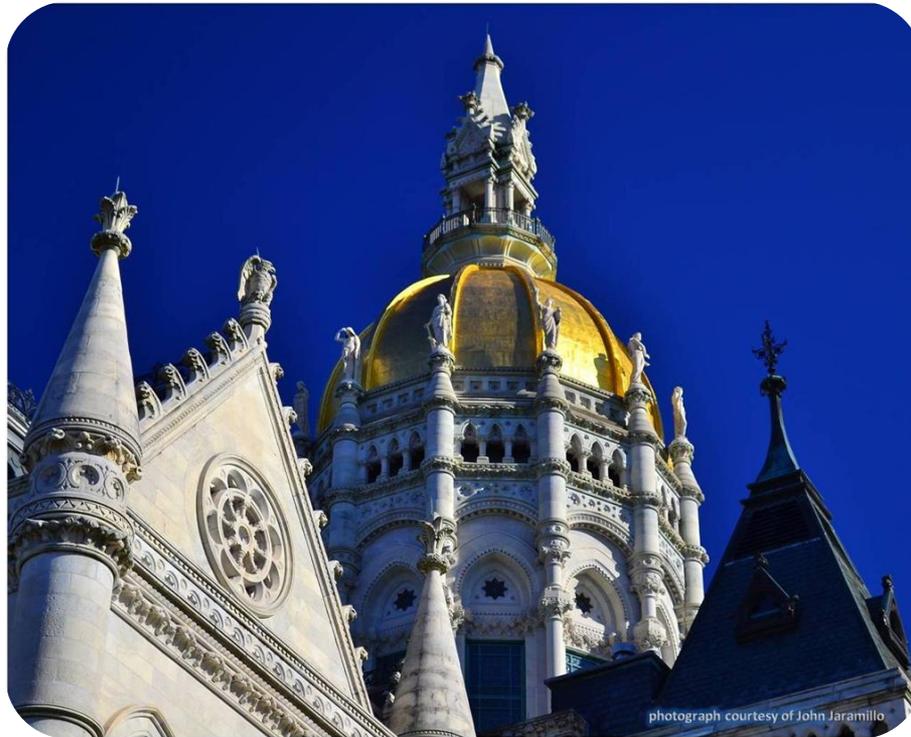


Governor's FY 2013 Midterm Budget Adjustments



Dannel P. Malloy, Governor
February 8, 2012

Governor Malloy's FY 2013 Midterm Budget Adjustments reflect his commitment to:

- **Continue our efforts to grow jobs**
- **Maintain fiscal responsibility and discipline**
- **Fix our public schools**

**Continued hard work in these areas will ensure our
economic prosperity and honor our obligation to our
children**



Overview of Budget



Governor Malloy's Recommended FY 2013 Midterm Budget

Appropriated Funds of the State (In Millions)

	Estimated FY 2012	Revised Recommended FY 2013
General Fund	\$ 18,692.5	\$ 19,266.4
Special Transportation Fund	1,226.1	1,293.5
Mashantucket Pequot & Mohegan Fund	61.8	61.8
Soldiers, Sailors, and Marines' Fund	3.1	3.0
Regional Market Operation Fund	1.0	0.9
Banking Fund	26.8	24.9
Insurance Fund	26.6	28.4
Consumer Counsel and Public Utility Fund	26.4	25.4
Workers' Compensation Fund	22.3	21.1
Criminal Injuries Compensation Fund	3.5	3.6
Grand Total	\$ 20,090.1	\$ 20,729.0

Summary of Appropriation Growth

(in millions)

	Enacted Appropriation <u>FY 2013</u>	Net Adjustments <u>FY 2013</u>	Recommended Appropriation <u>FY 2013</u>	% Growth Over <u>Enacted</u>
General Fund	\$ 18,952.5	\$ 313.9	\$ 19,266.4	1.7%
Special Transportation Fund	1,277.8	15.7	1,293.5	1.2%
Mashantucket Pequot & Mohegan Fund	61.8	-	61.8	0.0%
All Other Funds	107.9	(0.6)	107.2	-0.6%
Total	\$ 20,400.0	\$ 329.0	\$ 20,729.0	1.6%

**FY 2013 BUDGET ADJUSTMENTS
SIGNIFICANT INITIATIVES
ALL FUNDS
(\$ in millions)**

Education	\$ 128
Pension Reform *	98
Safety Net and Other Adjustments (NET)	103
TOTAL	\$ 329

* Total is \$123 million, including \$25 million from other funds e.g., federal, insurance, non-appropriated

Governor Malloy's Recommended Budget Adjustments

General Fund (in millions)

	Estimated <u>FY 2012</u>	Appropriated <u>FY 2013</u>	Revised Recommended <u>FY 2013</u>
Revenues	\$ 18,693.9	\$ 19,441.0	\$ 19,318.0
Appropriations	<u>18,692.5</u>	<u>18,952.5</u>	<u>19,266.4</u>
Balance	\$ 1.4	\$ 488.5	\$ 51.6
Reserve for GAAP	<u>(75.0)</u>	<u>(50.0)</u>	<u>(50.0)</u>
Projected Balance 6/30	\$ (73.6)	\$ 438.5	\$ 1.6
Proposed Changes			
Rescissions and Other Actions	<u>\$ 73.6</u>		
Total Changes	\$ 73.6		
Revised Surplus/(Deficit)	\$ 0.0	\$ 438.5	\$ 1.6
Reduce Indebtedness/Reserves	<u>(0.0)</u>	<u>(438.5)</u>	<u>(1.6)</u>
Projected Balance 6/30	\$ -	\$ -	\$ -

Average Annual Budget Growth Rates

Fiscal Years	Number of Fiscal Years	Total All Funds
FYs 96 - 05	10	4.8%
FYs 06 - 11	6	4.5%
FYs 12 - 13 (proj.)	2	3.8%

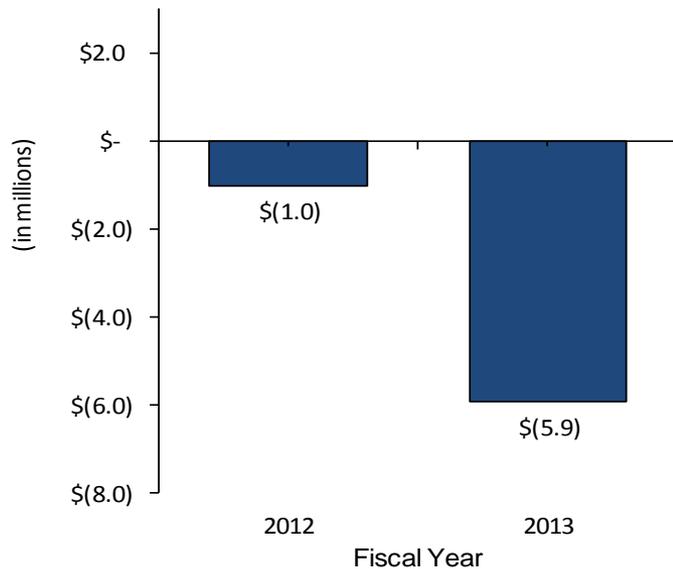
Governor Malloy's Recommended Budget Adjustments

Special Transportation Fund (in millions)

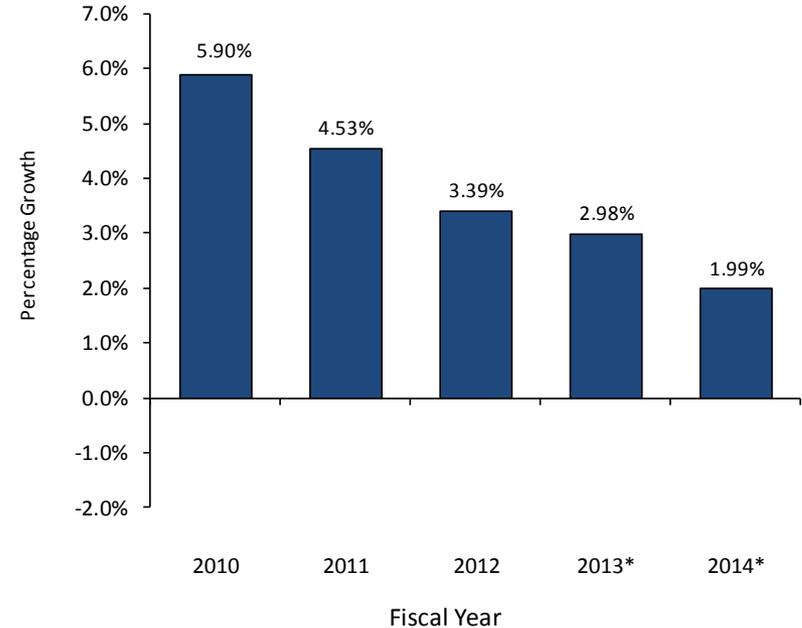
	Estimated <u>FY 2012</u>	Appropriated <u>FY 2013</u>	Revised Recommended <u>FY 2013</u>
Beginning Balance	\$ 107.4	\$ 109.1	\$ 109.1
Revenues	<u>1,227.8</u>	<u>1,335.0</u>	<u>1,299.6</u>
Total Available Resources	1,335.2	1,444.1	1,408.7
Appropriations	<u>1,226.1</u>	<u>1,277.8</u>	<u>1,293.5</u>
Surplus/(Deficit)	\$ 1.7	\$ 57.2	\$ 6.1
Projected Fund Balance 6/30	\$ 109.1	\$ 166.3	\$ 115.2

