Governor Dannel P. Malloy
Fiscal Year 2014-2015 Budget Address
February 6, 2013

Mr. President, Mr. Speaker, Senator McKinney, Representative Cafero, my fellow state officials, ladies and gentlemen of the General Assembly, honored members of the Judiciary, members of the clergy, honored guests, and all the citizens of our great state who are watching or listening today, thank you.

Thank you for inviting me back into the people's House to address you. I want to recognize and thank my trusted friend and advisor, Connecticut's exceptional Lt. Governor, Nancy Wyman. I'd like to thank my wife and three sons for being here today, and for their love and support. As always, let us thank and honor the brave men and women of Connecticut serving in our Armed Forces around the globe.

And, let us continue to keep in our hearts the many families, first responders, educators and others that have been touched by the senseless tragedy in Newtown. Whatever differences we may have in this building over the next several months, they will be trivial compared to what happened in a quiet town in Southwestern Connecticut.

We gather today with wounds not yet healed, but also with an unwavering belief in our state and in its future.

Two years ago, in the wake of the worst financial crisis since the Great Depression, Connecticut began a journey. The choices we made then marked the beginning of a fundamental shift in how we plan for our future, how we set priorities, and how we approach our problems. These problems included a worst-in-the-nation per capita deficit, a budget that relied too heavily on gimmicks and one-time revenues, and financial commitments that, if we failed to act, would fall on the shoulders of our children.

It no longer matters who caused these problems. What matters is that, together, we started to fix them. In our balanced budget – and in the adjustments we made along the way – we did two fundamental things.

First, we made our budget honest, transparent, and built to address Connecticut's long-term obligations. In other words, we made it responsible.

Second, even as we began living within our means, we invested what resources we *did* have strategically – in the initiatives most likely to create jobs and grow our economy in the years ahead.

We did all that while maintaining our commitment to towns and cities, so that we weren't simply passing the buck or shifting the burden as too many other states were doing. We did it without shredding our safety net. And, we did it while still finding ways to make historic investments in education. In short, we got serious about our problems, and we started setting clear priorities. We knew it would take time for the changes we made here in Hartford to be felt throughout the state. Our financial house was in rubble, and rebuilding out of rubble is difficult.

And it is true that today, despite the many good and difficult things we are doing to turn Connecticut around, too many hardworking people still feel left out, or just left behind. I know many are ready to work, but can't find a job. Or they have a job, but the salary that was once enough just doesn't go as far as it used to. They saved to buy a home, and they're worried they might lose it. They dream big for their children or grandchildren, but they wonder about what kind of future those children will have. They are the people we represent in communities across this Great State. The people we talk to each and every day – our neighbors, our friends, and our families.

This state government shares those same worries. None of us here today are satisfied with an unemployment rate that remains too high. With an economy that remains too sluggish, Connecticut families have had to buckle down, make tough decisions, and pay their bills. They have had to make sacrifices and find compromise. So must their government. We still have a long road ahead – a lot of work to do – but finally we have a plan in place and a destination in mind.

Before I tell you how my budget moves us closer to that destination, let's consider briefly where we would be today – what kind of Connecticut we'd be living in – if we had not begun the hard work of change two years ago. Where would we be if we had continued living outside our means, without a plan or clear priorities? Where would we be today if we had listened to those who would have sent Connecticut down a very different road?

The simple truth is this:

If we had taken that other road, there would be 41,000 more people in Connecticut going without health coverage right now. We didn't let that happen. Those 41,000 individuals are covered today because of the work you did, and the choices we made together.

If we had taken that other road, 1,000 more Connecticut children would be showing up for kindergarten this September unprepared to learn. That's 1,000 more kids – kids in Hartford, in Danbury, in Norwalk and in Norwich – starting out on *day one* – a step behind their peers, already struggling to catch up. We didn't let that happen. Those kids are going to be better prepared thanks to you.

If we had taken that other road, we would have saddled our children with a $4.5 billion pension payment in the year 2032, a payment that simply would not have been possible. We didn't let that happen.

We owned up to our responsibility, and we avoided disaster down the road. If we had taken that other road, instead of bringing Jackson Labs or NBC Sports to Connecticut, we'd be watching them build and grow in other states. We didn't let that happen.

We fought for those jobs in a way that Connecticut never had before. And we're going to bring more jobs in the months and years ahead.

Yes, we are looking at a budget gap that we need to close, and my plan does just that.

The budget I am proposing today keeps Connecticut moving forward. It follows some of those simple principles we all agreed on two years ago – passing an honest, balanced budget; living within our means; making government smaller and more responsive; and sticking to our plan for growing Connecticut's economy.

Most importantly, my plan honors those principles while still protecting our hard-working middle-class families. The simplest way it does that, is this: *my proposed budget does not include any new taxes.* The families and the businesses of Connecticut have enough on their shoulders. This budget asks no more of them. In fact, I'm proposing we give them some much-deserved help.

My proposed budget does not exceed our spending cap. I know that past administrations chose to blow through that cap. We cannot and will not go down that road. Connecticut must live within its means. And to help ensure we really are living within our means, here's something this budget *does* do: it completes the move to generally accepted accounting principles.

That's a promise we made two years ago, and it's a promise kept. *The budget I propose today is fully balanced under GAAP.* Simply put, that means that if you have to balance your checkbook honestly, so should your state government.

We're also simplifying our state finances. For too long, we've continued to add line-item after line-item to our budget, making it far more complex than it needs to be. In this budget, we've either merged or eliminated nearly 150 appropriations, programs, or earmarks. That's a 22 percent reduction.

Of course, it isn't enough that we're just streamlining our books and looking at them more honestly. If we're going to continue getting our fiscal house in order, we need to make some hard choices. In this budget, hard choices are abundant.

Despite these choices, Connecticut continues to face rising costs in a few key areas. Whether it's $380 million in Medicaid expansion; the rising price of keeping up with our state pensions; or moving to a more honest system of budgeting; these are the obligations of a responsible state government.

Connecticut made a promise to teachers who paid into their retirement fund; to working parents who rely on Medicaid for basic health care; and two years ago, we made a promise to ourselves that we were finally going to get serious about our finances by moving to GAAP. We're going to keep - and fund - those promises.

Connecticut families know what it's like to find themselves paying a little bit more for the things they need like groceries, a medical bill, college tuition for their child. Costs are going up, so what do they do? They find places to cut back. They find savings.

That's why, despite these rising costs, *we cannot and will not spend more than I have recommended in this budget.*

To do this, we have to find savings, and we have to set priorities.

One of those priorities should be a refusal to shift our burdens onto our towns and cities – a promise that we won't pass the buck to every Connecticut family struggling to pay their property tax bill. Today, I am proposing that we make the same promise that was made - and kept - two years ago, *that we once again hold municipalities harmless in our budget.* So that cuts made here in Hartford don't come at the cost of higher property taxes around the state.

The first way we do that is by helping towns fund their most important mission: education. *My budget increases Education Cost Sharing funding by $152 million over the next two years.*

We're also going to help grow our local economies. Our capital budget will invest nearly $1.5 billion into cities and towns in each of the next two years, including $140 million in total funding for Urban Act and STEAP grants – funds that will promote community conservation and improve the quality of life for our residents.

We've talked about the cuts we need to make, about holding the line on spending and on taxes, and about keeping our promise to towns. But we can't stop there. Even in difficult times – *especially* in difficult times – we have to keep investing in our future.

It is incumbent upon state government to pursue jobs, actively and aggressively. I know some among you will criticize that philosophy – some of you who think that it isn't government's place to help stimulate growth. I fundamentally disagree. Burying our heads in the sand is not a strategy, and sitting still is not an option. Even as we find savings, even as we continue to support our towns and cities – we have to work to grow jobs.

To start with, I am proposing the Bioscience Innovation Act. This new program will establish a $200 million fund to strengthen Connecticut's bioscience sector over the next ten years. We've seen what's possible in this industry. Jackson Labs has already broken ground in Farmington and begun hiring Connecticut workers into good paying jobs with good benefits. We estimate they're going to support 6,800 permanent jobs once they're fully developed. But this isn't just about Jackson. It's also about Alexion and Koltan in New Haven, and Durata in Branford. About the many other great Connecticut companies and entrepreneurs already working in this rapidly growing field.

And the impact extends beyond bioscience. Cultivating this industry and creating these kinds of jobs in Connecticut means we have more people eating at our restaurants and shopping in our stores. It will mean a broader economic base for our towns and for our state. These are investments in the truest sense of the word. With an appropriate level of state support, we're able to attract far more in private dollars, and we're able to better leverage federal funding. We have to compete for every job. The Bioscience Innovation Act helps us do that.

We're helping employers in other ways.

Earlier this week my administration finalized our state's first-ever comprehensive energy strategy, placing us on a path to a more sustainable economic and environmental future. This plan will help us take advantage of enhanced energy efficiency options to drive down energy costs. It will promote distributed generation and micro-grids to increase energy reliability. It will drastically improve consumer choice by addressing the expansion of natural gas, where appropriate, in an environmentally sound manner.

As we work to foster new jobs and lower energy costs, we also need to make sure we're helping grow the next generation of highly-skilled workers. So that the kids that attend Connecticut colleges aren't forced to find jobs in other states.

The creation of a strong public research university is critical to ensuring our long-term economic competitiveness. We must provide educational opportunities in science, in technology, in engineering, and in math.

There was a time when Connecticut was a world-leader in these areas. Our inventors created the first submarine, the portable typewriter, anesthesia, helicopters, and of course the Frisbee. Historically we've ranked among the top states for patents on a per-capita basis. But now we're in a global economy. The competition has gotten stiffer.

My proposal is that we get Connecticut and UConn back in the game in a big way. I am proposing an injection of more than $1.5 billion over the next ten years into a new program: "Next Generation Connecticut." This funding will drive innovation, enhance job creation and spur economic growth. It will allow us to make strategic investments in new facilities, to offer more scholarships and add researchers.

Our institutions of higher education represent the opportunity we're offering young students; and the potential for our economy to grow and prosper. They are a promise of Connecticut's future. Let's invest in them. Let's make them beacons that shine beyond our borders – a clear signal of the promise and the potential that Connecticut and its people hold. Let's do that together.

In much the same way that investing in UConn and our other state colleges will help grow our economy, we also need to support our K through 12 public schools. It is a moral obligation that we provide Connecticut's kids a high-quality education, but it's also in our economic interest to foster the next generation of scientists, teachers, doctors, engineers, business leaders, and entrepreneurs.

In addition to the new ECS funding I mentioned earlier, my proposed budget continues to fund the critical education reforms we started last year. In total, my plan supports education with more than $200 million in funding.

