# Details of the Governor's General Fund Revenue Plan for the 2016-2017 Biennium

Prepared for the Finance, Revenue and Bonding Committee

March 9, 2015


**OFFICE OF FISCAL ANALYSIS**

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# Introduction

This document includes a summary schedule of the Governor's revenue plan on the basis of January Consensus revenue projections.[1] It also provides detailed descriptions of each of the Governor's recommended policy changes impacting General Fund revenues. These descriptions are grouped by revenue stream (e.g., Personal Income Tax) and the revenue streams are ordered according to how they appear on the revenue schedule prepared for the Finance, Revenue and Bonding Committee in support of the state budget act pursuant to CGS 2-35.

Please note:

The amounts indicated for the Governor's policies have been estimated by OPM. These estimates are under review by OFA although no significant revisions are anticipated. OFA expects to complete this review soon.

The following report is formatted to compare the Governor's proposed revenue budget to legislative versions of the revenue budget. Since there has not yet been any definitive legislative action impacting General Fund revenue either relative to the Governor's proposal or not, the amounts for "Committee" policies are presently set to zero.

The Federal Grants revenue stream includes the revenue impact that various proposed changes to appropriations would have on federal reimbursements the state receives for spending on certain services.

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[1] Pursuant to CGS 2-36c, the Office of Fiscal Analysis and Office of Policy and Management (OPM) jointly issue consensus revenue estimates in November, January and April of each year. The estimates cover the current biennium plus three out years. If there is no agreement between OFA and OPM, the Office of the State Comptroller is required to issue consensus estimates that are: 1) equal to the estimates provided by either OFA or OPM; or 2) between the OFA and OPM estimates. The Governor and the General Assembly are required to use the most recent consensus estimates to prepare their respective budgets. The Governor must use January consensus revenue estimates to prepare his budget recommendations for February and the General Assembly has in practice used the April consensus estimates to formulate the enacted budget.

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# FY 16 and FY 17 Revenue Schedule
**(in thousands)**

| | January Consensus FY 16 | Gov Policies | Gov FY 16 Revenue | Comm Policies | Comm FY 16 Revenue |
|---|---|---|---|---|---|
| **Taxes** | | | | | |
| Personal Income | 9,748,600 | 12,700 | **9,761,300** | - | **9,748,600** |
| Sales and Use | 4,251,000 | 70,400 | **4,321,400** | - | **4,251,000** |
| Corporations | 627,300 | 273,200 | **900,500** | - | **627,300** |
| Public Service Corporations | 308,000 | 700 | **308,700** | - | **308,000** |
| Inheritance and Estate | 177,400 | - | **177,400** | - | **177,400** |
| Insurance Companies | 237,200 | 22,700 | **259,900** | - | **237,200** |
| Cigarettes | 336,700 | - | **336,700** | - | **336,700** |
| Real Estate Conveyance | 194,700 | - | **194,700** | - | **194,700** |
| Oil Companies | - | - | **-** | - | **-** |
| Alcoholic Beverages | 61,200 | 1,800 | **63,000** | - | **61,200** |
| Admissions and Dues | 38,700 | - | **38,700** | - | **38,700** |
| Health Provider | 479,900 | 170,200 | **650,100** | - | **479,900** |
| Miscellaneous Taxes | 20,900 | - | **20,900** | - | **20,900** |
| **Total Taxes** | **16,481,600** | **551,700** | **17,033,300** | **-** | **16,481,600** |
| Refunds of Taxes | (1,165,200) | - | **(1,165,200)** | - | **(1,165,200)** |
| Earned Income Tax Credit | (138,400) | 11,000 | **(127,400)** | - | **(138,400)** |
| R & D Credit Exchange | (7,100) | - | **(7,100)** | - | **(7,100)** |
| **Taxes Less Refunds** | **15,170,900** | **562,700** | **15,733,600** | **-** | **15,170,900** |
| | | | | | |
| **Other Revenue** | | | | | |
| Transfer Special Revenue | 329,800 | - | **329,800** | - | **329,800** |
| Indian Gaming Payments | 260,700 | - | **260,700** | - | **260,700** |
| Licenses, Permits and Fees | 295,900 | 15,900 | **311,800** | - | **295,900** |
| Sales of Commodities | 44,600 | - | **44,600** | - | **44,600** |
| Rentals, Fines and Escheats | 119,900 | - | **119,900** | - | **119,900** |
| Investment Income | 2,800 | - | **2,800** | - | **2,800** |
| Miscellaneous | 163,700 | 4,600 | **168,300** | - | **163,700** |
| Refunds of Payments | (74,200) | - | **(74,200)** | - | **(74,200)** |
| **Total Other Revenue** | **1,143,200** | **20,500** | **1,163,700** | **-** | **1,143,200** |
| | | | | | |
| **Other Sources** | | | | | |
| Federal Grants | 1,298,100 | (25,663) | **1,272,437** | - | **1,298,100** |
| Transfer from Tobacco Settlement | 86,100 | 21,000 | **107,100** | - | **86,100** |
| Transfers From/To Other Funds | (212,700) | (20,900) | **(233,600)** | - | **(212,700)** |
| Transfer to the Resources of the Special Transportation Fund | (38,200) | - | **(38,200)** | - | **(38,200)** |
| **Total Other Sources** | **1,133,300** | **(25,563)** | **1,107,737** | **-** | **1,133,300** |
| | | | | | |
| **Total General Fund** | **17,447,400** | **557,637** | **18,005,037** | **-** | **17,447,400** |