Expenditure Cap

Room Under the Expenditure Cap
By Fiscal Year



Expenditure Cap Growth Rate



- Governor Malloy's Recommended Midterm Budget is \$5.9 million below the cap in FY 2013
- While revenues have been the sole limiting factor for the budget over the past few years, that is about to change
- Personal income growth serves as the cap's proxy for the economy's ability to pay for government services
- Two years of declines in Connecticut personal income will take their toll on upcoming expenditure cap rates
- The next few years will witness the lowest allowable expenditure cap growth rates since its inception
- The secondary measure of inflation is projected to be the limiting factor in FY 2013* and FY 2014*

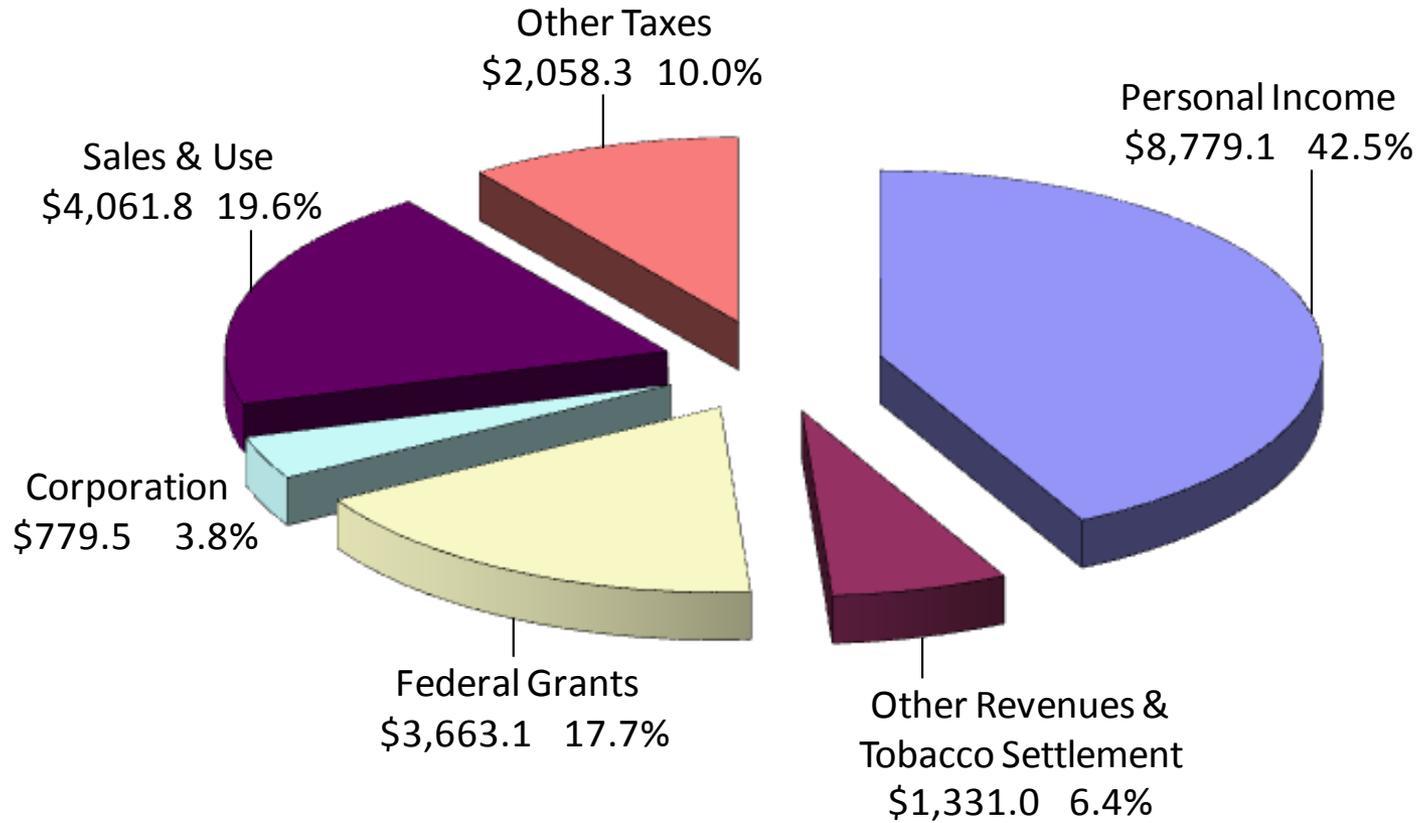
Out-year Balance and Spending Cap

Expenditure Cap Financial Summary of Funds (in millions)

	Recommended	Projected		
	FY 2013	FY 2014	FY 2015	FY 2016
<u>Expenditure Cap Results</u>				
Total All Appropriated Funds	\$ 20,729.0	\$ 22,117.3	\$ 23,161.1	\$ 24,028.8
Allowed Appropriations per Cap	20,734.8	21,467.8	22,038.9	22,731.2
Over/(Under) the Cap	\$ (5.9)	\$ 649.5	\$ 1,122.2	\$ 1,297.6
<u>Revenues and the Expenditure Cap</u>				
Revenues - All Funds		\$ 21,860.2	\$ 23,147.9	\$ 24,145.0
Allowed Appropriations per Cap		21,467.8	22,038.9	22,731.2
Revenues Less Allowed Approps.		\$ 392.4	\$ 1,109.0	\$ 1,413.8
Reserve for GAAP		(166.8)	(166.8)	(166.8)
Balance		\$ 225.6	\$ 942.2	\$ 1,247.0