We can also do some new things to make sure we reach our kids as early as possible. Quality early childhood education is one of the best investments we can make to close our achievement gap, and put young students on a path to success.

With the support and leadership of many – including the Graustein Memorial Fund and the Early Childhood Collaborative – today we take action on a charge given by this General Assembly in 2011 - a charge to foster a true early childhood system.

I am proposing that Connecticut's early childhood efforts – which are today divided across five state agencies – be consolidated under one agency, the Office of Early Childhood. This new office will better align state resources, increase data collection across several agencies, improve family outreach and, most importantly, prepare more youngsters for kindergarten and beyond.

Beginning with early childhood, from Kindergarten to grade 12, and all the way through higher education, my proposed budget supports education at every level.

Despite the hard work of everyone in this chamber, and despite the many good things we've done to reshape Connecticut, too many in our middle class still don't feel the changes we're making. The economic headwind is strong, and there are still too many unemployed or underemployed. So, the question is – what do we tell those families I talked about earlier? The ones that might not yet feel the changes we've set in motion together.

There are things we can do to help right now. Our path won't be easy for awhile, and we can't solve anyone's problems overnight. But we *can* lighten their load.

For one, we can find smart ways to begin making our tax laws more fair and sensible, especially when it comes to taxes that unfairly impact the middle-class, and those striving to be middle-class.

My budget reinstates the tax exemption for items of clothing up to $25 starting next year. It does it as a first step toward completely reinstating the original $50 exemption in July 2015. Will this change solve all of a working family's problems? No, of course it won't. But, as we continue the hard work of reforming our state finances and of growing jobs, it can still mean something to families working hard to make ends meet.

Let's make it happen. Let's provide direct, tangible tax relief. Relief for the working people of Connecticut. Relief they will feel.

And there is more we can and should do to help our middle class. Today, the unfortunate reality is that the rate of home foreclosures in Connecticut continues to grow. Many of our residents have struggled as they wait for the economy to pick back up. For some, the clock is running out.

New protections I announced last week will help give struggling homeowners a fighting chance. It will hold more banks in Connecticut to stricter penalties if they don't act in good faith. It will give homeowners new tools to challenge a foreclosure in court. We have to stem the tide of foreclosures, and help families that are struggling to keep their home. The bill I am submitting to you will do just that

We also need to make sure our renters can find affordable places to live. We need to do it so that our low income residents don't have to use so much of their personal income just to put a roof over their head; so our young people graduating from college can stay here in Connecticut, to live and work where they grew up and went to school; and so that our elderly, who have spent their lives in Connecticut, aren't forced to move when they least want to, and are least able to.

This budget provides $221 million to invest in safe and affordable housing for Connecticut residents over the next biennium. That includes $60 million for public housing and another $136 million for affordable housing. And, to help coordinate these investments as part of a broader strategy for tackling housing needs, we're providing staff and programmatic funds for the new Department of Housing. These resources will be transferred from other agencies, and will include 23 staff and 18 million dollars in funding.

When it comes to protecting Connecticut residents, there is no more simple or more sacred responsibility than making sure everyone has access to health care. As I said earlier, rising Medicaid costs continue to put pressure on our ability to provide critical services. But it's a challenge we can and will overcome.

Thankfully, the federal Affordable Care Act has given us an opportunity to do that. Connecticut has become a national leader in the creation and development of our health insurance exchange – an innovative and competitive marketplace for care. My budget continues to grow this system. Investing in our health insurance exchange saves the state money, and helps get more people covered. It's that simple.

We must also find ways to preserve benefits and services for those residents most in need. My budget fully funds caseload growth for our health and human service agencies – meaning they will have the necessary resources to continue providing care.

We're also enhancing our mental health service delivery system. This budget provides $10 million to establish a health home initiative to better coordinate behavioral care with physical care. This new funding – along with support from state operated and privately provided services – will result in $25 million in additional revenue, and much better care.

This session, let's do the hard jobs we were elected to do, by coming together to pass a balanced budget. By finding compromise, and by remembering that no matter what our politics, we all want what's best for Connecticut.

I'd like to tell you that this budget solves all of our problems, but it doesn't. What it does do is keep us on the steady path to progress. It furthers a plan we started two years ago. A plan to get our finances in order, to live within our means, and to do it while making bold investments to create jobs and grow our economy.

My proposed budget is a clear indication of how far we've come together, and also a stark reminder of how far we still have to go. As we negotiate throughout this session, it is my hope that everyone in this chamber – Democrat and Republican – will be a part of that process. Let's not allow ideology to stand in the way of progress or compromise.

There is much we agree on. We all agree that we need to keep spending in check, despite rising health care costs and other long-term obligations.

This budget lives within our means and within our spending cap. To do that, we all agree that spending cuts will be needed.

We all agree that we have to keep investing in jobs. This budget supports small businesses and entrepreneurs while working to attract new employers.

We all agree that we have no desire to shift the burden to our towns and cities. This budget holds them harmless.

And finally, we all agree that our middle class deserves a break. In this budget, they get a few. We help struggling homeowners stay in their home; we make renting a home more affordable; and we make buying clothes just a little easier.

Let's not make this budget be about division. Let's make it about coming together, and about continuing on the path we started down two years ago – a journey to build a more prosperous and more sustainable future for Connecticut.

Thank you.

May God bless you, may God bless the great State of Connecticut, and may God bless the United States of America.

(February 6, 2013 abridged)

INTRODUCTION

The Governor's budget proposal for the FY 2013-15 biennium is balanced, under the spending cap, and provides tax relief to Connecticut families.

The Governor's recommended budget builds on the priorities of the last two years:

- Jobs and the economy;
- Education;
- Continued support for municipalities;
- Maintaining the safety net;
- Smaller and more streamlined state government;
- Smart investments in the state's infrastructure; and
- Transparency and accountability through Generally Accepted Accounting Principles (GAAP).

EDUCATION

Governor Malloy in 2011 and 2012 made educating our children a priority by providing significant new funding to reform and improve education in Connecticut. This budget continues that commitment with a new Education Cost Sharing (ECS) formula, more funding for local districts and reform activities and major initiatives in both early childhood and higher education.

<u>ELEMENTARY AND SECONDARY EDUCATION</u>

In each of the two fiscal years before the Governor took office, the ECS grant was funded with $270 million in federal stimulus money – funds that were no longer available when the Malloy Administration began. The FY 2012-13 biennial budget held municipalities harmless on ECS and filled the gap created by the expiration of the stimulus funds by allocating and distributing an additional $270 million in *state* funding.

The Governor's commitment to education funding was not the path chosen by many other states. A recent survey showed that 35 states provided less funding per student for K-12 education in FY 2012 than before the 2008 recession – yet **under Governor Malloy, education funding per student in Connecticut is 6.1% *above* pre-recession levels**.

For the coming biennium, Governor Malloy has made it clear that education is again a top priority. **The proposed budget would increase ECS funding by $124 million in FY 2014 and $175 million in FY 2015**.

Education Cost Sharing

Last year, the Governor's budget included $50 million in additional ECS funding, with $39.5 million of that sum targeted to the neediest Alliance Districts—the poorest and most challenged education districts in the state—and contingent on the districts enacting reforms that position their students for success. Governor Malloy continues this support by proposing increases to ECS funding of $124 million in FY 2014 and $175 million in FY 2015. Of those sums, $73.6 million was formerly distributed to municipalities through the State-Property PILOT grant. It will now be included as part of ECS funding.

In addition, $50.8 million in FY 2014 and $101.5 million in FY 2015 will be distributed to towns based on the new formula recommended by the Education Cost Sharing Task Force established by Public Act 11-48. This commitment to ECS is the beginning of a multi-year plan to increase state education funding by $757 million. This new formula makes a number of changes to provide greater transparency and equity in the way the state funds education. **New funding would be phased in at a faster pace for the Alliance Districts contingent upon them enacting education reforms**.

Additionally, high performing districts would have greater flexibility to implement, in consultation with the State Department of Education (SDE), education reform programming that works for their individual districts in improving student success, provided they continue to implement the Common Core Curriculum and teacher evaluation initiatives.

Total Additional Funding for Education Initiatives (in millions)

	FY 2014	FY 2015
ECS	$50.8	$101.5
Magnet School Enrollment Increases	$28.1	$43.9
Open Choice Enrollment Increases	$12.9	$18.5
Talent Development	$16.0	$16.0
State Charter School Existing Enrollment Increases	$6.5	$15.4
Commissioner's Network	$3.3	$10.8
Four New State Charter Schools	$1.8	$8.4
New or Replicated Schools (local charter schools)	$0.1	$0.7
Total Increases, Education Initiatives	**$119.5**	**$215.2**

Note: Total does not reflect reductions in other Department of Education accounts.

OTHER EDUCATION PROGRAMS

Encouraging Regional Cooperation

In order to encourage school districts to reduce costs overall, the Governor proposes to end grants to individual school districts for public school transportation. To avoid duplication of expenditures in adjoining districts, they would instead be eligible for a **new $5 million program that would reward districts that coordinate and share public school transportation programs**.

Commissioner's Network

The Governor's recommended budget also includes $14.1 million over the biennium in additional funding to continue the effort to turn around the state's lowest performing schools. In 2013, four schools joined the Commissioner's Network program in the first year of a five-year commitment. **This budget will enable eight additional schools to begin participation in the Commissioner's Network in FY 2014 and an additional nine schools in FY 2015,** moving Connecticut closer to the goal of turning around the 25 lowest-performing schools.

HIGHER EDUCATION

Next Generation Connecticut: Science, Technology Engineering And Math (STEM) Programs, Higher Enrollment and New Regional Programs

Connecticut citizens have historically been known for their creativity, and our state as the birthplace of invention and innovation. The state ranks at the top for patents on a per capita basis, but to stay on top and compete with the rest of the world the technical proficiency that contributes to Connecticut's economy needs to be sustained and increased.

Connecticut's long-term economic competitiveness depends upon the creation of a strong public research university with vibrant educational opportunities and research in the disciplines of science, technology, engineering, and math. Through investment of **$1.54 billion in capital funding and $147 million in operating expenses over a ten year period beginning in FY 2015, the Governor is launching *Next Generation Connecticut***. This plan will encourage an important expansion of STEM activities at the University of Connecticut (UConn), drive innovation, enhance job creation and promote economic growth. With targeted and strategic investments in facilities, faculty and students, UConn will become an increasingly vital STEM institution, fueling Connecticut's economy with new technologies, highly skilled graduates, businesses, patents and licenses, and high-wage STEM jobs. This budget begins that investment with **$17.4 million in operating funds and $105 million in capital authorizations in FY 2015 to support the STEM initiative.**

Emphasis on STEM

According to a recent analysis of 171 college majors, **eight million U.S. jobs will be available in STEM fields** and Connecticut projects a similar trend. The Connecticut Department of Labor, for example, projects the need for 54% more biomedical engineers. Nationally, overall employment is projected to grow 9.6% from 2010 to 2020. But report after report shows that the next generation of American employees will be unprepared for these jobs. Of 34 industrialized countries, for example, American students rank 17th in science and 25th in math scores, respectively. This gap limits our nation's ability to solve the complex problems of our time, inhibits the innovation required to remain competitive, and results in severe long-term economic consequences for our country.

