions and Deductions	$	98.1
Lowered Rate for Residential Utilities	$	7.0
Credits		
Personal Property Tax Paid on Data Processing Equipment	$	1.0
Rehabilitation of Historic Homes		0.5
Historic Structures (other than homes)		1.0
Job Creation		1.0
Displaced Worker		1.0
Housing Program Contributions		1.0
Sub Total Credits	$	5.5
Total Public Service Companies Gross Earnings Tax	**$**	**110.6**
Petroleum Companies Gross Earnings Tax		
#2 Heating Oil used for Heating Purposes	$	180.0
#2 Heating Oil used in Commercial Fishing		4.0
Propane Used for Residential Heating		7.0
Bunker Fuel Oil, Intermediate Fuel, Marine Diesel Oil & Gas Oil		3.0
Kerosene Used for Residential Heating		1.5
Propane Used as Motor Fuel		0.3
Fuel Used in Vessels Engaged in Interstate Commerce		15.0
Fuel Used by Industrial Consumers (SIC 2000-3999)		7.0
Paraffin and Microcrystalline Waxes		0.8
Petroleum Products used in Fuel Cells		0.5
Commercial Heating Oil Blend		0.1
Credit for Sale to Resellers Located Outside the State		30.0
Total Petroleum Companies Gross Earnings Tax	**$**	**249.2**
Insurance Premiums Tax		
Exemptions and Deductions		
Ocean Marine Insurance	$	0.5
State Employee Health Plans		2.0
Medicaid, HUSKY and General Assistance		7.0
Sub Total Credits	$	9.5
Credits		
Credit for Insurance Guaranty Fund Payments	$	1.0
Insurance Department Assessment Credit		1.0
Housing Program Contribution		0.5
Neighborhood Assistance		1.0
Historic Home Rehabilitation		0.2
Historic Structure Rehabilitation		0.5
Clean Alternative Fuels		0.5
Insurance Reinvestment		5.0
Electronic Data Processing		15.0
Job Creation		1.0

Summary of Major Identifiable State Tax Expenditures: FY 09 Estimates

(In Millions)

		Annual Estimate
Displaced Electric Worker		0.5
Film and Digital Media Production		0.5
Digital Animation Production		0.5
Sub Total Credits	$	26.2
Total Insurance Premiums Tax	**$**	**35.7**
Cigarette and Tobacco Products Taxes		
Tobacco Products Exported Out of State	$	6.0
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
Admission to events held at: 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, Lime Rock Park, Bridgeport Harbor Yard Stadium, New Haven Ravens Games, Waterbury Spirit Games, New Britain Rock Cats Games, CT Expo Center, and Convention Center		8.0
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	$	12.6
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	**$**	**12.9**
Motor Fuels and Motor Carrier Road Taxes		
Exemptions to Motor Fuels Tax		
US Government	$	0.5
Municipalities, Transit Districts and the State		7.5
Fuel Distributors		750.0
Fuel Exported Out of State		120.0
Alternative Fuels Used by Covered Fleets		0.5
Aviation Fuel		45.0
Sub Total Motor Fuels Tax Exemptions	$	923.5
Refunds of Motor Fuels Tax		
Vehicles not Operated on Public Highways	$	2.5
CT Motor Bus Companies and Other Livery Services		1.0
High-Occupancy Commuter Vehicles		0.5

Summary of Major Identifiable State Tax Expenditures: FY 09 Estimates

(In Millions)

		Annual Estimate
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	$	5.5
Credit for Motor Carrier Road Tax on Motor Fuels Tax Paid in State	$	1.0
Total Motor Fuels and Motor Carrier Road Taxes	**$**	**930.0**
Grand Total--Major Identifiable State Tax Expenditures	**$**	**4,991.0**