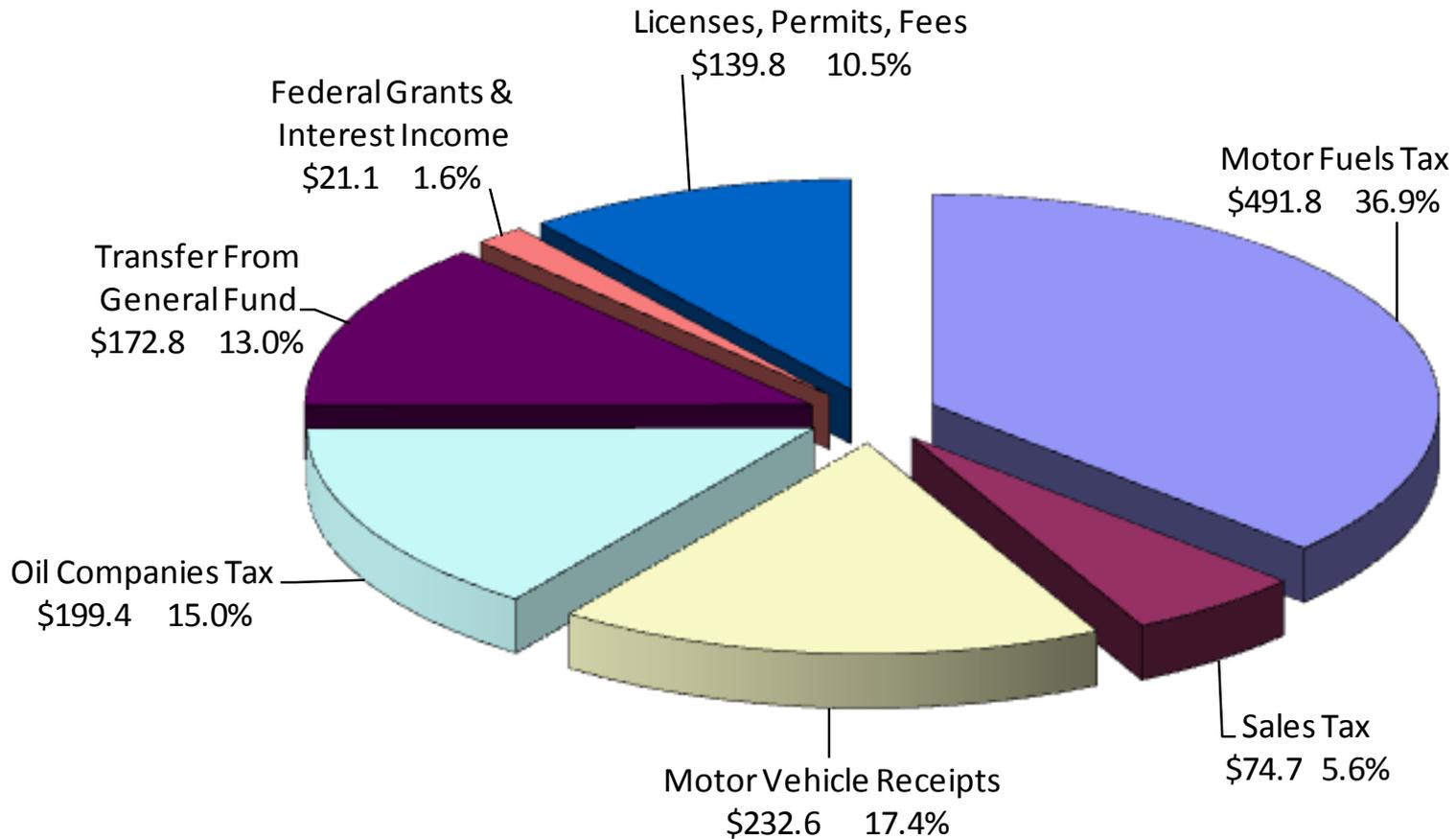
FY 2013 General Fund Revenue

(in millions)

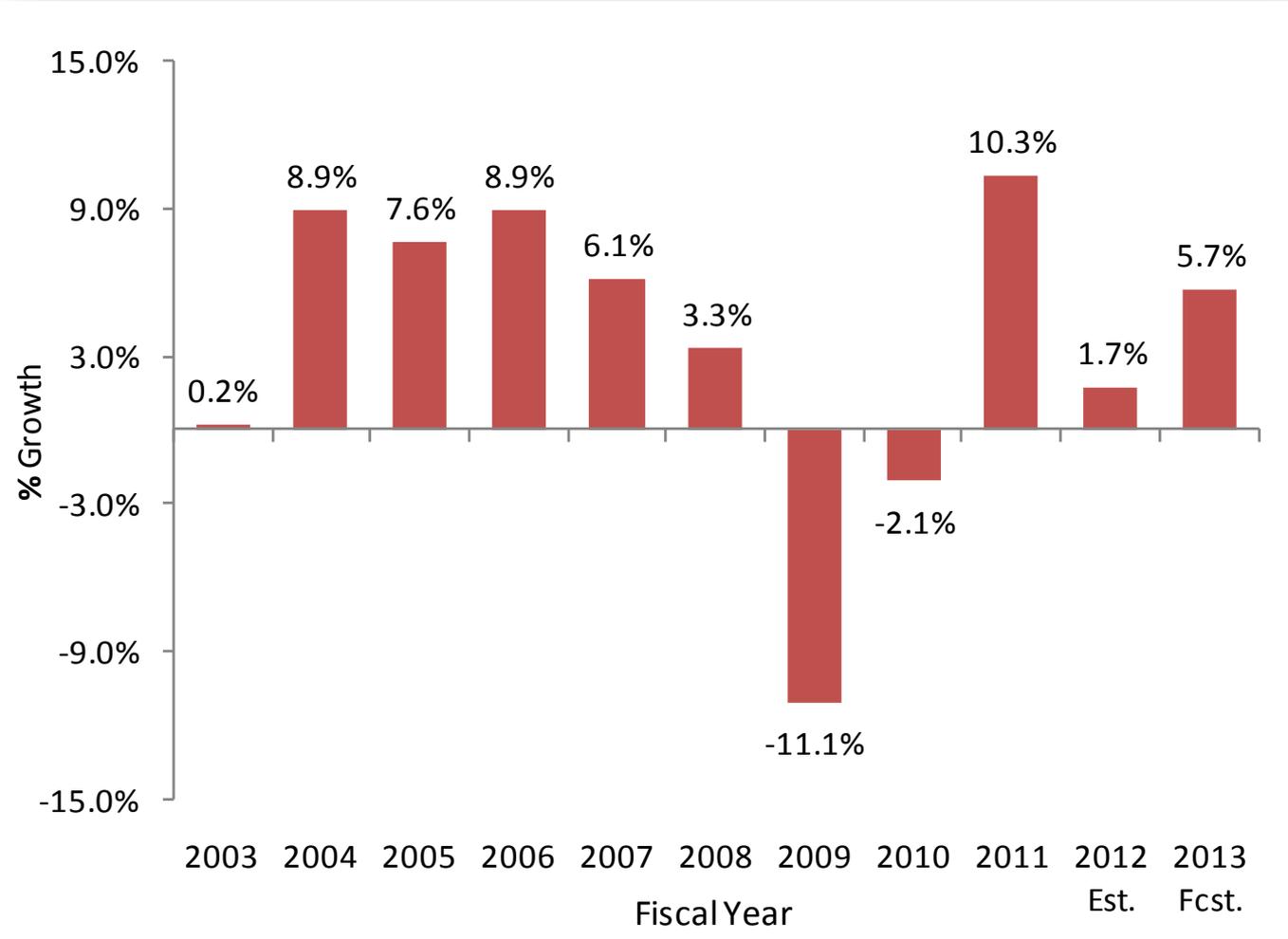


FY 2013 Special Transportation Fund Revenue

(in millions)