Next Generation Connecticut can have a tremendous impact on the reversal of these trends and grow Connecticut's STEM workforce, enabling our state to compete in the global marketplace. The proposed funding would increase STEM enrollment, double research funding, and renew and rebuild STEM facilities at UConn.

This proposal would enable the University to:

- Hire 259 new faculty (of which 200 will be in STEM);
- Enroll an additional 6,580 talented undergraduate students;
- Build STEM facilities to house material science, physics, biology, engineering, cognitive science, genomics and related disciplines;
- Construct new STEM teaching laboratories;

- Create a premier STEM honors program;
- Upgrade aging infrastructure to accommodate new faculty and students;
- Relocate the Greater Hartford campus to downtown Hartford; and
- Increase digital media and risk management degree programs in Stamford.

UConn will commit significant institutional resources to launch *Next Generation Connecticut* by reprioritizing **$235 million for the building program and contributing $149 million to the operating budget from FY 2015 through FY 2024.**

Growing Bioscience

Bioscience Connecticut is an important component of the Governor's plan to jumpstart Connecticut's economy by (1) creating construction-related jobs immediately and (2) generating long term, sustainable economic growth based on bioscience research, innovation, entrepreneurship and "commercialization" of intellectual property.

As the Governor stated in 2011, "By becoming a leader in bioscience, Connecticut can again be at the forefront of an economic renaissance. By capitalizing on existing assets, and by attracting new ones, Connecticut can lead the new economy in a way that will make us an attractive place to do business, and a state that retains and attracts top-flight, national talent."

As construction transforms the UConn Health Center the Governor is honoring our commitment to bioscience programs. $11.9 million in FY 2014 and $16.8 million in FY 2015 is recommended for nineteen and eighteen new clinical scientist faculty and researchers, respectively.

In addition, the Governor is proposing the **Bioscience Innovation Act** which, in concert with the Bioscience Initiative, would support the state's growing bioscience sector, strengthen our capacity to create competitive investment tools, attract additional federal and private dollars, and re-energize Connecticut's bioscience industry. The new Bioscience Innovation Fund would be administered by Connecticut Innovations, Inc.

Highlights of Governor Malloy's proposal include:

- $200 million investment over 10 years:
  - $10 million annually in years 1 and 2;
  - $15 million annually in years 3 and 4; and
  - $25 million annually in years 5 through 10.
- Funding will fill gaps in the marketplace, not duplicate current public funding;
- Investments will be subject to a rigorous vetting process; and
- Creation of Advisory Board to provide oversight and strategic guidance.

Combined Student Financial Aid – Governor's Scholarship

Governor Malloy understands the financial challenges college students and their families face. That is why he is proposing the **establishment of the Governor's Scholarship with two goals; to help needy**

Connecticut students and to recognize and encourage academic achievement. The scholarships will be awarded to Connecticut students attending in-state public and private colleges or universities and would provide **funds for merit and need-based aid**, which will help retain high achieving students in Connecticut and provide special incentive awards to students who make academic progress. The proposed budget provides $40.7 million in both FY 2014 and FY 2015 and targets aid to the state's neediest students. The Governor's Scholarship would combine the Capitol Scholarship, Connecticut Independent College Student Grant, Connecticut Aid for Public College Students grant, and the Connecticut Aid to Charter Oak Students grant. **Students who are already receiving scholarships under the former programs would continue to do so for FY 2014**, **with new students receiving Governor's Scholarships beginning in FY 2014.** The previous programs are expected to be phased out by the end of FY 2016.

Block Grants

The public systems of higher education have operated on a block grant system since 1991, but these block grants have not been a true reflection of total General Fund support. The Governor's budget proposes to **re-allocate fringe benefits from the Comptroller's accounts into the higher education block grants and to consolidate all the line items for each system into a single block grant.** Not only will this provide a truer picture of state support for higher education, but it will give the colleges and universities additional flexibility to manage state funds and honor their statutory independence.

Higher Education Block Grants: FY 2013 - 2015

(in Millions)

Higher Education System	**FY 2013 Amount Available***	**FY 2014 Gov. Rec.**	***% Increase FY 2013 Available vs. FY 2014 Gov. Rec.***	**FY 2015 Gov. Rec.**	***% Increase Gov. Rec., FY 2014 vs. FY 2015***
UConn					
Block Grant	$ 195.37	$ 203.54	*4.18%*	$ 232.97	*14.46%*
Fringe in Block Grant		$ 97.18		$ 107.88	
UConn TOTAL		**$ 300.72**		**$ 340.86**	
UCHC					
Block Grant	$ 108.51	$ 123.05	*13.39%*	$ 133.40	*8.41%*
Fringe in Block Grant		$ 71.56		$ 74.60	
UCHC TOTAL		**$ 194.62**		**$ 208.01**	
BOR: CSU System					
Block Grant	$ 134.13	$ 140.77	*4.95%*	$ 147.71	*4.93%*
Fringe in Block Grant		$ 83.34		$ 87.73	
BOR: CSU TOTAL		**$ 224.12**		**$ 235.45**	
BOR: CCC System					
Block Grant	$ 136.03	$ 143.88	*5.77%*	$ 151.03	*4.97%*
Fringe in Block Grant		$ 83.91		$ 88.32	
BOR: CCC TOTAL		**$ 227.79**		**$ 239.36**	
BOR: Charter Oak					
Block Grant	$ 2.33	$ 2.37	*1.89%*	$ 2.47	*4.14%*
Fringe in Block Grant		$ 0.91		$ 0.95	
BOR: Charter Oak TOTAL		**$ 3.28**		**$ 3.43**	

** Includes Governor's 11/28/12 rescissions and reductions contained in PA 12-1, DSS, "AAC Deficit Mitigation for the Fiscal Year Ending June 30, 2013."*

MUNICIPAL AID

MUNICIPAL AID: INVESTMENT FOR THE FUTURE

One of the Governor's highest priorities is for the state to protect aid to Connecticut's towns and cities. Despite the state's economic difficulties, it is especially important that education funding remain strong and targeted to areas of need. **The proposed biennial budget holds municipalities harmless.**

This does not mean that every municipality would get exactly the same amounts of money from the same sources. But the budget provides that the total amount a town or city receives is no less than it received this year, and that it is focused on economic recovery through investments in local infrastructure and local schools.

The proposed budget also provides groundbreaking property tax relief by eliminating most motor vehicle taxes.

GENERAL GOVERNMENT AID – A FOCUS ON INVESTMENT

The proposed budget focuses municipal aid on areas of spending that will reap benefits for communities and the state as a whole – educating the next generation of workers and building a solid foundation of infrastructure for economic growth.

While certain general government aid programs in the upcoming biennium will not be funded in the same manner as they have been, the state will increase capital-funding assistance and create a new grant program to ensure that **every municipality is, overall, held harmless**.

The Pequot and Mohegan grant will not be separately funded, except for towns impacted by the presence of the casinos, but the formula for the Pequot-Mohegan grant will be used to determine increased funding for the Local Capital Improvement Program (LoCIP). As described elsewhere, the state-property PILOT will be folded into the ECS program and will not be funded as a separate program (except for towns in the vicinity of Bradley International Airport). The proposed budget would provide significant funding in several new ways:

- In order to ensure that municipalities are held harmless, the budget proposes a **new Municipal Aid Adjustment grant of $47.2 million in FY 2014 and $31.6 million in FY 2015** so that no town or city receives less money than it gets in the current year.

- The budget proposes **significant increases in grants available under the Town Aid Road (TAR) grant, an increase of $30 million each year, and LoCIP, which is increased by $56 million each year**, with the new funding to be distributed according to the formula for the Pequot-Mohegan grant.

These changes and the capital budget initiatives will pave the way for a stronger Connecticut.

INFRASTRUCTURE AID TO MUNICIPALITIES: A STATE-LOCAL PARTNERSHIP FOR ECONOMIC DEVELOPMENT

Because of its importance to our economy, the proposed capital budget provides additional infrastructure assistance for towns and cities across the state. Local officials know where infrastructure projects can most benefit their communities. These projects have the double benefit of creating jobs and improving the quality of life in our hometowns.

The proposed capital budget would pump more than $2.5 billion worth of economic stimulus into Connecticut's municipalities – nearly $1.9 billion in general obligation (GO) bonds and another $700 million in revenue bonds.

<u>TOWN AID ROAD (TAR) AND LOCAL CAPITAL IMPROVEMENT PROGRAM (LoCIP) – $292 MILLION</u>

The budget would provide local governments with over **$146 million in each year of the biennium** for projects through **TAR grants ($60 million)** and **LoCIP ($86.4 million)**. This investment will improve roads, parks and other public facilities and would be the largest commitment in the state's history to these programs.

Because help is most needed in our less-affluent communities, the additional $56 million provided through the LoCIP program will be distributed by the more needs-targeted formula used for the Pequot-Mohegan grant. In addition, there is an available LoCIP balance of $32 million which is also available for construction projects next year.

The boost in LoCIP funding will help small towns get their projects done more quickly. Because their annual grants are sometimes not large enough to tackle major projects, small towns often "save" their grants for several years until enough funding has been accumulated. By almost doubling the LoCIP grants each year, the state can help small towns undertake these projects right away – helping their communities and creating more jobs, sooner. Furthermore, the budget expands the possible uses of LoCIP to provide local governments with greater flexibility.

In order to make sure these funds provide local flexibility, municipalities that have made expenditures for these items in FY 2013 may apply for LoCIP reimbursement for such expenditures.

The possible uses of LoCIP will be expanded to include:

- Bikeways and greenways;
- Technology upgrades, including those for public access like e-portals, kiosks, etc.;
- Land acquisition, including open space and costs involved in making land available for public uses;
- Technology related to implementation of SDE's Common Core Curriculum standards;
- Snow removal equipment (for the biennium only);
- Improvements to public safety other than operations (for the biennium only);

- Regional cooperation, other than operations and equipment that can't be expected to last 20 years. For example: setting up an office for consolidated regions in accordance with the current consolidation laws (for the biennium only).