| | January Consensus FY 17 | Gov Policies | Gov FY 17 Revenue | Comm Policies | Comm FY 17 Revenue |
|---|---|---|---|---|---|
| **Taxes** | | | | | |
| Personal Income | 10,304,700 | 8,500 | **10,313,200** | - | **10,304,700** |
| Sales and Use | 4,431,100 | (10,200) | **4,420,900** | - | **4,431,100** |
| Corporations | 669,800 | 154,400 | **824,200** | - | **669,800** |
| Public Service Corporations | 316,500 | 700 | **317,200** | - | **316,500** |
| Inheritance and Estate | 182,700 | - | **182,700** | - | **182,700** |
| Insurance Companies | 239,700 | 22,700 | **262,400** | - | **239,700** |
| Cigarettes | 320,500 | - | **320,500** | - | **320,500** |
| Real Estate Conveyance | 200,800 | - | **200,800** | - | **200,800** |
| Oil Companies | - | - | **-** | - | **-** |
| Alcoholic Beverages | 61,600 | 1,800 | **63,400** | - | **61,600** |
| Admissions and Dues | 40,000 | - | **40,000** | - | **40,000** |
| Health Provider | 482,000 | 169,000 | **651,000** | - | **482,000** |
| Miscellaneous Taxes | 21,400 | - | **21,400** | - | **21,400** |
| **Total Taxes** | **17,270,800** | **346,900** | **17,617,700** | **-** | **17,270,800** |
| Refunds of Taxes | (1,214,900) | - | **(1,214,900)** | - | **(1,214,900)** |
| Earned Income Tax Credit | (144,900) | 11,000 | **(133,900)** | - | **(144,900)** |
| R & D Credit Exchange | (7,400) | - | **(7,400)** | - | **(7,400)** |
| **Taxes Less Refunds** | **15,903,600** | **357,900** | **16,261,500** | **-** | **15,903,600** |
| | | | | | |
| **Other Revenue** | | | | | |
| Transfer Special Revenue | 339,300 | - | **339,300** | - | **339,300** |
| Indian Gaming Payments | 254,300 | - | **254,300** | - | **254,300** |
| Licenses, Permits and Fees | 273,300 | 18,700 | **292,000** | - | **273,300** |
| Sales of Commodities | 45,800 | - | **45,800** | - | **45,800** |
| Rentals, Fines and Escheats | 121,800 | - | **121,800** | - | **121,800** |
| Investment Income | 5,900 | - | **5,900** | - | **5,900** |
| Miscellaneous | 165,800 | 4,600 | **170,400** | - | **165,800** |
| Refunds of Payments | (75,100) | - | **(75,100)** | - | **(75,100)** |
| **Total Other Revenue** | **1,131,100** | **23,300** | **1,154,400** | **-** | **1,131,100** |
| | | | | | |
| **Other Sources** | | | | | |
| Federal Grants | 1,322,000 | (30,645) | **1,291,355** | - | **1,322,000** |
| Transfer from Tobacco Settlement | 83,000 | 16,000 | **99,000** | - | **83,000** |
| Transfers From/To Other Funds | (222,700) | (9,800) | **(232,500)** | - | **(222,700)** |
| Transfer to the Resources of the Special Transportation Fund | (17,600) | - | **(17,600)** | - | **(17,600)** |
| **Total Other Sources** | **1,164,700** | **(24,445)** | **1,140,255** | **-** | **1,164,700** |
| | | | | | |
| **Total General Fund** | **18,199,400** | **356,755** | **18,556,155** | **-** | **18,199,400** |

# Policies Details

# Personal Income

## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 9,748,600,000 | 10,304,700,000 | 9,748,600,000 | 10,304,700,000 | - | - |
| Policy Estimates and Updates | 12,700,000 | 8,500,000 | - | - | (12,700,000) | (8,500,000) |
| **Total** | **9,761,300,000** | **10,313,200,000** | **9,748,600,000** | **10,304,700,000** | **(12,700,000)** | **(8,500,000)** |

### *Policy Revisions*

### Delay Increase in the Personal Exemption for Single Filers

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 12,700,000 | 8,500,000 | - | - | (12,700,000) | (8,500,000) |

**Background:** Pursuant to CGS 12-702(a), the personal exemption for certain unmarried (single) filers of the Personal Income Tax is due to increase incrementally from the basis of $12,250 in 2000 culminating in a personal exemption of $15,000 in 2015 and thereafter. The 2014 personal exemption is $14,500. In accordance with the statute, these personal exemptions may be reduced or eliminated entirely based upon how much a single filer's adjusted gross income exceeds the personal exemption amount.

**Governor:** Delay until 2018 the final scheduled incremental increase of $500, which increases the current personal exemption from $14,500 to $15,000. Sections 1-3 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implement these changes. The estimated revenue gain of $12.7 million in FY 16 is 50% greater than the revenue gain of $8.5 million in FY 17 because the FY 16 impact includes 18 months of activity, retroactive to January 1, 2015, through June 30, 2016. The FY 17 estimated revenue gain reflects 12 months of activity.

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# Sales and Use

## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 4,251,000,000 | 4,431,100,000 | 4,251,000,000 | 4,431,100,000 | - | - |
| Policy Estimates and Updates | 70,400,000 | (10,200,000) | - | - | (70,400,000) | 10,200,000 |
| **Total** | **4,321,400,000** | **4,420,900,000** | **4,251,000,000** | **4,431,100,000** | **(70,400,000)** | **10,200,000** |

### *Policy Revisions*

### Reduce General Sales and Use Tax Rate

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (70,100,000) | (154,900,000) | - | - | 70,100,000 | 154,900,000 |

**Background:** As of July 1, 2011, the general sales and use tax rate in the state is 6.35%.

**Governor:** Reduce the sales and use tax rate from 6.35% to 6.20% effective November 1, 2015 and 5.95% effective April 1, 2017. Sections 9 - 16 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implement this change.

## Eliminate Exemption on Clothing and Footwear

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 138,000,000 | 142,100,000 | - | - | (138,000,000) | (142,100,000) |

**Background:** An exemption for children's clothing has been in effect since the enactment of the sales and use tax in 1947. PA 85-3 expanded the exemption to other clothing and footwear under $50. Various public acts afterward changed the threshold amount for exemption. PA 03-2 placed the threshold for exemption at $50 which remained until PA 11-6, the FY 12-13 biennial budget, eliminated the exemption all together.

PA 13-184 restored the exemption on or after June 1, 2015. PA 14-47 delayed the restoration of the exemption to July 1, 2015, which resulted in a revenue gain of $11.5 million for FY 15.