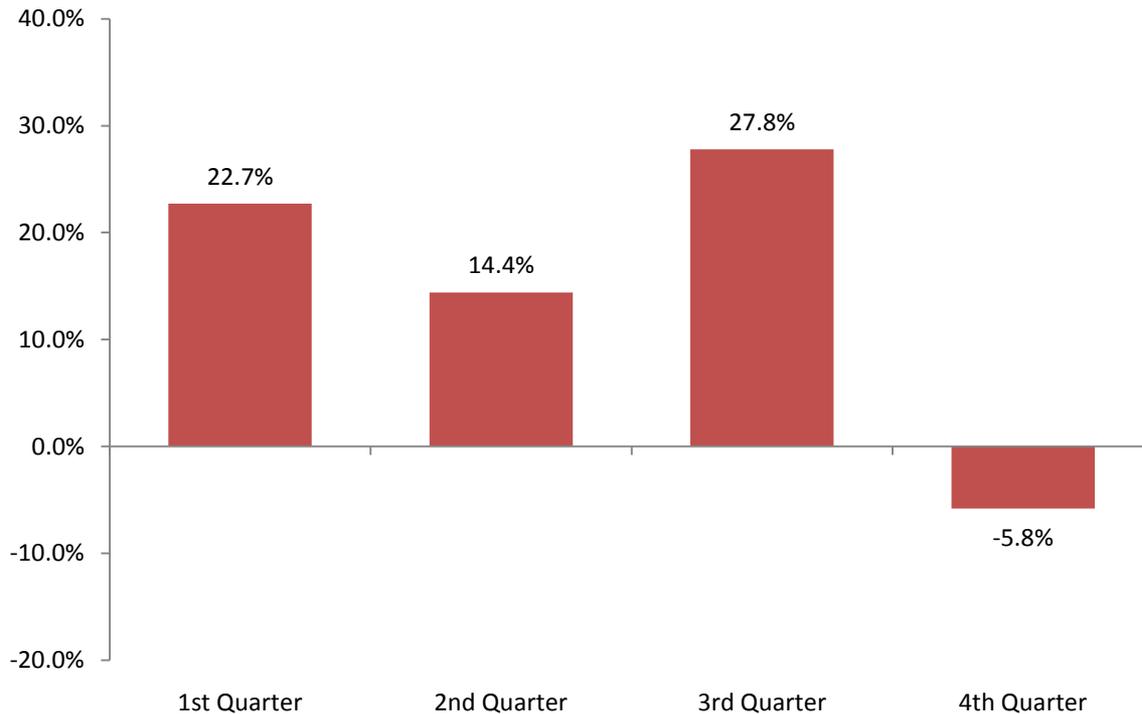


General Fund Revenue Economic Growth Rates



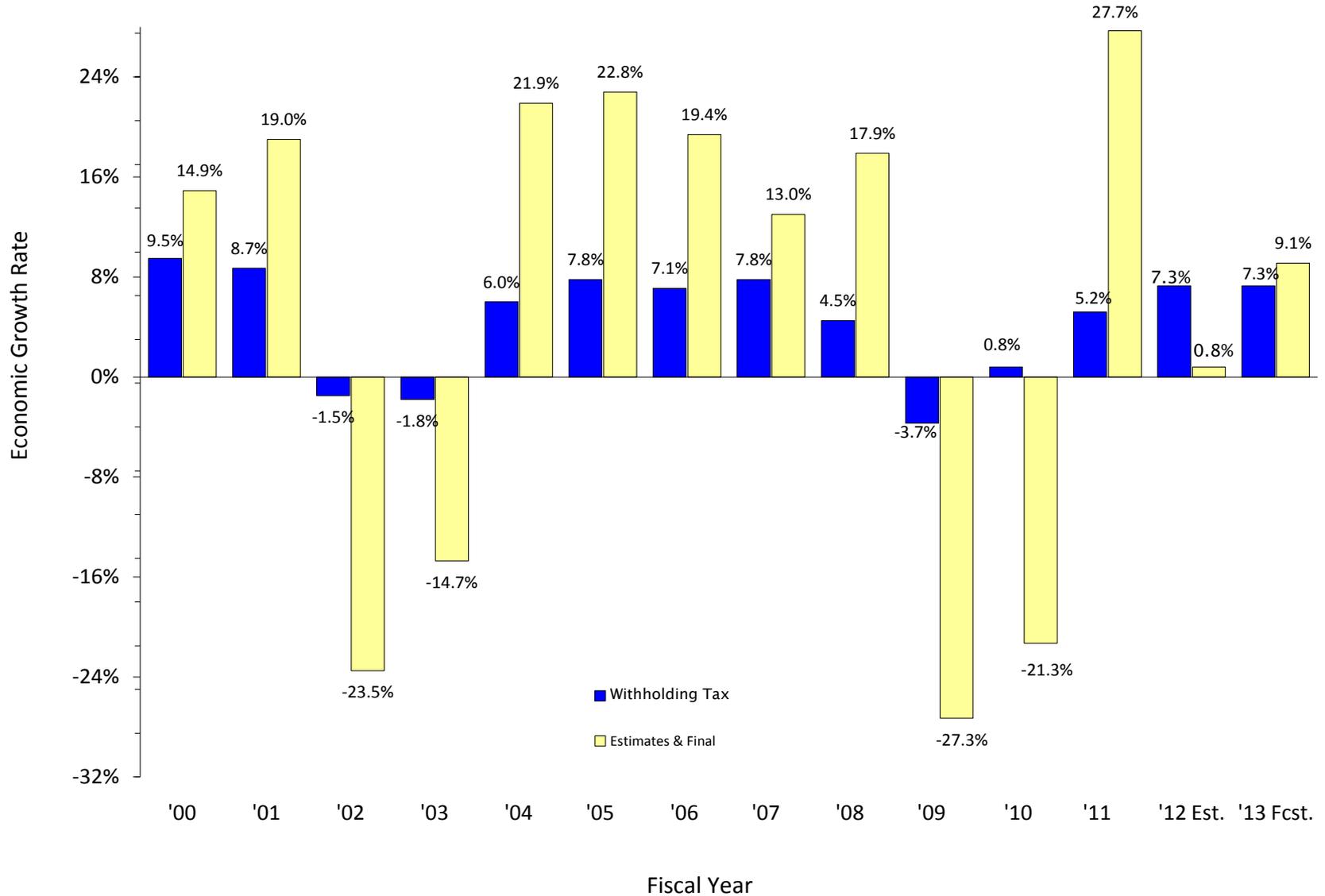
Personal Income Tax Growth in Estimated Payments

Income Year 2011 Compared to Income Year 2010

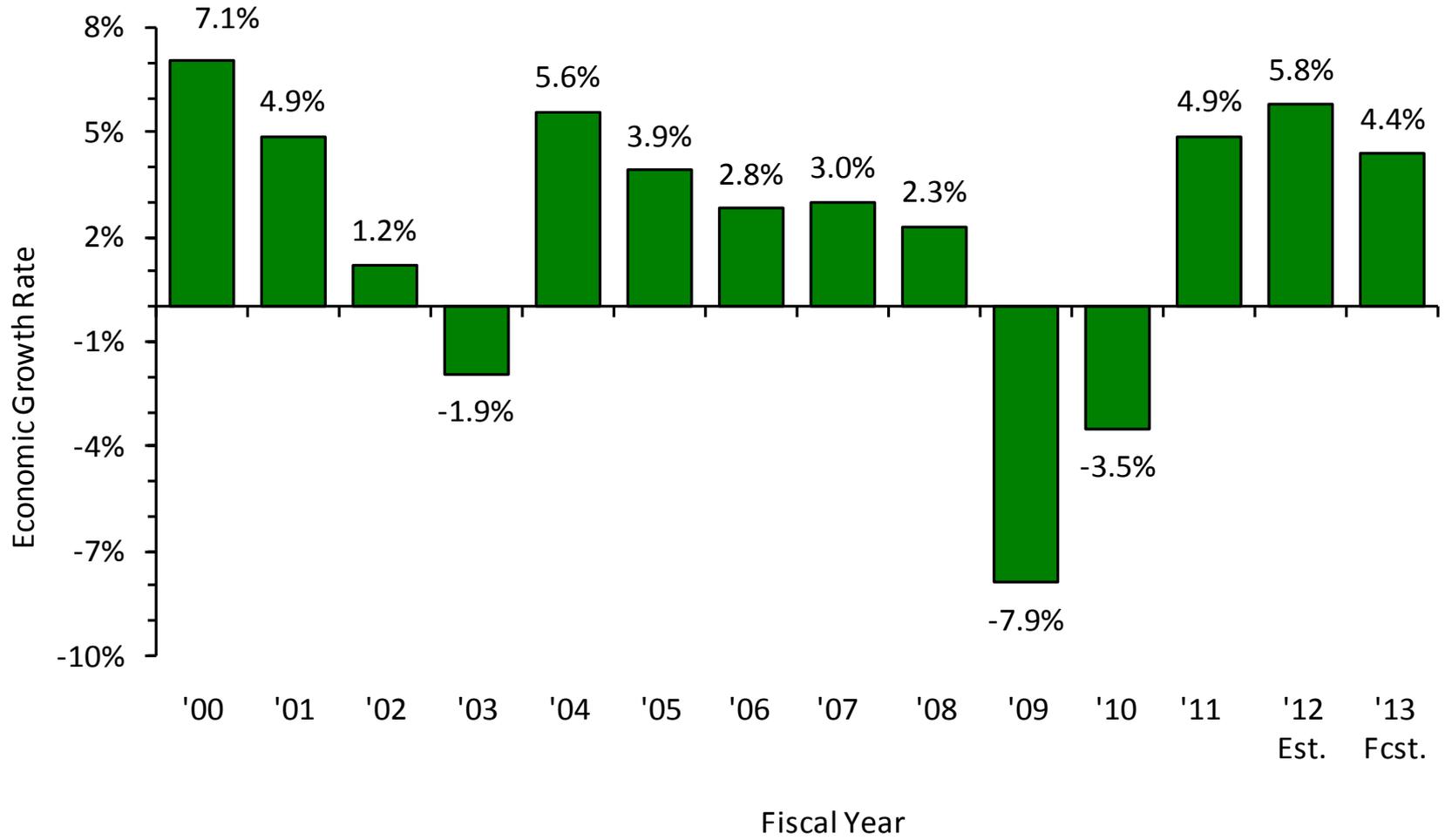


- CT witnessed a decline in 4th quarter estimated payments that were due January 17, 2012
- A similar phenomenon occurred in certain other states including CA, MA, NJ and NY

Personal Income Tax Economic Growth Rates



Sales Tax Growth Rate



Education



Education Reform

Turning the corner on decades of economic decline means we have to prepare our students for a successful future. Education reform is the first step towards that future.

Total New Funding for Education FY 2013
(in millions)

	New Funding	Estimated Share for Conditional Funding Districts
ECS	\$ 50.0	\$ 39.5
Competitive Funding (additional ECS funds)	4.5	3.0
Charter Schools (additional ECS funds)	14.1	12.8
Commissioner's Network	24.8	24.8
Early Childhood*	7.0	5.6
Talent Development	12.0	4.8
CTHSS Trade Supplies	0.5	-
Magnets	7.3	5.8
<u>Other Initiatives to Reform Education</u>	7.8	6.2
Total New Funding for Education	\$ 128.0	\$ 102.6
		80%

* Additional \$5 million in bond funds for TQRIS

Education Reform

Priority 1 - Enhance families' access to high-quality early childhood education opportunities

- \$12 million for additional school readiness slots, quality improvements, professional development and incentives

Priority 2 -Authorize the intensive interventions and enable the supports necessary to turn around Connecticut's lowest-performing schools and districts

- \$24.8 million for the Commissioner's Network Schools

Education Reform

Priority 3 - Expand the availability of high-quality school models, including traditional schools, magnets, charters and others

- \$22.4 million for all types of choice schools
- Combining increased charter funding into ECS and requiring local contribution

Priority 4 - Unleash innovation by removing red tape and other barriers to success, especially in high-performing schools and districts