LOCAL TRANSPORTATION CAPITAL PROGRAM - $90 MILLION

The proposed budget also helps municipalities undertake transportation investments faster. The budget proposes a new **Local Transportation Capital Program** to speed distribution of $45 million in each year of the biennium to local governments by providing *state* bond funds in lieu of *federal* transportation dollars for which they now apply through the Department of Transportation. The new grants would match the anticipated level of federal funding which would then be used for the state's own program. In essence, the state would be advancing the money to the towns and then be reimbursed by the federal government.

Not only would this help projects happen more quickly, it would relieve local governments of the administrative requirements involved with many federal programs.

REVITALIZED LOCAL BRIDGE PROGRAM - $15 MILLION

The budget would reinvigorate the state **Local Bridge Program**. For too long this program has been underutilized by municipalities because it was cumbersome and the loans that were available were often too expensive.

As of August 2012, there were approximately 250 structurally deficient municipal bridges (20 feet or longer) eligible under the Local Bridge program. This situation poses a safety problem for drivers and a funding problem for communities.

To address this, **the budget would provide $15 million in FY 2014 for grants to municipalities** to fix local bridges. This will be supplemented by approximately $10 million in existing bond authorizations. The underutilized loan program would be discontinued. This change will encourage municipal participation in the program, streamline the administrative process, reduce the number of deficient municipal bridges and reduce the cost to the state of inspecting decayed municipal bridges.

OTHER BOND FUND GRANTS TO MUNICIPALITIES

School Construction -- $1.1 Billion

Over the biennium, the state will spend over $1 billion to assist municipalities in school construction projects. School projects make our communities better – kids learn better in modern classrooms and updated schools support property values in the neighborhoods and municipalities in which they are built.

Clean Water/Drinking Water Grants -- $285 Million (Grants), $712 Million (Loans)

The proposed budget continues the Governor's unprecedented commitment to cleaning Connecticut's lakes, rivers and Long Island Sound and to providing safe drinking water. Connecticut's Clean Water Fund is the most generous in the nation – providing large grants (20%-50% of project costs depending on the type of project) and subsidized loans (2% interest rate) for the remainder. **The combination of GO and revenue**

bonds would total almost $1 billion in state assistance to local governments for providing and protecting clean water.

Urban Act -- $100 Million

The proposed budget would provide **$50 million in each year of the biennium for Urban Act grants.** These grants are used for a wide variety of local activities to promote community conservation and development and improve the quality-of-life for urban residents.

STEAP -- $40 Million

Governor Malloy's capital budget would continue funding for the popular Small Town Economic Assistance Program (STEAP) grants to smaller communities. It would provide **$40 million over the biennium for the program.** The program funds economic development, community conservation and quality-of-life projects for towns that are ineligible to receive Urban Act grants.

Open Space -- $40 Million

The proposed capital budget recognizes that, to maintain Connecticut as a great place to live, work and raise a family, land conservation must go along with development. To that end the budget would provide **$20 million over the biennium for Open Space Acquisition grants and another $20 million for the Recreation and Natural Heritage Trust program.**

For FY 2013, $5 million was authorized for the Open Space Acquisition program and there was no authorization for the Recreation and Natural Heritage Trust program.

This commitment moves Connecticut closer to meeting the goal of protecting 21% of Connecticut's land as open space in the next ten years.

Other Local Infrastructure Investment

Beyond the major direct grant programs described above, over the biennium the capital budget would provide numerous other grants-in-aid to benefit communities across the state. Included in this are grants for **farmland preservation** ($20 million), **regional brownfield redevelopment** loans ($40 million), **brownfield cleanup** ($10 million) and **public library** construction ($10 million).

MIDDLE CLASS PROPERTY TAX RELIEF: MOTOR VEHICLES

In 2003 the Blue Ribbon Commission on Property Tax Burdens and Smart Growth Incentives found that Connecticut's motor vehicle property tax

> "…is viewed as especially unfair because residents in different communities pay vastly different taxes on the same property. This system encourages some Connecticut residents to register motor vehicles in other lower-tax municipalities or even out-of-state, causing significant local revenue losses and administrative difficulties. Municipalities spend an inordinate amount of administrative resources to collect this tax."

Yet the Commission, like many before it, could not agree on a consensus proposal to address this problem. Over the ensuing decade workable solutions to the vexing motor vehicle property tax have remained elusive.

Governor Malloy proposes to exempt most motor vehicles from the property tax. This new proposal would provide an exemption from the property tax for the first $20,000 of a vehicle's assessed value -- that means ***owners of vehicles with market values under $28,571 would pay no property taxes at all on those vehicles. This exemption applies to $560 million of property per year.***

The proposal would affect all motor vehicles, whether they are owned by residents or businesses, except rental vehicles.

Municipalities would have the option of providing this exemption, or a portion of it, for vehicles on the October 1, 2012 Grand List (the tax year beginning July 1, 2013). It would be implemented statewide for vehicles on the October 1, 2013 Grand List (for the tax year beginning July 1, 2014). Provisions will be made to allow early adopters to revise their grand lists prior to setting mil rates and mailing tax bills in June.

This proposal has many advantages for Connecticut. It would:

- Give some level of **relief to every vehicle owner**;
- **Eliminate much of the unfairness** that occurs when owners of identical vehicles, with the same market value, pay vastly different levels of taxes depending on where the owners live;
- Provide **administrative relief to the Department of Motor Vehicles**, making for shorter wait times and better customer service; and
- **Relieve municipalities of much of the administrative cost** of assessing and collecting this tax.

Present law allows towns to conduct revaluations in any year. The budget proposes that to ease implementation of the $560 million exemption, **municipalities which choose to conduct revaluation for the October 1, 2013 Grand List may delay their next required revaluations until the October 1, 2016 Grand List.**

CAPITAL INVESTMENTS

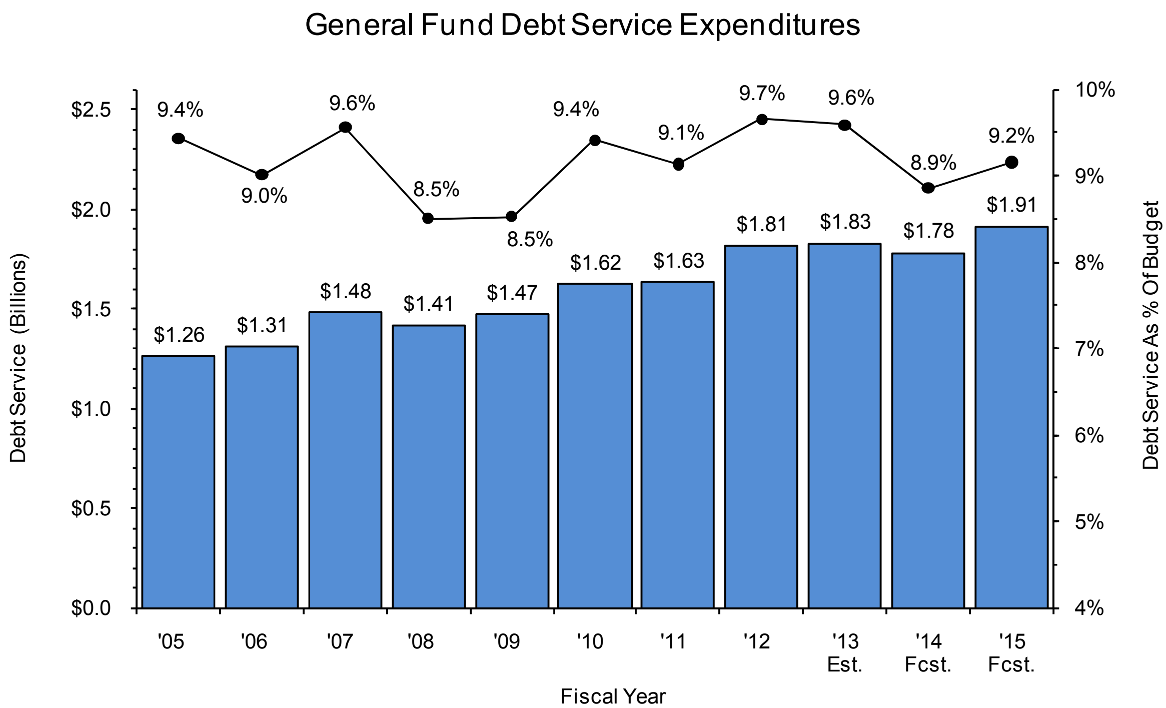
Infrastructure investments are vitally important to Connecticut's economy and quality of life.

Studies have found that every dollar spent on infrastructure reaps many times its value in economic growth. Money spent on transportation projects, for example, not only improves access to work and markets, but reduces air pollution. A new school increases the property values of a neighborhood. A sewerage system with better technology helps keep the water cleaner.

An investment of $1 billion, for example, can generate as much as $3.4 billion in gross domestic product, $1.1 billion in personal earnings and about 28,500 jobs. A federal study showed that every dollar spent on road, highway and bridge improvements "results in an average benefit of $5.20 in the form of reduced vehicle maintenance costs, reduced delays, reduced fuel consumption, improved safety, reduced road and bridge maintenance costs and reduced emissions as a result of improved traffic flow." Another study found that "Public infrastructure matters in firm [business] locational decisions and thereby affects employment growth."

Governor Malloy is proposing a capital budget focused on funding projects and programs that create and retain jobs in the state. The proposal emphasizes investments in state and municipal infrastructure, the environment, housing, economic development and in higher education that would retain Connecticut's best minds.

These investments will come while staying within the bond cap and keeping debt service on GO bonds below 10% of expenses in the general fund.



THE PROPOSED CAPITAL BUDGET

Total proposed new General Obligation (GO) bond authorizations are $1.5 billion in FY 2014 and $1.608 billion in FY 2015. These proposed bond authorizations are in addition to those that were previously authorized by the General Assembly and become effective during the biennium, which includes $95 million each year for the Connecticut State University System 2020 program, $59.7 million in FY 2014 and $19.7 million in FY 2015 for the Bioscience Collaboration Program, and $83 million over the biennium for various other programs authorized in prior legislation.

The Governor is also proposing a **$1.5 billion expansion of the UConn 2000** program, *Next Generation Connecticut*, would extend the program through FY 2024 and focus on capital improvements. This will add $6.4 million to the $198 million previously authorized for UConn 2000 in FY 2014 and add $107 million to the $208.5 million previously authorized for FY 2015. (For more on this program see the section on Education.)