**Governor:** Eliminate sales tax exemption for clothing and footwear under $50 due to take effect July 1, 2015. Section 45 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implements this change.

## Limit Sales Tax Free Week Items $100 or Less

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 1,000,000 | 1,100,000 | - | - | (1,000,000) | (1,100,000) |

**Background:** CGS Sec. 12-407e provides a sales tax 'free week' on items of clothing and footwear costing less than $300 beginning on the third Sunday in August until the next succeeding Saturday. PA 00-170 originally established the exemption.

**Governor:** Limit the sales tax 'free week' to clothing and footwear under $100. Section 17 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implements this change.

## Amend Various Alcohol Policies

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 1,500,000 | 1,500,000 | - | - | (1,500,000) | (1,500,000) |

**Background:** CGS 30-68m defines a minimum bottle price of alcoholic liquor at which retailers may sell.

CGS Sec 30-48a currently allows three permits alcoholic beverage retail permits to be acquired by a person or backer.

CGS Sec 30-91 defines the times during which alcoholic beverage sales are permitted. Sales by places with package store permits, and other various retail permits, are allowable from 10am to 5pm on Sundays and from 8am to 9pm on all other days.

**Governor:** Implement the following changes regarding alcoholic beverage sales: (1) Eliminate the minimum bottle price requirement; (2) increase the number of allowable alcoholic beverage retail permits from three to six; (3) increase permissible sale hours to 10am to 8pm on Sundays and from 8am to 10pm on all other days. Sections 41-43 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implement this change.

# Corporations
## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 627,300,000 | 669,800,000 | 627,300,000 | 669,800,000 | - | - |
| Policy Estimates and Updates | 273,200,000 | 154,400,000 | - | - | (273,200,000) | (154,400,000) |
| **Total** | **900,500,000** | **824,200,000** | **627,300,000** | **669,800,000** | **(273,200,000)** | **(154,400,000)** |

## *Policy Revisions*

### Eliminate Business Entity Tax

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| - | (40,000,000) | - | - | - | 40,000,000 |

**Background:** CGS 12-284b(b) requires any business registered as one of the following: 1) limited liability company; 2) limited liability partnership; 3) limited partnership; or 4) S corporation to pay a tax of $250 every other year. PA 11-1 of the October Special Session made the tax payable every other year. (Previously it had been payable every year.)

**Governor:** Repeal the tax. Section 21 of SB 946, "AAC Revenue Items to Implement the Budget," implements this change.

### Make the Surcharge on the Corporate Income Tax Permanent

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 44,400,000 | 75,000,000 | - | - | (44,400,000) | (75,000,000) |

**Background:** CGS 12-214(b) imposes a temporary surcharge for filers with gross income greater than $100 million equal to 20% of the tax paid at a rate of 7.5% on net income derived from in-state sources, which results in an effective tax rate of 9.0% for corporations paying under the net income base method. PA 11-6, the FY 12 and FY 13 Budget, established a temporary 20% corporate income tax surcharge for income years 2012 and 2013. PA 13-184, the FY 14 and FY 15 Budget, continues the policy on a temporary basis with it due to expire in FY 16.

**Governor:** Make the 20% corporate income tax surcharge permanent. Sections 5-6 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implement this change.

### Restrict Net Operating Loss Carryforward Use by Corporations

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 156,300,000 | 90,100,000 | - | - | (156,300,000) | (90,100,000) |

**Background:** Federal and state law, pursuant to CGS 12-217(a)(4)(A), allow a corporation to apply a prior year loss against net income to the maximum extent possible and in a consecutive fashion when computing the amount of tax due.

**Governor:** Permanently limit the applicability of loss carryforwards to 50% of net income in any income year. Section 18 of SB 946, "AAC Revenue Items to Implement the Budget," implements this change.

### Reduce the Use of Credits against Certain Taxes

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 72,500,000 | 29,300,000 | - | - | (72,500,000) | (29,300,000) |

**Background:** Current law permits entities paying certain taxes to offset a portion or the entirety of their respective tax liabilities through the application of credits. CGS 12-217zz(a) limits the application of tax or other credits against the Corporate Income Tax to 70% of the total amount of the tax due otherwise. However, CGS 12-263b(a) permits an entity paying the Hospital Net Patient Revenue Tax to offset the entirety of its tax liability through the application of tax or other credits.

**Governor:** Lower the cap on the usage of credits against the Corporate Income Tax from 70% to the following: 1) 35% of the tax due in Income Year 2015; 2) 45% of the tax due in Income Year 2016; and 3) 60% of the tax due in Income Years 2017 and permanently thereafter. Establish a cap on the usage of credits against the Hospital Net Patient Revenue Tax as follows: 1) 35% of the tax due in 2015; 2) 45% of the tax due in 2016; and 3) 60% of the tax due in 2017 and permanently thereafter. Sections 19-20 of SB 946, "AAC Revenue Items to Implement the Budget," implement these changes.

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# Public Service Corporations

## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 308,000,000 | 316,500,000 | 308,000,000 | 316,500,000 | - | - |
| Policy Estimates and Updates | 700,000 | 700,000 | - | - | (700,000) | (700,000) |
| **Total** | **308,700,000** | **317,200,000** | **308,000,000** | **316,500,000** | **(700,000)** | **(700,000)** |

## *Policy Revisions*

### Reduce Revenue Diversion to CT-N

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 700,000 | 700,000 | - | - | (700,000) | (700,000) |

**Background:** CGS 2-71x was amended in the Revised FY 15 budget to divert $3.2 million annually, up from $2.5 million, from the Public Service Corporations Tax to provide television coverage of state government deliberations and public policy events. This supports the operations of the Connecticut Television Network (CT-N).

**Governor:** Permanently reduce the annual revenue diversion from the Public Service Corporations Tax by $700,000 to $2.5 million. Section 33 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implements this change.