- Overhaul of the certification process
- Remove outmoded and unnecessary rules

Education Reform

Priority 5 - Ensure that our schools are home to the very best teachers and principals – working within a fair system that values skill and effectiveness over seniority and tenure

- \$13 million to recruit and develop the best teachers, especially focused on teachers for the lowest performing schools

Priority 6 - Deliver more resources, targeted to districts with the greatest need – provided that they embrace key reforms that position our students for success

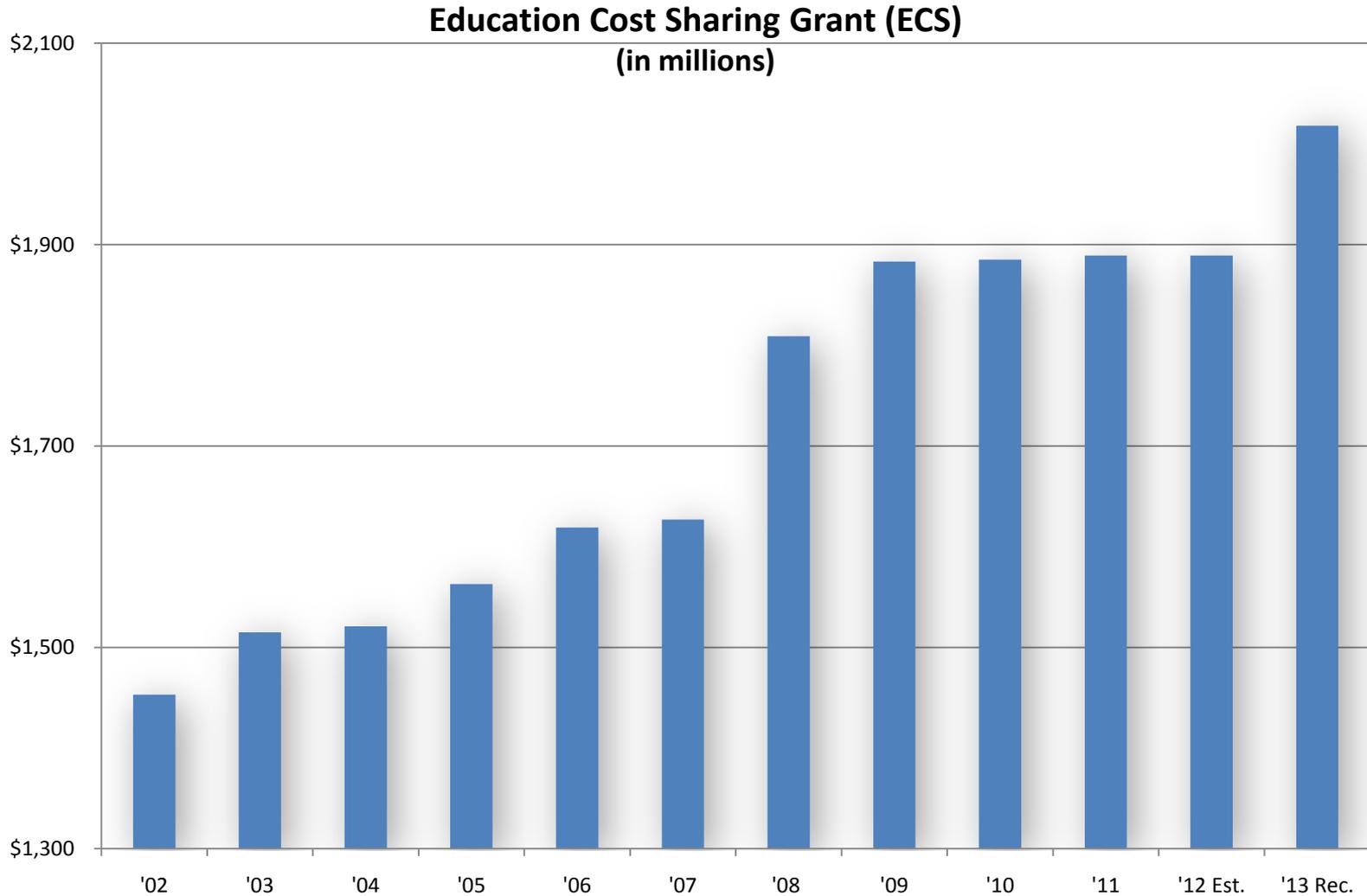
- \$50 million in new Education Cost Sharing (ECS) funding – \$39.5 million for the lowest performing districts that implement reforms
- Charter School funding increased to \$11,000 per pupil and integrated into the ECS appropriation
- \$3 million for 250 students in up to five new state Charter Schools
- \$4.5 million in competitive funding

Education Reform

Education Cost Sharing Grant Changes

- No town will receive less ECS aid in 2013 than it did in 2012. 130 towns get more ECS funding
- Current weighting of Limited English Proficient (LEP) students will remain at 15%, and students in bilingual education programs will be added
- A new child poverty measure will be used. HUSKY A (number of children ages 5 to 17) will replace Title I poverty
- For most wealthy communities, the minimum aid ratio will be reduced from 9% to 0%. The minimum aid ratio for Conditional Districts will be 20%
- Household income data will be streamlined and replaced by more current data. Census Bureau Per Capita Income (PCI) and Median Household Income (MHI), which is updated once a decade, is replaced by MHI produced and updated annually through the Department of Economic and Community Development
- The foundation is increased from \$9,867 to \$12,000, a 21.6% increase

Education Reform

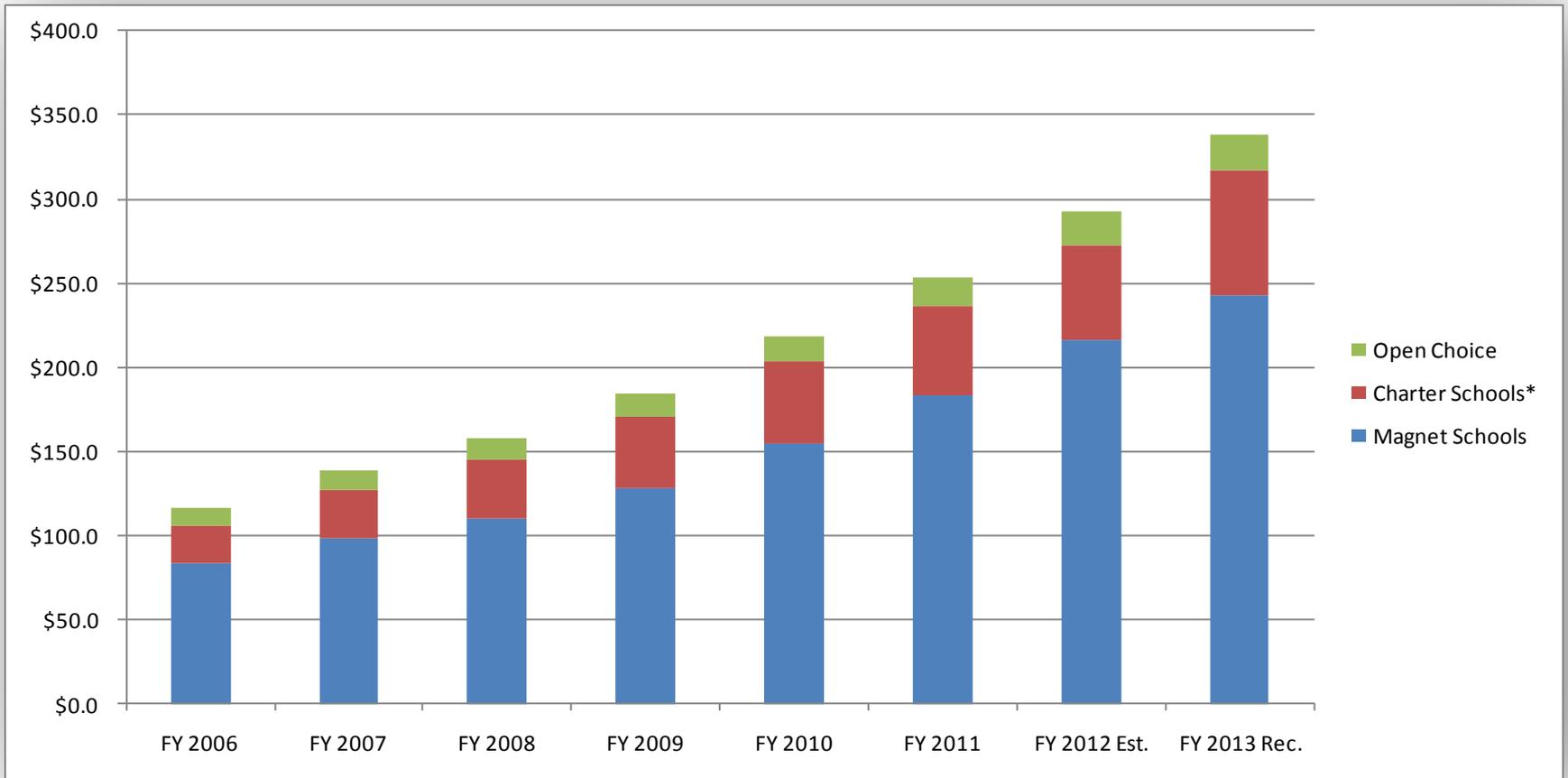


FYs 2010 and 2011 include ARRA; FY 2013 includes ECS, charter schools and competitive funding