The Governor's proposed GO bond authorizations include:

- $285 million for grants and $712.4 million for revenue bonds to provide subsidized low interest loans under the Clean Water Fund;
- $511.3 million in FY 2014 and $474.2 million in FY 2015 to meet the commitments of the school construction program;
- $100 million over the biennium for the Urban Act Program;
- $40 million over the biennium for STEAP;
- $86.4 million in each year of the biennium in enhanced funding for LoCIP;
- $13.4 million over the biennium to continue implementation of the Criminal Justice Information System;
- $10 million in each year of the biennium for farmland preservation;
- $20 million in each year of the biennium for open space preservation;
- $75 million over the biennium for information technology investments to enhance state agency efficiency and effectiveness;
- $79.3 million over the biennium for Community College System building projects;
- $64.5 million to upgrade and replace aging equipment for state police radio communication systems;
- $70 million in each year of the biennium for housing development and rehabilitation projects;
- $30 million in each year of the biennium to continue to revitalize the state's public housing portfolio;
- $20 million in FY 2014 to continue development of units under the successful supportive housing program;
- $20 million in each year of the biennium to finance loans for redevelopment of brownfields;
- $100 million in each year of the biennium for the Department of Economic and Community Development (DECD) to continue to provide low interest loans to attract and retain businesses and jobs in the state;
- $100 million over the biennium to continue the popular and successful Small Business Express Loan Program;
- $40 million over the biennium for capital investments in facilities of the state's nonprofit providers;
- $30 million over the biennium for energy microgrids to support critical infrastructure;
- $22.5 million over the biennium for start-up investments in magnet schools to assist in meeting the goals of the Sheff agreement;
- $26.5 million over the biennium for early childhood education facilities; and
- $20 million over the biennium to fund the first two years of a ten year $200 million commitment for a Bioscience Innovation Fund.

Proposed Special Tax Obligation bond authorizations for transportation projects total $706.5 million in FY 2014 and $588.8 million in FY 2015. Additionally, $5 million of GO bonds are proposed each year of the biennium for transportation purposes.

The Governor's proposed transportation bond authorizations include:

- $5 million in each year of the biennium for continued improvements, including dredging, at the state's economically vital deep water ports;
- $231 million over the biennium to fully fund the Department of Transportation's priority projects under the Fix-it-First initiatives to repair the state's roads and bridges;

- $15 million in FY 2014 for a new and improved Local Bridge program;
- $45 million in each year of the biennium for a Local Transportation Improvement Program; and
- $60 million in each year of the biennium for TAR grants.

For more on aid for investments in municipal infrastructure, see the section on Municipal Aid.

HEALTH AND HUMAN SERVICES

The Governor's budget preserves funding for critical programs serving our most vulnerable citizens and maximizes the opportunities for the expansion of health coverage under the Affordable Care Act (ACA). In the area of health and human services, the Governor's budget funds significant service growth. The budget provides over $330 million in additional funding over the biennium to fund anticipated increases in utilization, caseload growth and for annualizing prior year caseload growth for various programs in the Departments of Social Services (DSS), Developmental Services (DDS) and Mental Health and Addiction Services (DMHAS). In addition, over $513 million is added over the biennium as a result of the changes to Medicaid pursuant to the ACA.

IMPACT OF THE AFFORDABLE CARE ACT

The ACA will expand health coverage to more of Connecticut's residents, presenting both fiscal and programmatic challenges and opportunities.

The ACA requires states to increase Medicaid rates to Medicare levels for services provided by primary care physicians in calendar years 2013 and 2014. The budget includes $104 million in FY 2014, which includes funding for FY 2013 obligations, and $47 million in FY 2015 to fund the rate increases. These costs will be 100% reimbursed by the federal government.

Connecticut took advantage of the option offered the states under the ACA, effective April 1, 2010, to cover low-income childless adults in our Medicaid program. In June 2010, Connecticut gained approval from the federal government to expand Medicaid coverage to an estimated 45,000 low-income adults who had been enrolled in a more limited benefit package under the former State-Administered General Assistance (SAGA) program. The number of eligible individuals enrolled in the Medicaid for Low-Income Adults (LIA) program, (HUSKY D), far exceeded expectations and as of December 2012, there were 86,870 individuals enrolled in LIA. Beginning January 1, 2014, states can opt to provide Medicaid coverage to all childless adults up to 133% FPL and receive full federal reimbursement. The extension of Medicaid LIA benefits to individuals with income between 55% FPL and 133% FPL is projected to result in increased costs of $52 million in FY 2014, $301 million in FY 2015 and $398 million in FY 2016. The costs of the Medicaid expansion will be 100% reimbursed by the federal government through 2016, and will then be adjusted incrementally downward to a 90% reimbursement rate by 2020.

The ACA also creates state-based Health Insurance Exchanges which allow individuals and small businesses to purchase health insurance coverage. Connecticut's Health Insurance Exchange was established through legislation in 2011. Lower income households purchasing health insurance through the Exchange will qualify for significant federal subsidies lowering the costs associated with obtaining and maintaining comprehensive health insurance coverage beginning January 1, 2014. These federal subsidies will include advanced premium tax credits to reduce the monthly cost of health insurance premiums as well as additional cost sharing reductions lowering the out-of-pocket, point-of-service costs for obtaining medical care and/or prescription drugs. Greater access to health insurance will continue to reduce the state's uncompensated care costs.

Affordable Care Act
Areas of Significant Fiscal Impact to DSS / DMHAS
(in millions)

	FY 2014	FY 2015
Expenditures		
Primary Care Physician Increase - Medicaid	$103.9	$46.6
Medicaid Expansion *(Increase in income eligibility from 55% to 133% FPL)*	51.6	301.0
Existing Low-Income Adults program *(Income up to 55% FPL)*	789.3	834.8
Health Homes	10.0	10.0
Expenditure Total	$954.7	$1,192.4
Revenue		
Revenue From Above Expenditures	$764.6	$1,195.5
Balancing Incentive Program	25.9	27.4
DSH Reduction	(7.1)	(10.9)
Revenue Total	$783.4	$1,212.0
Net State Cost	**$171.3**	**($19.6)**

Connecticut is also taking advantage of another provision of the ACA that will allow the state to receive up to $72.8 million in additional federal Medicaid reimbursement through FY 2016 under the **Balancing Incentive Program (BIP).** Through enhanced federal reimbursement of Connecticut's costs (an additional 2% beyond the traditional 50%) for non-institutional long-term services and supports, BIP encourages states, including Connecticut, to shift from more costly institutional care. This initiative will result in on-going savings for the state over the biennium and into the future and provide an improved quality of life for individuals who wish to remain in or transition to the community.

Finally, the budget includes $10 million in each year of the biennium to support the development of a **Health Home** initiative in DMHAS to better coordinate behavioral and physical health care for individuals with serious and persistent mental illness. This new funding, combined with in-kind, state-operated and privately provided services, will generate an additional $50 million in federal reimbursement over the biennium due to a 90% federal match available under the ACA, while improving the quality and availability of mental health services.

Affordable Care Act Savings and Efficiencies

Significant barriers to accessing affordable health care are removed with the expansion of health care coverage under Medicaid for individuals up to 133% FPL, the availability of insurance coverage through the Exchange, and the federal tax credits that reduce premium costs, as well as reduced cost sharing for low-income individuals. This expanded coverage, and the resulting reduction in the uninsured population in

Connecticut beginning in calendar year 2014, provides savings and program realignment opportunities, in addition to the obvious benefits to the health of Connecticut residents.

- The ACA creates access to affordable health insurance allowing the elimination of the Charter Oak Health Plan effective January 1, 2014;
- Coverage for ConnPACE clients and certain adults under HUSKY A (with income over 133% FPL) will be transitioned to the Exchange beginning January 1, 2014;
- The Exchange will conduct outreach reducing the need for a separate HUSKY Outreach program and thus funding is eliminated effective January 1, 2014;
- Because more people utilizing the services of our community health centers (CHCs) and school-based health centers have a third party payor, the budget reduces the state's grants for uncompensated care by $1.6 million through the biennium. The prospect of additional revenue coming into the CHCs provides the opportunity for the state to rethink how remaining grant funds should be distributed. The budget calls for the creation of a new formula grant that considers, among other things, the number of uninsured patients served and types of services provided. Funding of $4.6 million in FY 2014 and $4.1 million in FY 2015 will continue to be available to make these grants; and
- Finally, an annualized savings of $42.1 million by FY 2015 in various state funding streams for behavioral health services will be realized because there will be less uncompensated care as a result of the ACA.

Access to Care

It is estimated that almost 60,000 individuals will enter the state's Medicaid program with the expansion of eligibility to 133% FPL under the ACA. That makes it all the more critical that providers be available and willing to treat this most vulnerable population in a manner consistent with how individuals with private insurance are served. Accordingly, language is being proposed to use the Certificate of Need (CON) process to support continuity of services for low income people and assure that their services are not diminished, particularly with widespread restructuring of Connecticut's health care industry.

LONG-TERM CARE REBALANCING

Governor Malloy is also continuing his commitment to rebalancing the state's long-term care system. The biennial budget includes $10 million in bond funds in each year of the biennium to help nursing facilities right-size by diversifying their business model consistent with the state's strategic rebalancing plan for long-term services and supports. In addition, the budget includes $2 million in bond funds in each year of the biennium for housing modifications to make homes accessible for persons transitioning out of institutions under the Money Follows the Person initiative and to provide low-cost loans to finance adult family living homes, which provide 24-hour supervision and assistance with activities of daily living.

REDUCTIONS IN THE DEPARTMENT OF SOCIAL SERVICES

Although the Governor was able to make significant resources available to fund necessary utilization and caseload growth, the need to balance the budget and stay within the spending cap required difficult decisions to be made, including in the area of health and human services. This budget maintains programs critical to serving our state's needy and vulnerable citizens, preserving the safety net while addressing the state's fiscal challenges.

Hospitals

The biennial budget annualizes the hospital reductions adopted by the legislature in the December special session for savings of $196.1 million in each year of the biennium. The budget also includes additional hospital savings of $12.0 million in FY 2014 and $146.2 million in FY 2015. The decision to reduce hospital funding was not an easy one. **The Medicaid expansion for LIA resulted in much higher reimbursement to hospitals than was previously available to them** under the SAGA program. In 2011 SAGA medical payments (inpatient and outpatient) were slated to be capped at $66.3 million and were traditionally increased about 5% a year. In FY 2011, behavioral health rates were significantly below Medicaid rates with those hospital payments expected to be $20.4 million. The approval of the Medicaid expansion in June 2010 resulted in a sharp increase in hospital expenditures and caseload, which has since almost doubled, increasing total reimbursements to hospitals to $331.4 million in FY 2012; these payments are projected to grow to $397.2 million in FY 2013. Hospital expenditures will continue to increase over the biennium, particularly with the Medicaid expansion under LIA which will increase eligibility from 55% to 133% FPL beginning on January 1, 2014. With the increase in the number of insured beginning in 2014 and the corresponding reduction in the level of uncompensated care that will need to be provided by the nation's hospitals, federal disproportionate share hospital payments to states will be significantly phased down under the ACA beginning in federal fiscal year 2014.