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# Insurance Companies
## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 237,200,000 | 239,700,000 | 237,200,000 | 239,700,000 | - | - |
| Policy Estimates and Updates | 22,700,000 | 22,700,000 | - | - | (22,700,000) | (22,700,000) |
| **Total** | **259,900,000** | **262,400,000** | **237,200,000** | **239,700,000** | **(22,700,000)** | **(22,700,000)** |

## *Policy Revisions*

### Maintain the 3-Tier Credit System against the Ins. Prem. Tax

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 18,700,000 | 18,700,000 | - | - | (18,700,000) | (18,700,000) |

**Background:** CGS 12-211a(a) limits tax or other credits allowable against the Insurance Premiums Tax to 70% of the amount due prior to the application of any credit. In addition, CGS 12-211a(a)(5) temporarily establishes two lower caps (a three-tiered cap system) at 55% and 30% depending upon the mix of credits to be applied. The two lower tiers are due to expire in 2015.

The applicable tiers are governed by the mix of different types of credits, as defined in CGS 12-211a(a)(4), including the following: 1) Insurance Reinvestment Fund Tax Credit; 2) Digital Animation Production Tax Credit; 3) Film Production Tax Credit; 4) Film Production Infrastructure Tax Credit; and 5) any other credits.

**Governor:** Delay until 2017 the scheduled expiration of the two lower tiers of caps on credit utilization against the Insurance Premiums Tax. Section 7 of SB 946, "AAC Revenue Items to Implement the Budget," implements this change.

### Maintain the Moratorium on New Film Tax Credits

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 4,000,000 | 4,000,000 | - | - | (4,000,000) | (4,000,000) |

**Background:** CGS Sec. 12-217jj allows a credit for qualified production expenses or eligible costs incurred during the production of a film in Connecticut. The credit percentage ranges from 10% to 30% depending on total eligible expenses. Credits may be claimed in the year the costs were incurred or the three succeeding years after the year the costs were incurred, and may be sold, assigned, or transferred in whole or in part no more than three times.

PA 13-184, the FY 14 and FY 15 Budget, established a two-year moratorium on film production tax credits for motion pictures through FY 14 and FY 15. This policy (1) bars the issuance of tax credit vouchers for motion pictures; and (2) excludes motion pictures from the types of qualified productions that are eligible for the credits for those years, with certain exceptions.

**Governor:** Delay until FY 18 the scheduled expiration of the moratorium on the issuance of new film tax credits. Section 8 of SB 946, "AAC Revenue Items to Implement the Budget," implements this change. Maintain the exceptions to the moratorium.

# Alcoholic Beverages
## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 61,200,000 | 61,600,000 | 61,200,000 | 61,600,000 | - | - |
| Policy Estimates and Updates | 1,800,000 | 1,800,000 | - | - | (1,800,000) | (1,800,000) |
| **Total** | **63,000,000** | **63,400,000** | **61,200,000** | **61,600,000** | **(1,800,000)** | **(1,800,000)** |

### *Policy Revisions*

### Amend Various Alcohol Policies

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 1,800,000 | 1,800,000 | - | - | (1,800,000) | (1,800,000) |

**Background:** CGS 30-68m defines a minimum bottle price of alcoholic liquor at which retailers may sell.

CGS Sec 30-48a currently allows three permits alcoholic beverage retail permits to be acquired by a person or backer.

CGS Sec 30-91 defines the times during which alcoholic beverage sales are permitted. Sales by places with package store permits, and other various retail permits, are allowable from 10am to 5pm on Sundays and from 8am to 9pm on all other days.

**Governor:** Implement the following changes regarding alcoholic beverage sales: (1) Eliminate the minimum bottle price requirement; (2) increase the number of allowable alcoholic beverage retail permits from three to six; (3) increase permissible sale hours to 10am to 8pm on Sundays and from 8am to 10pm on all other days. Sections 41-43 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implement this change.

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# Health Provider
## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 479,900,000 | 482,000,000 | 479,900,000 | 482,000,000 | - | - |
| Policy Estimates and Updates | 170,200,000 | 169,000,000 | - | - | (170,200,000) | (169,000,000) |
| **Total** | **650,100,000** | **651,000,000** | **479,900,000** | **482,000,000** | **(170,200,000)** | **(169,000,000)** |

### *Policy Revisions*

### Reduce the Use of Credits against Certain Taxes

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 5,000,000 | 3,800,000 | - | - | (5,000,000) | (3,800,000) |

**Background:** Current law permits entities paying certain taxes to offset a portion or the entirety of their respective tax liabilities through the application of credits. CGS 12-217zz(a) limits the application of tax or other credits against the Corporate Income Tax to 70% of the total amount of the tax due otherwise. However, CGS 12-263b(a) permits an entity paying the Hospital Net Patient Revenue Tax to offset the entirety of its tax liability through the application of tax or other credits.

**Governor:** Lower the cap on the usage of credits against the Corporate Income Tax from 70% to the following: 1) 35% of the tax due in Income Year 2015; 2) 45% of the tax due in Income Year 2016; and 3) 60% of the tax due in Income Years 2017 and permanently thereafter. Establish a cap on the usage of credits against the Hospital Net Patient Revenue Tax as follows: 1) 35% of the tax due in 2015; 2) 45% of the tax due in 2016; and 3) 60% of the tax due in 2017 and permanently thereafter. Sections 19-20 of SB 946, "AAC Revenue Items to Implement the Budget," implement these changes.

### Update the Hospital Net Revenue Tax

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 165,200,000 | 165,200,000 | - | - | (165,200,000) | (165,200,000) |

**Background:** PA 11-6, as amended by PA 11-44 and PA 11-61, implemented a tax on hospital net patient revenue effective July 1, 2011. The fee, determined by the Department of Social Services, has not changed since instituted. It is based on Federal Fiscal Year 2009 total net patient revenues as reported to the Department of Public Health's Office of Health Care Access (OHCA). The fee currently is 5.5% of inpatient revenues and 3.83% of outpatient revenues. The fee may not exceed the maximum rate allowed by the federal government, currently 6% of net patient revenues.

Hospitals deemed to be financially distressed were exempted from the fee on outpatient revenues. The user fee totals approximately $349 million annually and is paid on a quarterly basis.