Education Reform

\$339 million for School Choice Options

(in millions)



* Charter School Funding is integrated into ECS

Pension Reform



State Employees' Retirement System

Three interrelated components:

- Changing the SEBAC IV and V provisions related to pension funding
 - Increases the state's annually required contribution (ARC) by \$123 million in FY 2013, with declining additional contributions through 2023
 - Will save taxpayers more than \$2 billion over the next two decades

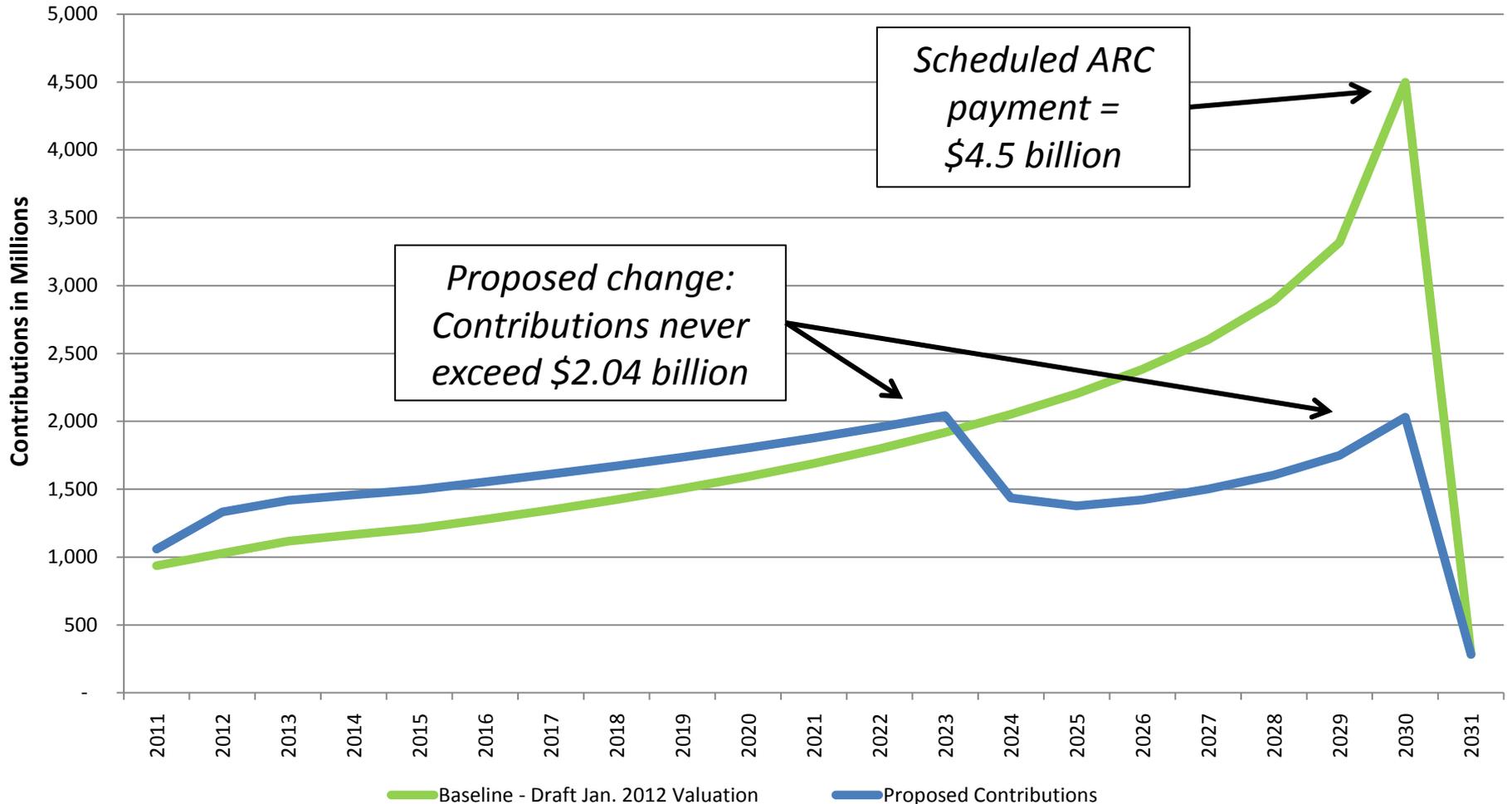
- Making additional payments over and above the ARC beginning in FY 2014
 - \$177.4 million annually per the state's pension actuary
 - Payments in FY 2014 through FY 2025

- These two measures will
 - Achieve 80% funding of SERS by the end of FY 2025
 - Save taxpayers nearly \$6 billion over the next 20 years

- Amending the spending cap to exclude pension contributions in excess of the ARC

State Employees' Retirement System

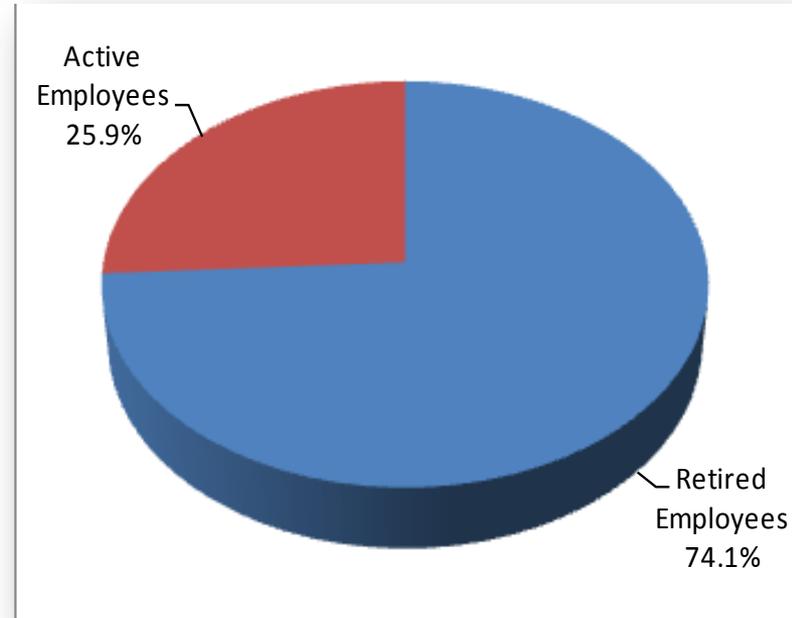
Revised Pension Contribution After Eliminating SEBAC IV & V And With Additional Fixed Contributions Beyond ARC



Achieves 80% funded ratio by 2025, and 100% by 2032

State Employees' Retirement System

Based on 6/30/11 Valuation (\$ in Thousands)	
Retired/Deferred Liability	\$15,663,380
Active – Tier I Hazardous	64,438
Active – Tier IB	1,232,873
Active – Tier IC	47,184
Active – Tier II Hazardous	1,121,820
Active – Tier II Others	1,998,223
Active – Tier IIA Hazardous	440,608
Active – Tier IIA Others	558,199
Total Accrued Liability	\$21,126,725
Actuarial Value of Assets	10,122,765
Unfunded Accrued Liability	\$11,003,960



- \$21.1 billion total liability
- Most of that liability is related to already-retired employees
- \$11.0 billion unfunded liability
- About 75% of the actuarially required contribution is for the unfunded accrued liability

State Employees' Retirement System

- Based on updated 6/30/11 valuation, total Annual Required Employer Contribution (ARC) is \$1,059.7 million in FY 2013
- Of this amount, less than 25% of the ARC (\$237.5 million) is attributable to the Normal Cost, which is the amount we need to set aside this year for current active employees
- The remaining portion of the ARC (\$822.1 million) is to pay off the unfunded accrued liability (\$11.0 billion) in the Retirement Fund
- About 70% of the ARC is attributable to the General Fund, 10% to the Special Transportation Fund and the remainder is recovered from other funds