Pharmacy

The Governor’s budget includes savings of $11.8 million in FY 2014 and $15.8 million in FY 2015 through implementation of **step therapy** for many drugs with the exception of mental health drugs. Similar to most commercial plans, for a client to receive a non-preferred product, the prescriber will need to provide documentation that the client tried the preferred product. The budget also includes savings of $2.4 million in FY 2014 and $2.6 million in FY 2015 as a result of bringing the dispensing fee into alignment with current levels under the state employee and retiree health plans.

Medicaid Fraud Detection Efforts

The expansion of Medicaid-eligible clients and the significant investment of resources it requires make it more important than ever to assure that state funds are spent for their intended purpose. The budget assumes **significant savings from an aggressive fraud detection initiative.** With the assistance of firms experienced in applying predictive analytics to various databases, it is anticipated that the state will be better able to identify patterns of waste, fraud and abuse in a range of programs and conduct investigations intended to recover state dollars that were expended on fraudulent claims.

PRIVATE PROVIDERS

Nonprofit community-based providers are essential state partners in providing health and human services. The budget annualizes the 1% cost of living adjustment for private providers that was effective January 1, 2013. Providers will benefit from significant caseload growth budgeted in DDS and DMHAS. In addition, to assist intermediate care facilities (ICFs) in making necessary health and safety improvements, the Governor is proposing to establish a mechanism for providers to request a temporary rate adjustment that will support such improvements. This process is consistent with the one adopted in 2010 to assist community living arrangements.

The capital budget includes $20 million in each year of the biennium for non-profit providers. This multi-use, centralized bond authorization budgeted under the Office of Policy and Management (OPM) would enhance opportunities for non-profit providers, permit greater flexibility and streamline the grant process. The funding could be used for a range of activities including physical plan infrastructure improvements, acquisition of technology including electronic health record systems, energy system upgrades, and assistive technology. It is anticipated that projects will be awarded through a rolling application process and simplified administration, comparable to STEAP for municipalities. Grants to individual provider organizations will be limited to $1 million each year to assure funds are available to a broad array of non-profit community-based provider organizations.

CASELOAD GROWTH

The budget provides significant resources during the biennium to support expanded caseload and annualization of existing caseloads in DDS and DMHAS.

Approximately $60 million through the biennium is provided in DDS. This funding will support:

- Day programs (407 in FY 2014 and an additional 345 in FY 2015) for individuals who are graduating from high school; or aging out of services provided by the Department of Children and Families (DCF), or local education agencies;
- Specialized services for 6 individuals each year whose placements are ordered by the courts; and
- Residential placements (136 in FY 2014 and an additional 138 in FY 2015) for individuals aging out of services provided by DCF, or local education agencies, leaving Southbury Training School or nursing homes for community living options.

Over $26.9 million in FY 2014 and an additional $23.1 million in FY 2015 (excluding funding for activities related to the ACA) in DMHAS to support:

- Anticipated caseload growth in the young adult services program;
- Additional waiver slots for individuals with acquired/traumatic brain injury leaving Connecticut Valley Hospital;
- Slots in DMHAS' home and community-based services waiver for individuals with mental illness transitioning from nursing homes;
- Support services for individuals declared discharge-ready to leave Connecticut Valley Hospital; and
- 5% caseload growth each year for the behavioral health services for single low-income adults up to 55% of the FPL.

STATE EMPLOYEE HEALTH PLAN PHARMACY SAVINGS

While the 2011 pension and health care agreement between the state and its unionized workforce is expected to generate billions of dollars in savings to the state over the next twenty years, additional efficiencies can be achieved. The Governor's budget includes $10 million in pharmacy savings each year related to these endeavors. The Health Care Cost Containment Committee (HCCCC), a joint labor and management committee, is charged with reviewing the pharmacy claims data for state employees and retirees to increase utilization of generic prescriptions. The HCCCC recently issued a Request for Proposals for pharmacy services and expects to have a contract in place by July 1, 2013. A key component is to increase the utilization of lower cost generic drugs to achieve additional savings and allow for the negotiation of deeper pharmacy discounts.

In addition, the state can achieve savings by adjudicating the pharmacy claims of those over sixty-five years of age using Medicare as the primary payer and the state as the secondary payer. There would be no change to the pharmacy benefits or co-pays.

REORGANIZING STATE GOVERNMENT

The Governor continues to streamline state government by consolidating agencies to gain efficiencies. Over the 2011-13 biennium, the number of budgeted state agencies was reduced from 81 to 60. For FY 2014, the Governor is proposing consolidations and reorganizations which would further reduce that number to 53 agencies.

Agency Consolidations

	Budgeted	Reduction from prior year	
Fiscal Year	Agencies	#	%
2011	81		
2013	60	-21	-26%
2014	53	-7	-12%
Cumulative change, FYs 2011 - 2014:		-28	-35%

Savings from Reorganizing State Government

	FY 2014	FY 2015
Consolidation of the Department of Construction Services	$ 1,183,218	$1,242,241
Streamlining the Office of Governmental Accountability	$ 186,794	$ 198,170
Consolidated Citizen Advocacy Agency	$ 788,236	$ 874,820
Statewide Human Resources from DAS to OPM	$ 292,587	$ 301,365
Soldiers, Sailors and Marines' Fund	$ 3,072,475	$3,128,585
Total Savings	**$ 5,523,310**	**$5,745,181**

OFFICE OF EARLY CHILDHOOD

Governor Malloy continues his commitment to the state's youngest residents by proposing the establishment of a new agency that will be committed to breaking down the program silos affecting early childhood care and education. Pursuant to Public Act 11-181, early childhood programs from SDE, DSS, Public Health, DDS and the Board of Regents will be transferred to this **new Office of Early Childhood**. This will assure that there is a more coordinated approach to services provided for this youngest and most vulnerable population.

This coordinated approach will also ensure that there is a single, unified vision for serving young children and their families that will avoid redundancies and provide a more coordinated approach to childhood services. The present multitude of agencies often makes it difficult for families to navigate various separate programs to obtain services for their children.

CONSOLIDATION OF THE DEPARTMENT OF CONSTRUCTION SERVICES

Two years ago the budget established a new Department of Construction Services (DCS). Since that time the Department of Administrative Services (DAS) has been the de facto administrator for the agency while other agencies have continued pre-DCS tasks under various Memoranda of Understanding.

The proposed budget formally consolidates DCS and DAS. It transfers to DAS the school construction grant program as well as building and fire safety inspections and training activities. DAS will be responsible for facilities design and construction of all projects excluding those for the Vocational Technical High Schools, Connecticut State Universities and Community Technical Colleges. Dedicated bond-funded staff are transferred to SDE and the Board of Regents to assume responsibilities for the management of construction projects at the Vocational Technical High Schools, the Connecticut State Universities, and the Community Technical Colleges.

This consolidation is anticipated to save $1.18 million in FY 2014 and $1.24 million in FY 2015 and eliminate thirteen positions.

COMMISSION ON HUMAN RIGHTS AND OPPORTUNITIES (CHRO) - AFFIRMATIVE ACTION

To streamline operations and facilitate efficiency, **nine affirmative action (AA) positions involved in developing AA plans are being transferred from their agencies to CHRO.** These staff will prepare the AA plans for state agencies, including their former agencies, for CHRO to approve. CHRO will continue oversight of plan adjudication while **the AA staff remaining in the agencies will continue to oversee plan compliance** and handle related personnel matters.

STATE DEPARTMENT ON AGING

The budget **implements the State Department on Aging (SDA)** by transferring staff and program resources of the State Unit on Aging and the Office of the Long Term Care Ombudsman from DSS. An administrative partnership between SDA and the Department of Rehabilitation Services will be established to provide general administrative support to the new agency, while administrative support for human services contracting will be provided by the DMHAS.

DEPARTMENT OF HOUSING

The Governor's budget funds the new Department of Housing through the transfer of disparate housing resources in DSS, DECD, DMHAS and OPM. These reallocations are consistent with the recommendations of the Interagency Council on Affordable Housing, tasked in Public Act 12-1, June Special Session, with the development of criteria for programs to be transferred to the new department as well as a vision, mission, and roles for the new Department.

The Governor's budget continues significant capital investments for housing through new commitments of **$20 million in FY 2014 for development of 100 additional units of supportive housing and $200 million over the biennium for the Housing Trust Fund and the Flexible Housing Program**. The Governor's budget also proposes $250,000 in each year to support rapid re-housing and the operating expenses associated with 100 new units of supportive housing through additional rental assistance certificates in the Department of Housing and wrap-around services in the DMHAS effective January 2015.

STREAMLINING THE OFFICE OF GOVERNMENTAL ACCOUNTABILITY

Two years ago, the Office of Governmental Accountability (OGA) was created to save money by having the state's watchdog agencies maintain their independence while sharing centralized administrative and support functions. To further that goal, the proposed budget **transfers all fiscal, information technology, and communications staff to OGA's administrative office.** This will enhance agency operations for all the divisions within OGA.

The budget also proposes realigning all OGA legal staff into a **newly created Office of Hearings** within OGA. The new office would use a small number of subject experts and allow remaining staff to cross-train and support formal hearing and appeal processes for all the divisions of OGA. In addition, the budget proposes that the operations of the **Council on Environmental Quality be merged into OGA**. Streamlining OGA includes the elimination of two vacant positions, saving about $190,000 per year.

CONSOLIDATED CITIZEN ADVOCACY AGENCY

Governor Malloy is recommending the creation of the **Commission on Citizen Advocacy**. This commission is formed through the consolidation of the Asian Pacific American Affairs Commission, African American Affairs Commission, Commission on Children, Latino and Puerto Rican Affairs Commission, and the Permanent Commission on the Status of Women. In addition the mission of the commission will be broadened to represent the Lesbian, Gay, Bisexual and Transgender community. The Governor also proposes to eliminate the Commission on Aging due to the establishment of SDA.

Savings resulting from this reconfiguration total about $800,000 annually.

STATEWIDE HUMAN RESOURCES FROM DAS TO OPM

To better coordinate personnel and financial oversight while saving money, the budget recommends that **statewide human resources functions be transferred from DAS to OPM**. The personnel from DAS will be combined with OPM's Office of Labor Relations to form the Division of Employee Relations. The transfer includes thirty three full-time positions and three part-time staff. The division will house the development and administration of state employee examinations, auditing, training, and personnel policy. The grievance and re-employment unit transferred to OPM will work with the labor relations staff to ensure consistency when applying contract and personnel policy.

Savings resulting from this merger total approximately $300,000 in each year of the biennium.