**Governor:** Update the base for the Hospital Net Revenue Tax from Federal Fiscal Year 2009 to 2013 total net patient revenues. Equalize the tax rates on inpatient and outpatient services. No legislation is required for this change.

In conjunction to the tax update, increase supplemental Medicaid payments to hospitals to $165.3, the amount of tax to be collected. From this payment $55.3 million will be paid by the state with the remaining $110 million by the federal government. In total, the tax revenue of $165.3 and supplemental state payments of $55.3 million result in a net gain to the state of $110 million.

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# Earned Income Tax Credit

## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | (138,400,000) | (144,900,000) | (138,400,000) | (144,900,000) | - | - |
| Policy Estimates and Updates | 11,000,000 | 11,000,000 | - | - | (11,000,000) | (11,000,000) |
| **Total** | **(127,400,000)** | **(133,900,000)** | **(138,400,000)** | **(144,900,000)** | **(11,000,000)** | **(11,000,000)** |

## *Policy Revisions*

### Delay Increase in the Earned Income Tax Credit

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 11,000,000 | 11,000,000 | - | - | (11,000,000) | (11,000,000) |

**Background:** CGS 12-214e provides a refundable state earned income tax credit against the Personal Income Tax that is equal to a percentage of the federal credit.

PA 11-6, the FY 12 and FY 13 Budget, as amended by PA 11-1 JSS, established a refundable, state Earned Income Tax Credit (EITC) against the Personal Income Tax that is equal to 30.0% of the federal EITC. This policy was effective upon passage and applicable to tax years starting on or after January 1, 2011. In 2011, 181,620 households claimed the state EITC for a total credit amount of $109,194,583. The average credit amount was $601.

PA 13-184, the FY 14 and FY 15 Budget, temporarily reduced the state's EITC to 25.0% of the federal EITC in 2013 and 27.5% of the federal EITC in 2014. According to PA 13-184, the EITC rate is scheduled to revert to the original 30.0% of the federal EITC in 2015.

**Governor:** Delay until 2017 the scheduled restoration of the rate to 30.0% from 27.5%. Section 4 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implements this change.

# Licenses, Permits and Fees

## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 295,900,000 | 273,300,000 | 295,900,000 | 273,300,000 | - | - |
| Policy Estimates and Updates | 15,900,000 | 18,700,000 | - | - | (15,900,000) | (18,700,000) |
| **Total** | **311,800,000** | **292,000,000** | **295,900,000** | **273,300,000** | **(15,900,000)** | **(18,700,000)** |

## *Policy Revisions*

### Increase Filing Fees for Pass-Through Entities

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 10,000,000 | 12,800,000 | - | - | (10,000,000) | (12,800,000) |

**Background:** The Secretary of the State's Commercial Recording Division is responsible for maintaining certain records concerning the formation and changes to business entities in the state.

**Governor:** Sections 22 through 24 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," increase the fee for filing an annual report for certain entities from $20 to $100 per year.

### Increase and Expand Assessment for Solid Waste Processing

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 5,300,000 | 5,300,000 | - | - | (5,300,000) | (5,300,000) |

**Background:** Pursuant to CGS 22a-232, Resource Recovery Facilities currently pay $1.50 per ton of solid waste processed at such facilities. These facilities convert solid waste received from municipalities into energy. There are currently seven in Connecticut which paid a total amount of $3.5 million in FY 14.

**Governor:** Permanently increase the assessment from $1.50 to $2.50 per ton of solid waste processed at Resource Recovery Facilities, and expand the applicability of the assessment to include construction / demolition waste landfilled in CT, the export / import of municipal solid waste and the export of construction / demolition waste to other states. Section 25 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implements these changes. The increased assessment is estimated to yield an additional $2.2 million with the expansion to yield an additional $3.1 million.

### Transfer Palliative Use of Marijuana Revenue to General Fund

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 600,000 | 600,000 | - | - | (600,000) | (600,000) |

**Background:** Pursuant to CGS, Chapter 420f, Section 21a-408, patients who are currently receiving medical treatment for a debilitating medical condition set out in the law may qualify for a registration certificate for the palliative marijuana program. To qualify, a patient must also be at least 18 years of age and a Connecticut resident. Each patient may also register one primary caregiver if the need for a caregiver is documented by the patient's physician. In FY 15 fees for growing, distribution and use of palliative marijuana are deposited into the Palliative Marijuana Administration Account.

**Governor:** Deposit revenue associated with the palliative use of marijuana to the General Fund rather than the Palliative Marijuana Administration Fund for FY 16 and each year thereafter. Total revenue for FY 16 and FY 17 is $600,000. Sections 37-40 and 44 of SB 946, "An Act Concerning Revenue Items to Implement the Governor's Budget," implement this permanent change.

# Miscellaneous

## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 163,700,000 | 165,800,000 | 163,700,000 | 165,800,000 | - | - |
| Policy Estimates and Updates | 4,600,000 | 4,600,000 | - | - | (4,600,000) | (4,600,000) |
| **Total** | **168,300,000** | **170,400,000** | **163,700,000** | **165,800,000** | **(4,600,000)** | **(4,600,000)** |

### *Policy Revisions*

### Adjust Reimbursement Rate for Resident State Policemen

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 4,600,000 | 4,600,000 | - | - | (4,600,000) | (4,600,000) |

**Background:** The Department of Emergency Services and Public Protection operates the Resident State Policemen program as established in CGS 29-5. Through this voluntary program, state policemen are appointed as resident state policemen in participating municipalities. Currently, 56 towns participate in the program. Such municipalities are responsible for paying seventy percent (70%) of regular time costs and one hundred percent (100%) of overtime costs, including fringe benefits.

**Governor:** Section 26 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," permanently requires municipalities participating in the resident state policemen program to pay one hundred percent (100%) of all costs for such policemen.