Housing



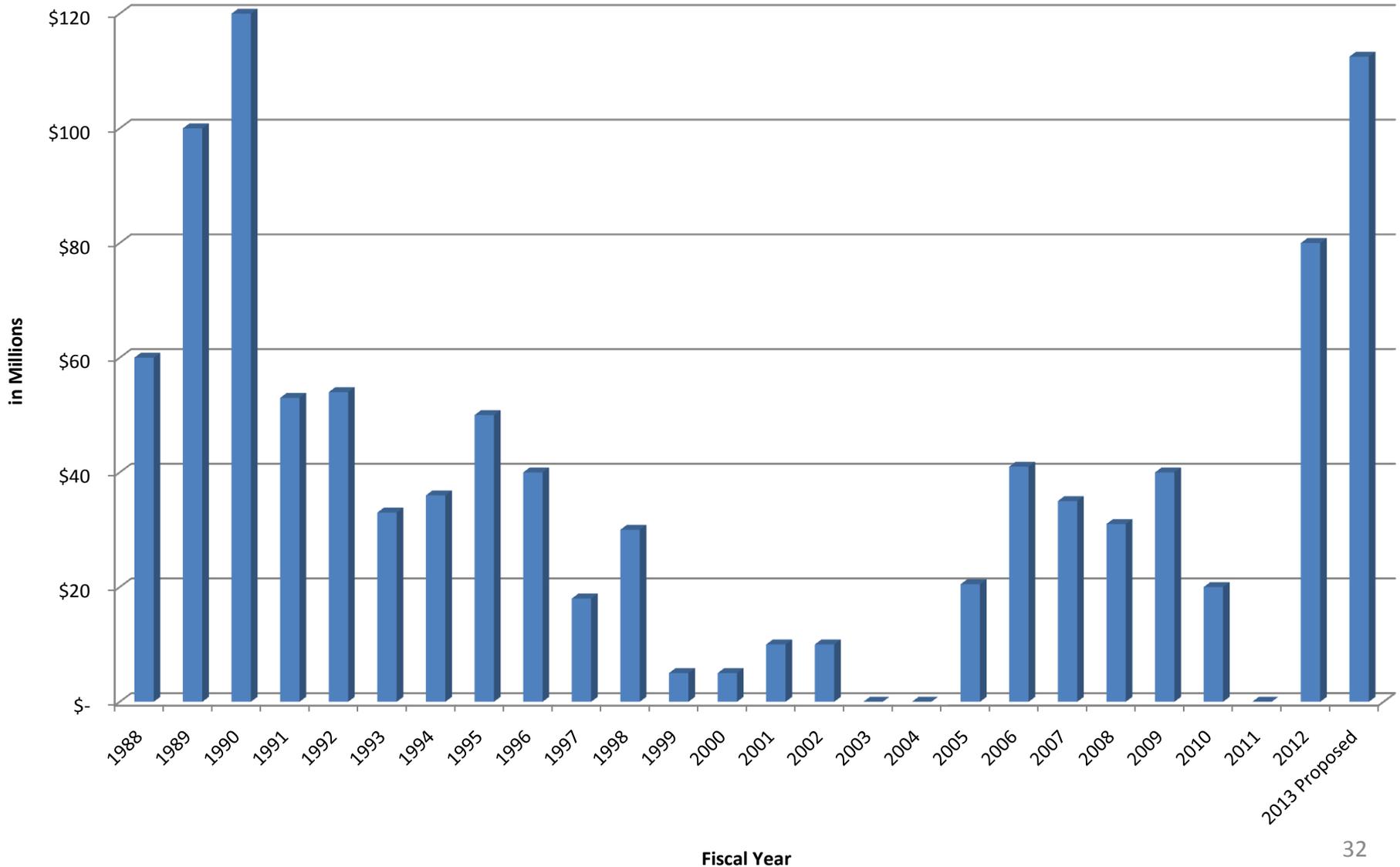
Housing Initiatives

Substantial increase in the state's long-term commitment to affordable housing

- **Public Housing Revitalization** - \$30 million in bonding to begin a ten year commitment of \$300 million for existing state-assisted housing and 150 new Rental Assistance Program (RAP) certificates
- **Affordable Housing Development** – Additional \$20 million in bonding beyond the \$50 million in enacted budget, for a total of \$70 million total in FY 2013
- **Elderly Congregate Housing** - \$12.5 million in bonding to develop 50 new units with \$405,000 for ongoing operating subsidies
- **Supportive Housing** - 150 new RAP certificates for scattered site units (\$750,000)
- **Reorganization** – Creation of a State Office of Housing within Department of Economic and Community Development (DECD) with programs transferred from Department of Social Services (DSS), Department of Children and Families (DCF) and the Office of Policy and Management (OPM), including the administration of RAP, homeless shelters, security deposits, and elderly renters program

Bond Authorizations for Housing Programs

FY 1988 to FY 2013



Health and Human Services



Private Provider COLA

- First Cost of Living Adjustment in five years
- \$8.5 million to provide a 1% cost of living adjustment effective January 1, 2013 to health and human services providers
- Funds to be targeted to private provider employee wages and benefits
- Applies to
 - Human service providers funded through purchase of service contracts with state funds as well as under the federal Social Services and Substance Abuse Block Grants
 - Rate-based providers and families paid by the Department of Children and Families
 - Providers of boarding homes for the Aged, Blind and Disabled

Childhood Vaccine Purchase Program

- \$11.7 million to expand the state's childhood vaccine purchase program
- Three new vaccines for universal access program: Pneumococcal Conjugate, Influenza, and Hepatitis A
- Evaluation of potential policy changes
 - Inclusion of other Centers for Disease Control and Prevention (CDC) recommended vaccines
 - Program financing and assessment methodology
 - Establishment of a healthcare provider mandate

Caseload and Utilization Growth

beyond the adopted FY 2013 budget

- Department of Developmental Services (DDS) - \$5.1 million
 - 40 individuals transitioning from Southbury
 - 48 individuals needing day programs who are graduating from high school or aging out of placements
 - 6 court-ordered placements

- Dept. of Mental Health and Addiction Services (DMHAS) - \$3.0 million
 - 6 additional community transitions for individuals at Connecticut Valley Hospital (CVH) with acquired or traumatic brain injury
 - Discharge of approximately 25 hospitalized clients from CVH into appropriate community settings

- \$50 million for anticipated utilization and caseload growth in the Department of Social Services (DSS) and DMHAS for Medicaid Low-Income Adults

Long-Term Care Rebalancing – Money Follows the Person (MFP)

- Home and community-based services
 - Medication administration changes - \$28.6 million in annualized savings
 - Add adult family living and independent support broker services to facilitate MFP transitions – cost neutral
 - New assessment tool to identify appropriate waivers – \$300,000
- Initiatives to retrain nursing home staff - \$400,000
- Housing
 - Accessibility modifications - \$1 million in bond funds
 - Congregate housing
 - Expand aging in place pilot from 75 to 125 - cost neutral
- Web-based tool to identify options for hospital discharges - \$250,000
- Nursing home right-sizing/diversification/modernization
 - \$10 million in bond funds
 - \$3 million in operating funds
 - \$2.6 million for nursing home capacity for high need clients in state care

Medication Administration

- Medication administration is the primary cost driver *and* the primary barrier to community placement undermining the success of Money Follows the Person (MFP) in Connecticut
- The current program costs \$128.3 million for 8,500 clients.
 - Top 100 clients cost an average of \$76,000 per client per year
 - Nursing home care costs an average of \$85,000 per client per year
- Reform medication administration policies by:
 - Reducing reimbursement rates
 - Permitting nurses to delegate administration of medication to home health aides
 - Allowing agency-based personal care assistants (PCAs) to administer medications
 - Utilizing assistive technology (e.g., medication reminders and automatic pill dispensers)
- Supports advancement of PCAs and home health aides
- FY 2013 savings of \$20.5 million, annualized savings of \$28.6 million

Low-Income Adults (LIA)

- 60% increase in caseload from 46,156 in June 2010 to 74,073 in December 2011. Growth has slowed, but continues to increase (0.5% in both November and December 2011)
- DSS/DMHAS expenditures have increased from \$265.6 million in FY 2009 to \$575.6 million in FY 2011 (\$50 million recommended beyond what is already included in the FY 2013 enacted budget)
- Proposed Waiver – Savings of \$22.5 million in FY 2013 for DSS/DMHAS
 - Encourage those who can afford it to obtain insurance by instituting an asset limit of \$25,000 (excluding primary residence and a single vehicle). This is significantly higher than the \$1,000 that was in place under State Administered General Assistance (SAGA)
 - Consider family income and assets for applicants under 26 if residing with a parent or claimed as a tax dependent. This is consistent with insurance changes in Affordable Care Act for dependent children
 - Adjust coverage for certain benefits