SOLDIERS, SAILORS AND MARINES' FUND

The Soldiers, Sailors and Marines' Fund, established in 1919, provides veterans and their families with temporary assistance for rental or mortgage interest payments, utility and medical bills, prescription costs, and funeral expenses. Since 1937, the investment and custody of the fund, currently valued at $63.8 million, has been the responsibility of the State of Connecticut. Additionally, the state appropriates an operating budget of approximately $3 million annually for the operating expenses of the agency, including funding for salaries, benefits and award payments to veterans. The Governor proposes the transfer of fund management, investment responsibility and associated operational costs to the American Legion, the legal administrator of the fund and the nation's largest wartime veterans' service organization.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Governor Malloy's first action upon taking office was to issue Executive Order No. 1, requiring adoption of Generally Accepted Accounting Principles (GAAP) in preparing the state's budget. Accordingly, his first biennial budget included a series of exhibits portraying budget results on a GAAP basis, and he offered legislation—eventually adopted as Public Act 11-48—to move the state toward GAAP. That commitment to GAAP continues in the budget for the FY 2013-15 biennium.

The state has historically budgeted on a modified cash basis of accounting, with expenditures counted when the bills are paid, while under GAAP expenses must be promptly assigned to the year in which they are incurred. Over time, this led to a series of decisions to push expenses into the future, and has ultimately resulted in a **cumulative GAAP deficit of approximately $1.2 billion.** This growth in the GAAP deficit over time has resulted in an ever-shrinking pool of cash from which the state can pay its bills. Public Act 11-48 required that the cumulative GAAP deficit be paid off in equal annual installments over a fifteen year period commencing in FY 2014. The Governor's budget addresses GAAP in two very distinct ways: First, a portion of the cumulative deficit is addressed as part of the proposal to restructure debt, discussed further below. Second, the accrued costs incurred by the state during each fiscal year are explicitly recognized in each agency's budget through a distinct appropriation called "Change to Accruals."

Under the current modified cash basis of accounting, expenditures, unlike most revenue collections, have been budgeted in the year in which they were paid rather than the year in which they were incurred; this growing pool of expenditure accruals relative to revenue accruals has resulted in the cumulative GAAP deficit. By recognizing the cost of the change in accrued expenditure liabilities between the end of the prior year and the end of the budget year, and assigning that charge to each agency's budget, the timing of revenues and expenditures are brought back into alignment and transparency is enhanced. The all-funds budget includes $55.9 million in FY 2014 and $76.7 million in FY 2015 for this purpose.

GAAP AND DEBT RESTRUCTURING

This budget brings a new era in budgetary transparency and accountability to the state's budget which began with the issuance of Executive Order No. 1. Yet this change comes amidst an economy that is still struggling to gain traction after the worst recession since the Great Depression. Moreover, this change is not without its costs, including the $55.9 million annual incremental cost of converting to GAAP as well as an estimated $79.8 million to pay off, over 15 years, the cumulative GAAP deficit which totals approximately $1.2 billion.

The Governor's budget takes a two-pronged approach to address GAAP costs and liabilities. First, the Governor's budget proposal **fully appropriates the $55.9 million GAAP incremental cost** in the various agencies of the state.

Cumulative GAAP Deficit
(in millions)

		Amount
Deficit, Estimate as of June 30, 2012	$	1,142.0
Additional Estimated Amount for FY 2013		55.0
Deficit, Projected for June 30, 2013	$	1,197.0
# of Years to Amortize		15
Annual Amortization Amount	$	79.8
Governor's Budget Proposal		
Deficit, Projected for June 30, 2013	$	1,197.0
GAAP Bonds		(750.0)
Net Remaining Deficit to be Amortized	$	447.0
# of Years to Amortize		15
Annual Amortization Amount	$	29.8

Second, the Governor is proposing a novel financing mechanism to **eradicate up to $750 million of our cumulative GAAP deficit** at a time when interest rates are at historic lows. This low cost financing will have the additional benefit of improving the state's cash position, which has been weakened by the deep recession and prolonged recovery, not to mention the numerous one-shot remedies employed prior to 2011. This financing would reduce, if not eliminate, the need for any temporary cash flow borrowing by the Treasurer. The structure of this financing will permit the state to make the first payment on the bonds beginning in FY 2016, but firmly commits the state to addressing this large deficit. Finally, the remainder of the cumulative GAAP deficit would be covered by an annual appropriation totaling $29.8 million over a 15 year period. In order to further enhance the affordability of converting to GAAP, the Governor is also proposing to restructure the state's outstanding Economic Recovery Notes (ERNs) that were issued to address the FY 2009 budget deficit. By taking advantage of today's low interest rates, **the proposal would continue to make ERN payments in FY 2014 and FY 2015**, but at a reduced level, and would extend repayment of the remaining balance by two additional fiscal years. This will **reduce the state's ERN debt service costs in FY 2014 and FY 2015 by $150 million** annually.

2009 Economic Recovery Notes
Debt Service Payments
(In Millions)

Fiscal	Original Schedule			Estimated Revised Schedule			
Year	Principal	Interest	Total	Principal	Interest	Total	Change
2010 *	$ -	$ 3.2	$ 3.2	$ -	$ 3.2	$ 3.2	$ -
2011 *	-	40.6	40.6	-	40.6	40.6	-
2012	167.9	40.6	208.4	167.9	40.6	208.4	-
2013	174.6	33.9	208.4	174.6	33.9	208.4	-
2014	182.7	25.7	208.4	36.2	22.3	58.4	(150.0)
2015	191.3	17.2	208.4	32.4	26.0	58.5	(150.0)
2016	199.4	9.0	208.4	144.4	24.4	168.8	(39.6)
2017	-	-	-	167.7	17.2	184.9	184.9
2018	-	-	-	176.1	8.8	184.9	184.9
Total	**$ 915.8**	**$ 170.1**	**$1,085.9**	*** $ 899.2**	**$ 216.8**	**$ 1,116.1**	**$ 30.2**

* FY 2010 and FY 2011 interest payments and $31 million of principal were paid by the premium generated by the bond sale.

* Assumes refunding will generate premium to reduce par value (by $16.7 million) and have an estimated average TIC of 2.55%.

EXPENDITURE CAP – HONORING THE COMMITMENT

Having been ratified by the electorate by a four-to-one margin in 1992, the expenditure cap has been in effect for a total of twenty-one budgets thus far. By tying the growth in the state's budget to either personal income growth or the rate of inflation, the cap ensures that state government lives within the means of the economy's ability to pay for state services. Over those twenty-one years, the allowable capped growth rate has averaged 4.6%. **For FY 2014 the allowable capped growth rate will be only 1.79%, the lowest on record** and well less than half the average growth since the cap came into existence. Meanwhile, the state is contractually committed to addressing certain long-term liabilities such as pension costs. Compounding the issue, the state has the opportunity to garner 100% federal funding by implementing certain aspects of the ACA. With that in mind, the Governor is proposing **two definitional changes to the state's expenditure cap.**

- First, it is proposed that **payments related to the unfunded past service liability of our pension obligations be treated similarly to the way debt service payments are handled** within the expenditure cap. This will allow the state to make its contractually required payments to both the State Employees Retirement Fund and the Teachers' Retirement Fund without consuming all allowable cap growth.

- Second, it proposes that for any federal program in which the state participates and receives 100% federal funding, the initial growth in those expenditures should be exempt from the cap in their first year. The citizens of Connecticut are among the largest net contributors to the finances of the United States, and for our state to forgo a fully funded federal program would be wrong. **The cap should not force the state to choose between implementing a program that is 100% funded by the federal government and implementing other priorities**, such as education, transportation, or the environment. With these common-sense definitional changes, the Governor's budget proposal is $1.4 million under the cap in FY 2014 and $91.0 million under the cap in FY 2015.

History of Expenditure Cap Growth Rates
FY 1993- FY 2015

Average	4.60%	
Highest Year	6.38%	(FY 1993)
Lowest Year	1.79%	(FY 2014)

BUDGET REFORMS - CLARIFYING THE GOVERNOR'S BUDGET AUTHORITY

A number of changes are proposed that will enable the Governor to exercise his responsibility to offer and execute a responsible fiscal program for the state. First, the Governor proposes **restoring the Executive Branch's ability to recommend a budget for all of state government.** Statutory changes are proposed to allow the Governor to recommend changes to requested funding for the Legislative branch, Judicial branch, and watchdog agencies (Elections, Ethics and Freedom of Information, which are within the OGA). The requests from these agencies will—as always—still be presented in the Governor's recommended budget, but the Governor will be able to offer recommended changes for consideration by the legislature during the appropriations process. As a separate and co-equal branch of government, this reform **will allow the Executive branch to exercise its duty under the constitution to offer a balanced budget** that reflects the Governor's recommended policies and priorities for all of state government. The Legislative branch would continue to exercise its constitutional role in reviewing and adopting a budget for all of state government.

The Governor also proposes a change to his **rescission authority** in order to deal with exigencies that arise during the year. The current limits of five percent of any appropriation and three percent of any fund are inadequate to deal with the scope of the financial crisis facing the state. The Governor proposes increasing those thresholds to **ten percent of any appropriation and five percent of any fund.** Further, the Governor proposes removing the restriction on rescissions of aid to municipalities and allowing rescissions of those programs of up to five percent. Broadening the Governor's ability to deal with fiscal exigencies and removing restrictions will give the Governor the tools necessary to ensure that the budget remains in balance.