# Federal Grants

## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 1,298,100,000 | 1,322,000,000 | 1,298,100,000 | 1,322,000,000 | - | - |
| Policy Estimates and Updates | (25,662,705) | (30,644,608) | - | - | 25,662,705 | 30,644,608 |
| **Total** | **1,272,437,295** | **1,291,355,392** | **1,298,100,000** | **1,322,000,000** | **25,662,705** | **30,644,608** |

### *Policy Revisions*

### Reflect Reimbursement Impact of Savings Initiative in MHA

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (55,253) | (111,612) | - | - | 55,253 | 111,612 |

**Background:** Within the Department of Mental Health and Addiction Services (MHA), the Governor's proposed budget reduces certain expenditures. Section 1 of HB 6824, "AAC the State Budget for the Biennium Ending June Thirtieth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue," includes this appropriations adjustment.

**Governor:** Adjust revenue estimate to reflect the impact of this change in appropriations.

## Reflect Reimbursement Impact of Clinical Services Savings

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (295,920) | (295,920) | - | - | 295,920 | 295,920 |

**Background:** Within the Department of Developmental Services (DDS), the Governor's proposed budget reduces funding to reflect elimination of a contracted Medical Director at Southbury Training School and limiting the use of contracted and nursing pool services. Section 1 of HB 6824, "AAC the State Budget for the Biennium Ending June Thirtieth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue," includes this appropriations adjustment.

**Governor:** Adjust revenue estimate to reflect the impact of this change in appropriations.

## Reflect Reimbursement Impact of Autism Initiatives in DDS

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 375,000 | 375,000 | - | - | (375,000) | (375,000) |

**Background:** Within the Department of Developmental Services (DDS), the Governor's proposed budget provides funding to implement recommendations of the Autism Feasibility Study to improve services and supports for individuals with autism. Section 1 of HB 6824, "AAC the State Budget for the Biennium Ending June Thirtieth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue," includes this appropriations adjustment.

**Governor:** Adjust revenue estimate to reflect the impact of this change in appropriations.

## Reflect Reimbursement Impact of Autism Waiver Elimination

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (500,000) | (500,000) | - | - | 500,000 | 500,000 |

**Background:** Within the Department of Developmental Services (DDS), the Governor's proposed budget eliminates funding for the Early Childhood Autism Waiver since the treatment is now a Medicaid-covered service. Shifting funding for the program to the net-appropriated Medicaid line item from the gross-appropriated budget of DDS reduces the amount of appropriations necessary and has a corresponding impact on the General Fund revenue schedule. Section 1 of HB 6824, "AAC the State Budget for the Biennium Ending June Thirtieth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue," includes this appropriations adjustment.

**Governor:** Adjust revenue estimate to reflect the impact of this change in appropriations.

## Reflect Reimbursement Impact of Comm. Placements Policy

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (2,131,250) | (6,030,166) | - | - | 2,131,250 | 6,030,166 |

**Background:** Within the Department of Developmental Services (DDS), the Governor's proposed budget reduces funding for community placements, the cost of which is subject to 50% federal reimbursement, in order to support the transfer of individuals out of

Southbury and other facilities. Section 1 of HB 6824, "AAC the State Budget for the Biennium Ending June Thirtieth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue," includes this appropriations adjustment.

**Governor:** Adjust revenue estimate to reflect the impact of this change in appropriations.

## Reflect Reimbursement Impact of Birth to Three Transfer

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (7,250,000) | (7,250,000) | - | - | 7,250,000 | 7,250,000 |

**Background:** The Birth-to-Three Program currently is in the Department of Developmental Services (DDS). The Governor's proposed budget transfers the portion of the program's funding associated with Medicaid eligible children from DDS to the Medicaid line item within the Department of Social Services (DSS) in order to reduce appropriations.

The program is currently budgeted entirely on a gross basis within DDS, with corresponding federal revenue reflected in the state's General Fund revenue schedule for the portion of the appropriation attributable to clients who meet the eligibility criteria for Medicaid. Since the Medicaid line item within DSS is budgeted on a net (instead of gross) basis, the transferred appropriation was reduced by 50% to reflect the federal revenue DSS will receive. Section 1 of HB 6824, "AAC the State Budget for the Biennium Ending June Thirtieth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue," includes this appropriations adjustment.

**Governor:** Adjust revenue estimate to reflect the impact of this change in appropriations: moving a portion of funding for the Birth-to-Three Program to the net-appropriated Medicaid line item within DSS.

## Reflect Reimbursement Impact of Rescissions Rollout in DDS

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (2,500,000) | (2,500,000) | - | - | 2,500,000 | 2,500,000 |

**Background:** Within the Department of Developmental Services (DDS), the Governor's proposed budget continues FY 15 savings achieved through mid-year rescissions into FY 16 and FY 17. This rollout includes a reduction of $5,000,000 in each year to the Employment and Day Services Program, which is subject to federal reimbursement. Section 1 of HB 6824, "AAC the State Budget for the Biennium Ending June Thirtieth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue," includes this appropriations adjustment.

**Governor:** Adjust revenue estimate to reflect the impact of this change in appropriations.

## Reflect Reimbursement Impact of Day Programs Change in DDS

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (3,100,500) | (7,137,000) | - | - | 3,100,500 | 7,137,000 |

**Background:** Within the Department of Developmental Services (DDS), the Governor's proposed budget eliminates funding of $6,201,000 in FY 16 and $14,274,000 in FY 17 for day programs for new high school graduates in the Employment and Day Services Program, which is subject to federal reimbursement. Section 1 of HB 6824, "AAC the State Budget for the Biennium Ending June Thirtieth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue," includes this appropriations adjustment.

**Governor:** Adjust revenue estimate to reflect the impact of this change in appropriations.

### Reflect Reimbursement Impact of VSP Reduction in DCF

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (189,500) | (189,500) | - | - | 189,500 | 189,500 |

**Background:** Within the Department of Children and Families (DCF), the Governor's proposed budget includes a reduction of $500,000 in each year of the FY 16 and FY 17 Biennium associated with the Voluntary Services Program (VSP). Section 1 of HB 6824, "AAC the State Budget for the Biennium Ending June Thirtieth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue," includes this appropriations adjustment.