Revenue Maximization / Preservation

- Federal revenue maximization efforts continue to be a priority
 - Numerous Medicaid state plan amendments and waivers have been submitted or are in the process of being submitted
 - Initiatives not requiring federal approval are being implemented
- Equal or greater effort goes into preservation of existing sources of federal reimbursement
 - Strengthened compliance activities at the federal Centers for Medicare and Medicaid Services (CMS), resulting in significantly greater scrutiny of all state claims
 - Significantly increased state time and effort explaining and justifying revenue items in order to sustain claims worth hundreds of millions of dollars that had once been considered “routine”

Other Initiatives



Municipal Aid

No cuts in formula grants to towns and cities

- Significant New Education Aid

Mandates relief, including:

- Clarify ability to assess partially completed property (preserves \$30 million in local revenue)
- Relief from costs related to tenant eviction
- Phase out insurance premium tax on municipalities
- Relaxed minimum budget requirement (MBR) for high performing school districts

Implement *Two Storm Panel* Recommendations

- \$2 million in addition to the \$500,000 currently budgeted for the Department of Transportation's (DOT) Tree Trimming Program
- \$500,000 in Department of Emergency Services and Public Protection (DESPP) for annual real-time regional training exercises
- \$5 million in bond funds for a pilot program to develop microgrids

Transportation

Service and Structural Enhancements

- \$374,000 for Public Transportation
 - Augment Shore Line East train service
 - Expand state funding for night bus service in the Waterbury area
- \$5 million commitment to Pay-As-You-Go transportation projects
 - Supports non-bondable projects including
 - bridge repairs and inspection
 - pavement management and markings
 - highway projects
- \$90 million in bonding for bridge improvements

Teachers' Retirement Health Funding

- In FY 2006, the state's share for the TRB sponsored retiree health plan and the municipal health subsidy were increased to 33%. Since then, state costs for the TRB retiree health plan have risen 120% – \$15 million
- The state's share will be returned to the pre-FY 2006 levels of 25%
 - Retired teachers' share of costs for the TRB health plan will increase from 33% to 42%, saving the state \$7.6 million while still providing low cost coverage
 - The reduction in state funding for the municipal health subsidy will save \$2.0 million – The health fund will support this change
- Reimbursements under the Medicare Part D Program will be used to offset the state's share of the TRB sponsored health plan as they do in the state employees health plan – saving an additional \$6.5 million

Capital Budget



Capital Investments

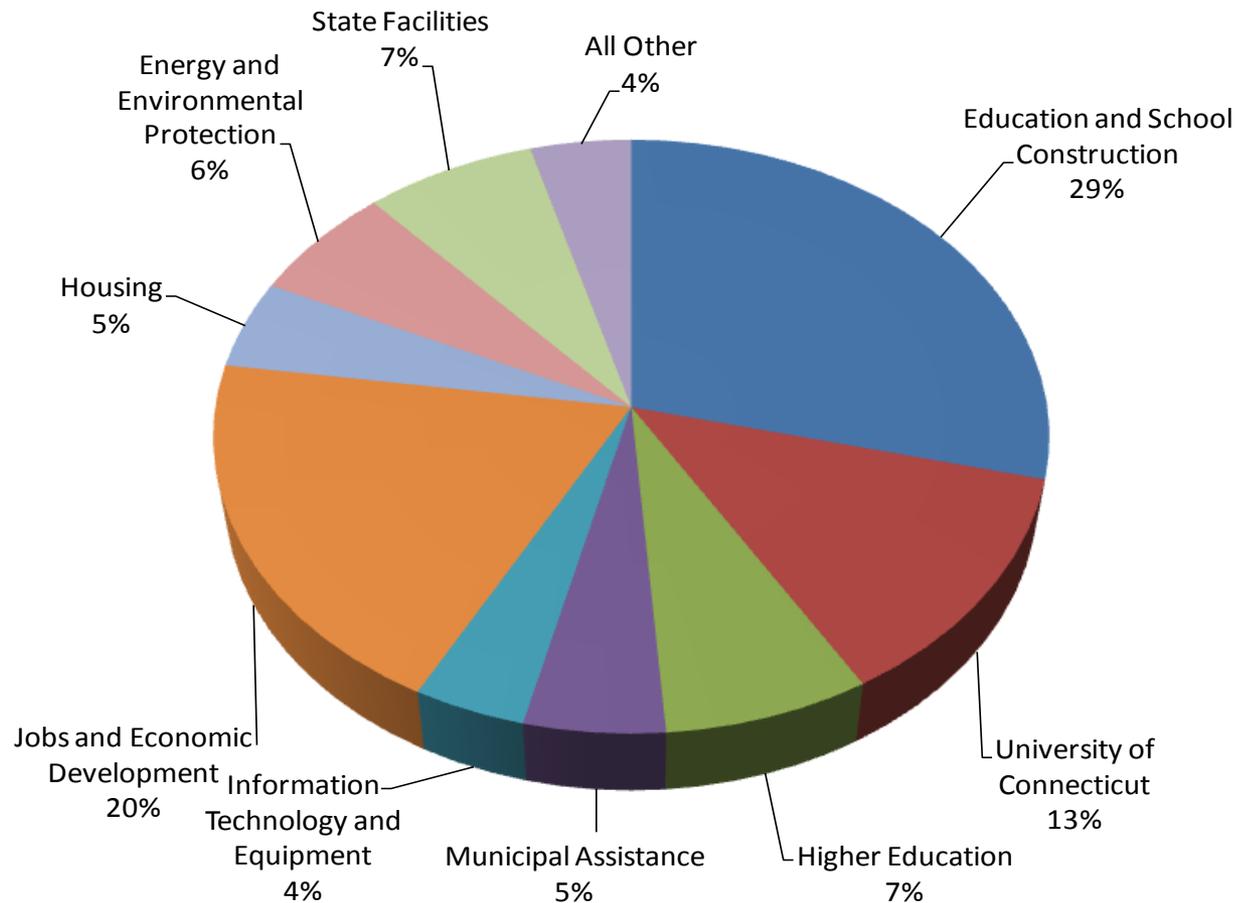
<u>Program</u>	<u>Amount</u>
Bridge Improvements	\$ 90.0
Improve Low Performing Schools	25.0
Replicate High Performing Schools	20.0
Sheff Magnet Schools	9.1
Early Childhood Education Facilities	5.0
Housing Projects and Programs	62.5
Nursing Home Conversions	10.0
Regional Fire Training Schools	26.2
Energy Microgrids	5.0
Underground Petroleum Storage Tank Clean-Up Program	5.0
State Facility Infrastructure	92.5
Information Technology Modernization	50.0
All Other	5.5
Total	<u>\$ 405.8</u>

Information Technology Modernization

Capital budget includes \$50 million for various initiatives, including:

- On-line Licensing
- Automate/consolidate call center functions
- Data Center Consolidation
- Upgrade State Portal - Businesses, Citizens, Employees
- Single Eligibility System-Human Service Programs and Health Exchange
- Enterprise systems for permitting, enforcement and customer relations - Department of Energy and Environmental Protection (DEEP), Division of Criminal Justice (DCJ), other agencies
- Technology investments in support of education reform
- Increase transparency and availability of state government data
- Broadband Expansion of Connecticut Education and Public Safety Data Networks
- Document Management

FY 2013 General Obligation Bond Authorizations



Government Effectiveness



Consolidating State Government

Current Number of Agencies:	59
Less Restructured (not incl. quasi-public)	(-8)
<u>Plus New Agency</u>	<u>1</u>
Adjusted Total Number of Agencies	52
% Reduction in Number of Agencies	12%

Current		Consolidated with
University of Conn. Health Center Office of Chief Medical Examiner	}	University of Connecticut
Department of Construction Services		Department of Administrative Services
Comm. on Human Rights and Opportunities Office of Protection and Advocacy	}	Dept. on Human Rights, Protection and Advocacy (new)
Teachers' Retirement Board		Office of State Comptroller
Workers' Compensation Commission		Department of Labor
Psychiatric Security Review Board		Dept. of Mental Health and Addiction Services
CT Higher Educ. Supplemental Loan Authority		CT Health and Educational Facilities Authority
Connecticut Innovations, Inc.		Connecticut Development Authority

The Governor is also proposing the elimination or merger of 28 boards and commissions

Conclusion



Last year, we made real progress in tackling the state's fiscal problems

- We eliminated a multi-billion dollar structural deficit
- We restructured our relationship with our employees
- We streamlined state government
- We reached an unprecedented bipartisan agreement on jobs
- We preserved and enhanced the safety net

The Governor's FY 2013 all-funds budget totals \$20.7 billion, is balanced on a GAAP basis, and is \$5.9 million under the spending cap

This budget:

- Continues our efforts to grow jobs
- Maintains fiscal responsibility and discipline
- Begins to fix our public schools



Average Annual Budget Growth Rates

Fiscal Years	Number of Fiscal Years	Total All Funds
FYs 96 - 05	10	4.8%
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