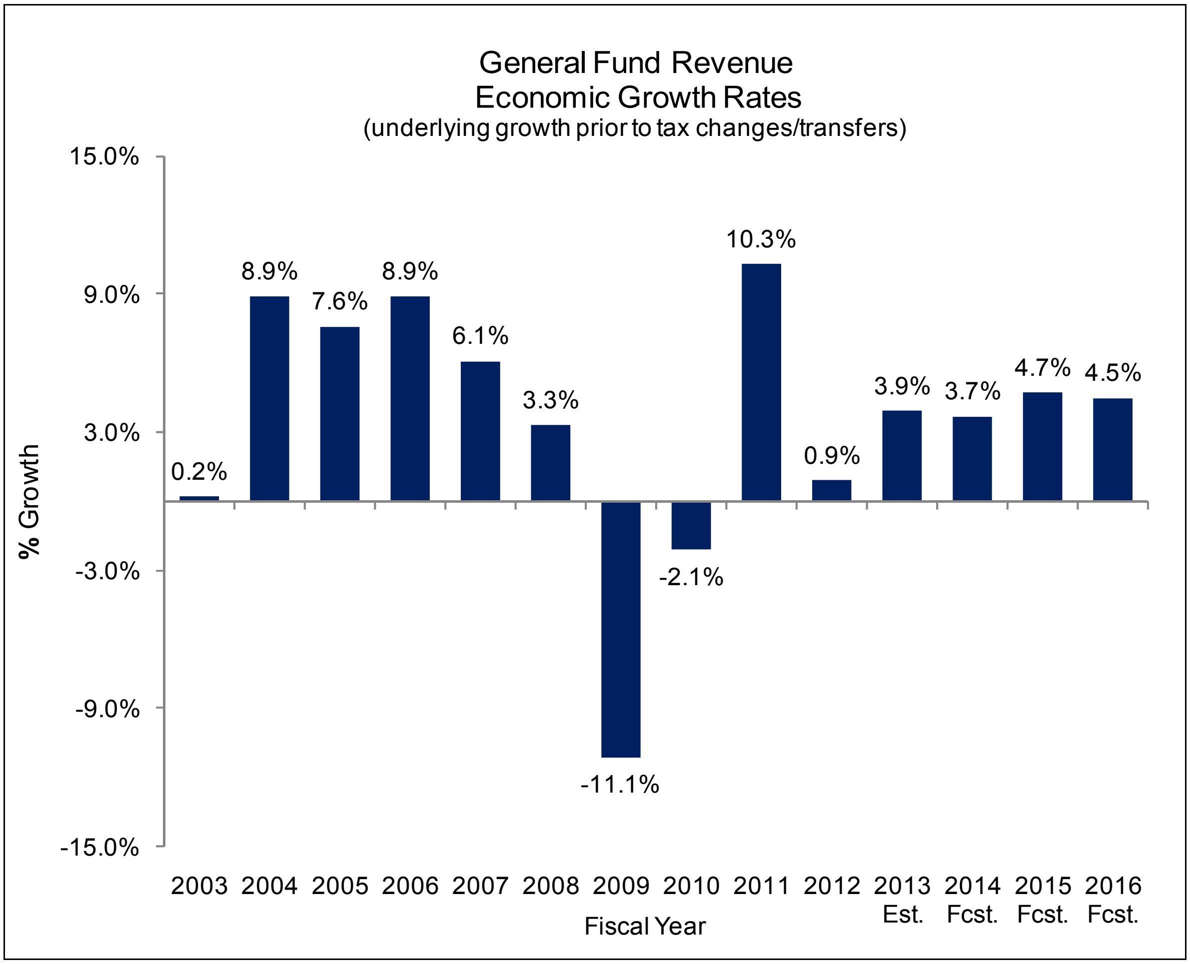
Lastly, the Governor proposes a change to the authority to transfer sums between appropriations during the fiscal year. Currently, Finance Advisory Committee (FAC) approval is required for any transfers between accounts within an agency's budget that exceed $50,000 or ten percent of any specific appropriation, whichever is less. The Governor proposes increasing these thresholds, which have been in place since 1982, to $250,000 or fifteen percent of any specific appropriation, whichever is less. As with the current thresholds, notification of any non-FAC transfer would still apply. This change will enable the Governor to deal with any budgetary exigencies while still maintaining transparency and accountability. Further, the Governor believes strongly in holding his commissioners and agency heads responsible and accountable for results, and that means managing to the extent possible within the resources budgeted for the agency. As a result, this change will also provide agencies with a limited amount of budget flexibility to implement proposed reorganizations, programmatic changes or reductions.

REVENUE

For the FY 2011-13 biennium Governor Malloy proposed, and the General Assembly passed, major changes to both the state's revenue and spending policies in order to restore structural balance to the state's budget. The Governor's changes closed a $3.2 billion current services gap in FY 2012, one of the largest shortfalls in the country. The Governor's revenue objectives were three-fold: to maintain the state's economic competitiveness, maximize federal reimbursement wherever possible and minimize tax increases on businesses, in order to not inhibit job growth.

Importantly, **this budget proposal contains no new taxes – and it benefits citizens by reducing energy costs and providing tax relief.**

As the state moves into the FY 2013-15 biennium, Governor Malloy is proposing a long-term sustainable budget despite the fact that overall economic growth remains at an unacceptably low level. As a result of the less than robust economic recovery, growth in state revenue remains low, and thus the continuation of current revenue sources are needed to maintain budget balance. Therefore the Governor is seeking to extend three tax provisions that are currently scheduled to expire. These tax provisions include the 20% corporation tax surcharge, the tax on electric generators, and a reduction in the amount of tax credits that insurance companies can access.



SAVINGS FOR ENERGY CONSUMERS

In an effort to further reduce the state's high energy costs, the Governor is proposing two new programs that are designed to reduce long-term costs for hundreds of thousands of ratepayers.

- Governor Malloy is proposing to authorize a first-in-the-nation program to convert approximately 800,000 electric ratepayers to an electric rate below their current standard offer. **This conversion could save these ratepayers approximately $65 annually;** it also generates much needed resources to the General Fund by auctioning the right to provide the lower standard offer pricing; and

- In recognition of the current favorable pricing for natural gas and its ample supply, the Governor is proposing **a $500 incentive payment to customers who currently are near, but unconnected to main lines to convert to natural gas supplies.** Converting to natural gas not only saves customers real dollars on their energy costs, but also has the positive overall environmental impact of being less polluting and promotes American energy independence.

TAX RELIEF

Connecticut's residents have been impacted by the national economic slump. Governor Malloy is proposing significant tax relief for the working people of Connecticut.

- Governor Malloy proposes **restoring the clothing and footwear exemption from the sales tax**. Beginning in FY 2015, articles of clothing and footwear less than $25 in value will be exempt. The threshold will be increased to $50 beginning in FY 2016; and

- In addition, the Governor is proposing **an exemption of up to $20,000 of assessed value of motor vehicles from the municipal property tax**. See the description under "Middle Class Tax Relief" for more detail on this proposal.

TAX AMNESTY PROGRAM

Governor Malloy is recommending the establishment of a **tax amnesty program** in FY 2014. The state anticipates receiving **$25 million in additional revenue** from this initiative. In order to assure the success of this program, the Governor's budget provides $1.83 million in funding for the Department of Revenue Services for implementation and administration which will support advertising, any necessary consultant services, temporary tax workers and information system modifications.

Governor's Revenue Proposals

February 6, 2013

General Fund

(In Millions)

Proposal	Fiscal 2014	Fiscal 2015
1. Tax Cut - Clothing Exemption	-	(55.5)
2. Extended Taxes	139.4	169.0
3. Increase Energy Competitiveness	80.0	(5.0)
4. Town Aid - Reconfigure Funding	222.0	227.5
5. Expenditure Cuts - Federal Revenue Impact	(165.9)	(280.8)
6. Transfers	122.2	17.5
7. Other Changes	64.3	50.3
Total-General Fund	**$ 462.0**	**$ 123.0**

SUMMARY

Connecticut can only grow and thrive if it makes government more affordable and fiscally responsible and if it focuses resources in areas that will build a strong foundation for the future.

Governor Malloy is proposing an all-funds budget of $21,478.6 million for FY 2014, a 5.1% increase over estimated FY 2013 expenditures and 4.6% above the adopted FY 2013 budget. The recommended budget is $1.4 million below the spending cap for FY 2014 and $91.0 million below the cap for FY 2015.

Appropriated Funds Of The State
(In Millions)

	Recommended FY 2014	Recommended FY 2015
General Fund	$ 20,110.6	$ 20,888.5
Special Transportation Fund	1,256.8	1,324.0
Banking Fund	25.6	22.3
Insurance Fund	29.8	31.0
Consumer Counsel and Public Utility Fund	24.4	25.4
Workers Compensation Fund	21.7	22.2
Mashantucket Pequot & Mohegan Fund	5.4	5.4
Soldiers, Sailors & Marines' Fund	-	-
Regional Market Operating Fund	0.9	0.9
Criminal Injuries Compensation Fund	3.4	2.8
Grand Total	$ 21,478.6	$ 22,322.4

Totals may not add due to rounding.

GENERAL FUND

The recommended revised General Fund budget for FY 2014 represents a $1,066.7 million increase over estimated FY 2013 expenditures. On a current law basis, expenditures were projected to increase by $1,891.1 million over estimated FY 2013 levels. As a result, Governor Malloy is proposing initiatives which result in a net reduction in spending totaling $826.2 million, including a number of changes within the Medicaid program, debt restructuring, and roll-out of many of the deficit mitigation actions taken during the current fiscal year into the upcoming biennium. The Governor is continuing to streamline state government by consolidating agencies to gain efficiency. Over the biennium, the number of budgeted state agencies was reduced from 81 to 60. This year, the Governor is proposing consolidations which will further reduce that number to 53 agencies.

The January consensus revenue forecast by OPM and the legislature's Office of Fiscal Analysis, which forms the current services baseline for revenues in this budget, is $19,655.3 million in FY 2014 and $20,773.6 million in FY 2015. Revenue changes proposed in this budget total $462.0 million, and are anticipated to result in FY 2014 revenue totaling $20,117.3 million.

	Fiscal Year 2013		Fiscal Year 2014				Fiscal Year 2015		
General Fund	Adopted Budget	Estimated Year End	Updates	Current Services	Policy Changes	Proposed Budget	Current Services	Policy Changes	Proposed Budget
Revenues	$ 19,143.2	$ 18,979.5	$ 675.8	$19,655.3	$ 462.0	$ 20,117.3	$ 20,773.6	$ 123.0	$ 20,896.6
Expenditures	19,140.1	19,043.9	1,892.9	20,936.8	(826.2)	20,110.6	21,954.4	(1,065.9)	20,888.5
Surplus/(Deficit)	$ 3.1	$ (64.4)	$ (1,217.1)	$ (1,281.5)	$ 1,288.2	$ 6.7	$ (1,180.8)	$ 1,188.9	$ 8.1

Current Services versus Proposed Budget (in millions)

SPECIAL TRANSPORTATION FUND

In the Special Transportation Fund, the proposed FY 2014 budget is $1,256.8 million, 3.4% above the estimated expenditure level for FY 2013, and the proposed budget for FY 2015 is $1,324.0 million, 5.3% over FY 2014. This reflects the Governor's continued commitment to transportation as a significant driver of and contributor to a strong economy.

EXPENDITURE CAP

Due to the impact of the economy on personal income, growth in the expenditure cap will be at a historic low for the upcoming biennium. On a current services basis, the FY 2013-15 biennial budget was above the cap by $1.3 billion in FY 2014 and $1.8 billion in FY 2015. As a result, Governor Malloy had to cut nearly $1 billion of expenses just to remain below the spending cap. The Governor's proposed FY 2013-15 biennial budget is $1.4 million below the cap in FY 2014 and $91.0 million below in FY 2015.

Expenditure Cap

Amount Above/(Under) the Cap (in millions)

	FY 2014	**FY 2015**
Current Services	$1,273.3	$1,780.4
Recommended	$ (1.4)	$ (91.0)