**Governor:** Adjust revenue estimate to reflect the impact of this change in appropriations.

### Reflect Reimbursement Impact of VSP Reduction in DDS

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (10,015,282) | (7,005,410) | - | - | 10,015,282 | 7,005,410 |

**Background:** Within the Department of Developmental Services (DDS), the Governor's proposed budget includes reductions of $20 million in FY 16 and $14 million in FY 17 associated with the Voluntary Services Program (VSP), which is subject to federal reimbursement. Section 1 of HB 6824, "AAC the State Budget for the Biennium Ending June Thirtieth 2017, and Making Appropriations Therefor and Other Provisions Related to Revenue," includes this appropriations adjustment.

**Governor:** Adjust revenue estimate to reflect the impact of this change in appropriations.

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# Transfer from Tobacco Settlement

## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | 86,100,000 | 83,000,000 | 86,100,000 | 83,000,000 | - | - |
| Policy Estimates and Updates | 21,000,000 | 16,000,000 | - | - | (21,000,000) | (16,000,000) |
| **Total** | **107,100,000** | **99,000,000** | **86,100,000** | **83,000,000** | **(21,000,000)** | **(16,000,000)** |

## *Policy Revisions*

### Divert Tobacco Settlement Funds from the THTF

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 12,000,000 | 12,000,000 | - | - | (12,000,000) | (12,000,000) |

**Background:** The purpose of the Tobacco and Health Trust Fund (THTF) is to create a continuing significant source of money to (1) support and encourage programs to reduce tobacco abuse through prevention, education and cessation, (2) support and encourage program development for substance abuse reduction and (3) develop and implement programs to meet the state's unmet physical and mental health needs. A THTF Board of Trustees was established pursuant to Section 15 of PA 00-216 to select programs to receive money from the Fund. The Board's selections, per CGS Sec. 4-28f, must be submitted to the Appropriations and Public Health Committees for authorization. The THTF receives an annual, statutory disbursement from the Tobacco Settlement Fund (TSF) as well as any TSF revenue that exceeds the total statutory disbursements from the TSF.

Pursuant to CGS 4-28e(c)(2), the THTF is to receive $12 million disbursements annually in addition to any revenue deposited into the TSF which is greater than the sum of all scheduled disbursements, including to the General Fund.

**Governor:** Eliminate the scheduled disbursement to the THTF in each year of the FY 16 and FY 17 Budget. Section 27 of PA 946, "AAC Revenue Items to Implement the Governor's Budget," implements this change. In addition, Section 27 permanently reduces future scheduled disbursements to $6 million annually beginning in FY 18.

### Eliminate Biomedical Trust Fund Transfer

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 4,000,000 | 4,000,000 | - | - | (4,000,000) | (4,000,000) |

**Background:** The Biomedical Research Trust Fund (BRTF) was established by PA 00-216 as a separate non-lapsing fund that can accept transfers from the Tobacco Settlement Fund and receive gifts, grants or donations from public or private sources. The Commissioner of Public Health awards grants-in-aid from the Fund to eligible institutions for the purpose of supporting biomedical research in the fields of heart disease, cancer and other tobacco-related diseases, Alzheimer's disease, stroke, and diabetes. PA 13-208 authorized not more than 2% of the total available amount held in the BRTF to be made available to the Department of Public Health for administration expenses relating to the Fund, such as determining and awarding grants-in-aid.

**Governor:** Eliminate the annual $4 million transfer from the Tobacco Settlement Fund to the BRTF beginning in FY 16. Section 27 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implements this change.

### Divert Tobacco Settlement Funds from Preschool Expansion

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 5,000,000 | - | - | - | (5,000,000) | - |

**Background:** Section 138 of PA 14-217, codified as CGS 4-28e(c)(6), established an annual revenue diversion of $10 million scheduled from FY 16 - FY 25 to provide grants-in-aid to towns for the purpose of establishing or expanding preschool programs.

**Governor:** Reduce the scheduled transfer in FY 15. Maintain the $10 million scheduled transfer in each of the nine remaining years of the program. Section 27 of PA 946, "AAC Revenue Items to Implement the Budget," implements this change.

# Transfers From/To Other Funds

## General Fund

| Revenue Components | Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|---|
| January Consensus | (212,700,000) | (222,700,000) | (212,700,000) | (222,700,000) | - | - |
| Policy Estimates and Updates | (20,900,000) | (9,800,000) | - | - | 20,900,000 | 9,800,000 |
| **Total** | **(233,600,000)** | **(232,500,000)** | **(212,700,000)** | **(222,700,000)** | **20,900,000** | **9,800,000** |

## *Policy Revisions*

### Divert Revenue to Amortize the Accumulative GAAP Deficit

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| (47,600,000) | (47,600,000) | - | - | 47,600,000 | 47,600,000 |

**Background:** Generally Accepted Accounting Principles (GAAP) are the common set of accounting principles, standards and procedures that are used to compile financial statements. GAAP are a combination of authoritative standards and simply the commonly accepted ways of recording and reporting account information.

Historically, the state has not used GAAP standards to report budgetary information but instead has reported using a modified cash basis of accounting. This method most significantly differs from GAAP by recognizing expenditures when bills are paid rather than when expenditures are actually incurred - generally when a good or service is received. However, under Connecticut's modified cash basis, most revenue was recognized when earned, which more closely, but not completely, follows GAAP standards.

The difference in accounting methodologies between expenditures and revenues has over time generated a negative unassigned fund balance often referred to as the State's, "accumulative GAAP deficit." As of June 30, 2013, the State's accumulative GAAP deficit was $1.2 billion. PA 11-48, as modified by PA 13-239 and PA 13-247, required: 1) elimination of the historical (accumulative) deficit; and 2) budgeting prospectively to preclude future growth in the GAAP deficit.

Section 68 of PA 13-239, "AA Authorizing and Adjusting Bonds of the State for Capital Improvements, Transportation, Elimination of the Accumulated GAAP Deficit and Other Purposes," authorize the State Treasurer to issue bonds in the amount of $750 million to extinguish a portion of the $1.2 billion accumulative GAAP deficit. The Treasurer has deposited bond proceeds of $598.5 million from a bond issuance on October 4, 2013. In accordance with the law, the remaining $618.8 million is to be amortized over thirteen years (FY 16 - FY 28). Distributed equally among 13 years, the annual amounts would be $47.6 million.

**Governor:** Divert General Fund revenue to amortize the remaining accumulative GAAP deficit.

## Divert Revenue from the Community Investment Act Account

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 13,500,000 | 27,000,000 | - | - | (13,500,000) | (27,000,000) |

**Background:** The Community Investment Act account provides funding for: 1) agricultural sustainability; 2) historic preservation; 3) municipal Open Space grants; and 4) various other agricultural activities, including grants to nonprofit organizations. The account is funded through land use recording fees (the account receives $26 of every $30 recording fee imposed with municipalities retaining $4). The account was established by PA 05-3 and does not lapse funds. On a quarterly basis funds are distributed according to CGS 4-66aa.

The balance of the account as of 2/27/15 was $48.3 million. HB 6825, "AA Making Deficiency Appropriations and Addressing the Deficit for the Fiscal Year Ending June 30, 2015," transfers $15.2 million of the account balance to help solve the projected FY 15 General Fund budget deficit. This transfer is in addition to the revenue diversions included in the Governor's proposed budget for FY 16 and FY 17.

**Governor:** Divert six consecutive quarterly payments from the designated (per CGS 4-66aa) recipients to the General Fund beginning with the January 1, 2016, disbursement and ending with the April 1, 2017, disbursement. Two of the quarterly payments (approximately $6.75 million each) impact FY 16 and the remaining four quarterly payments impact FY 17. Section 29 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implements this change.

## Transfer Funds from CHEFA

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 3,500,000 | 3,500,000 | - | - | (3,500,000) | (3,500,000) |

**Background:** The Connecticut Health and Educational Facilities Authority (CHEFA) is a quasi-governmental agency created by CGS 10a-179 to help Connecticut-based non-profit organizations raise the funds needed to meet their goals of improving the health and education of the citizens of this state. Specifically, CHEFA provides Connecticut's nonprofit institutions access to low cost financing in the public municipal markets. Formed in 1965, CHEFA currently has in excess of $8.1 billion in bonds outstanding.

In each of its last two fiscal years, CHEFA's operating revenues including loan servicing fees have exceeded its operating expenses by approximately $4 million. A portion of these differences have been distributed as grants to CHEFA clients and non-client social service agencies. The grants ($2.3 million in FY 13 and $3.5 million in FY 14) were distributed to various entities following an application process, with non-client grant dollars distributed for shelter, food and healthcare-related purposes.

**Governor:** Transfer $3.5 million from CHEFA to the General Fund in each year of the FY 16 and FY 17 Biennium. Sections 30-31 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implement these transfers.

## Transfer from Private Occupational Student Protection Acct.

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 2,500,000 | - | - | - | (2,500,000) | - |

**Background:** CGS 10a-22u requires each private occupational school to pay 1/2 of 1% of its quarterly net tuition revenue to the state treasurer for deposit into a special account administered by the State Department of Higher Education from which students can get tuition reimbursement if a school fails. PA 14-47, the FY 15 Midterm Revision Budget, transferred $500,000 from the account. The current balance of the account is approximately $6 million.

**Governor:** Transfer funds from the account in FY 16. Section 32 of SB 946, "AAC Revenue Items to Implement the Budget," implements this transfer.

## Divert Revenue from the PEGPETIA Surtax

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 4,200,000 | 4,300,000 | - | - | (4,200,000) | (4,300,000) |

**Background:** In accordance with CGS 16-331cc, the Public Educational and Governmental Programming and Education Technology Investment Account (PEGPETIA) provides grants to support public, educational, and governmental (i.e. community access) programming and education technology initiatives.

The account is administered by the Public Utilities Regulatory Authority and is funded by a 0.25% tax on the gross earnings of cable-TV, satellite-TV, and certified competitive video (e.g., AT&T U-Verse) service providers. The 0.25% surtax designated for PEGPETIA is in addition to the 5.0% tax (per CGS 12-258) on the gross earnings of cable-TV, satellite-TV, and certified competitive video service providers which is deposited into the General Fund and not designated for any specific purpose.

FY 14 revenue from the 0.25% surtax was $4.2 million; FY 13 revenue was $3.5 million. The FY 14 and FY 15 Budget diverted $3.4 million from the surtax in FY 14 and $3.5 million in FY 15. PA 14-98 provided a $3.5 million bond authorization in FY 15 to fund grants for equipment, exclusively. (The revenue diversion supports operating expenses.)

**Governor:** Divert PEGPETIA revenue to the General Fund. Sections 34-35 of SB 946, "An Act Concerning Revenue Items to Implement the Governor's Budget," implement the diversion.

## Adjust Revenue Diversion to Muni. Video Competition Acct.

| Governor FY 16 | Governor FY 17 | Committee FY 16 | Committee FY 17 | Difference FY 16 | Difference FY 17 |
|---|---|---|---|---|---|
| 3,000,000 | 3,000,000 | - | - | (3,000,000) | (3,000,000) |

**Background:** Pursuant to CGS 16-331bb, the State Comptroller must deposit into the Municipal Video Competition Trust Account up to $5 million each fiscal year from the Gross Earning Tax established under CGS 12-256 on certified competitive video service providers (i.e., certain cable TV companies). The amount deposited is then distributed to municipalities in which such companies are located for the purpose of property tax relief. The FY 14 and FY 15 Budget eliminated the annual revenue diversion to the account entirely in each year of the 2014-2015 Biennium.

**Governor:** Reduce from $5 million to $2 million the statutory annual deposit into the Municipal Video Competition Trust Account and allow$3 million to remain in the General Fund. Section 36 of SB 946, "AAC Revenue Items to Implement the Governor's Budget," implements this permanent change. This represents a $2 million increase over revenue diversions in FY 14 and FY 15.