

CONNECTICUT

RECOMMENDED BUDGET FOR THE FY 2018 - FY 2019 BIENNIUM

DANNEL P. MALLOY, GOVERNOR

February 8, 2017

Introduction



The Governor's budget proposal for the biennium is balanced

- **Primarily through structural spending changes**
- **Without increasing major tax rates**

Budget Overview



Governor Malloy's Recommended Budget

Appropriated Funds Of The State

(in millions)

	Recommended <u>FY 2018</u>	Recommended <u>FY 2019</u>
General Fund	\$ 18,000.8	\$ 18,320.9
Special Transportation Fund	1,525.1	1,642.7
Municipal Revenue Sharing Fund	340.1	349.0
Banking Fund	30.0	30.0
Insurance Fund	89.8	90.9
Consumer Counsel and Public Utility Control Fund	25.6	25.6
Workers' Compensation Fund	23.8	24.1
Mashantucket Pequot & Mohegan Fund	58.1	58.1
Regional Market Operation Fund	1.1	1.1
Criminal Injuries Compensation Fund	2.9	2.9
Grand Total	<u>\$ 20,097.3</u>	<u>\$ 20,545.3</u>

Totals may not add due to rounding.

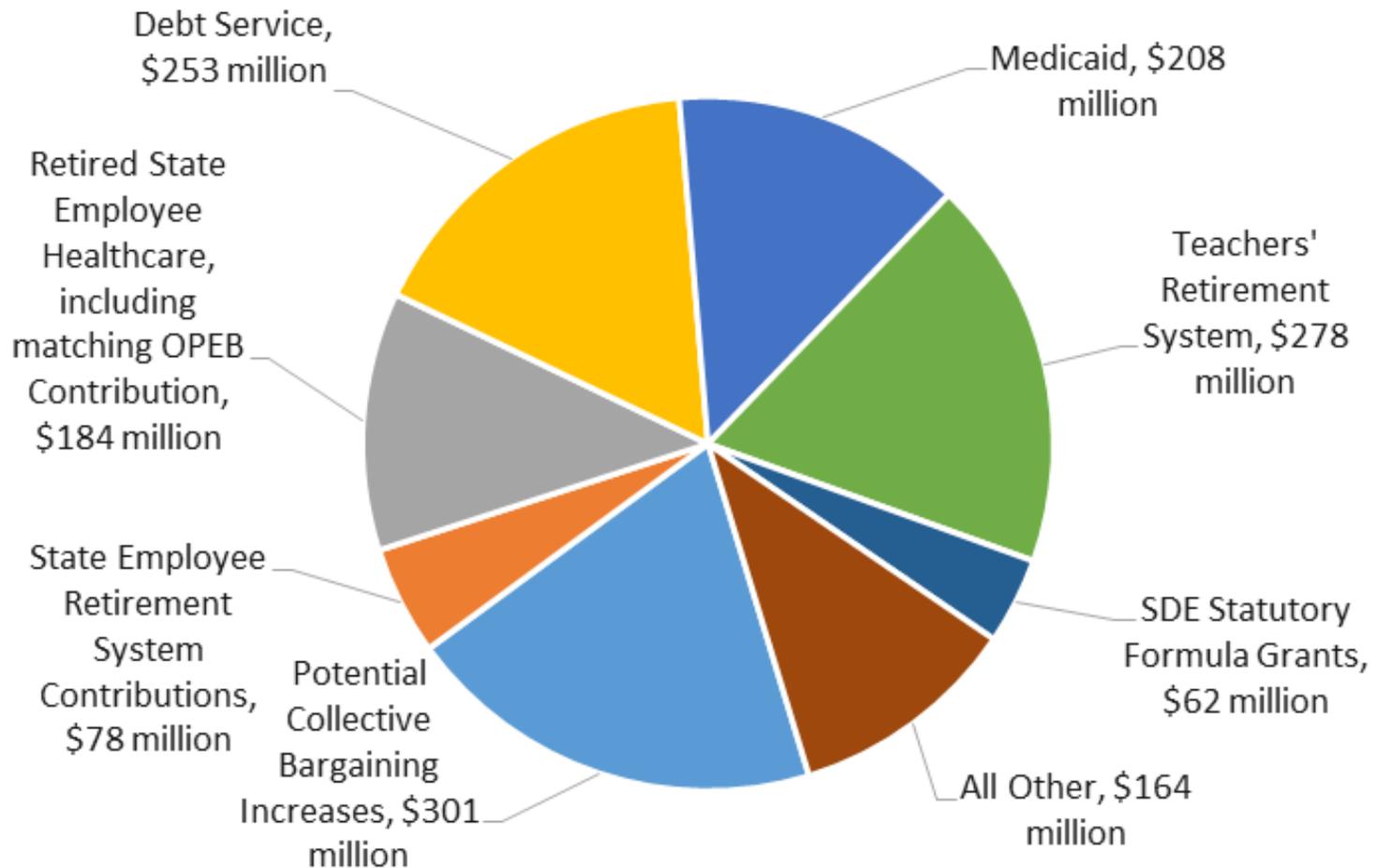
Baseline vs. Proposed Budget

Baseline Estimate versus Proposed Budget (in millions)

	Fiscal Year 2018			Fiscal Year 2019		
	<u>Baseline Estimate</u>	<u>Policy Changes</u>	<u>Proposed Budget</u>	<u>Baseline Estimate</u>	<u>Policy Changes</u>	<u>Proposed Budget</u>
General Fund						
Revenues	\$ 17,682.1	\$ 320.8	\$ 18,002.9	\$ 18,038.0	\$ 287.4	\$ 18,325.4
Expenditures	19,364.6	(1,363.8)	18,000.8	19,954.7	(1,633.8)	18,320.9
Surplus/(Deficit)	\$ (1,682.5)	\$ 1,684.6	\$ 2.1	\$ (1,916.7)	\$ 1,921.2	\$ 4.5

- Baseline represents prior year plus growth in fixed costs and entitlements
- The baseline budget for FY 2018, including updated consensus revenue estimates, had a gap of \$1.683 billion
- The Governor's recommended budget closes that gap with \$1.364 billion in expenditure reductions and \$321 million in revenue adjustments
- Those changes roll forward with some adjustments to produce balance in FY 2019 as well
- This budget builds upon \$850 million in spending reductions implemented in FY 2017

General Fund Baseline Increases FY 2018 vs. FY 2017



Total Baseline Expenditure Growth vs. FY 2017 Appropriation = \$1,501 million

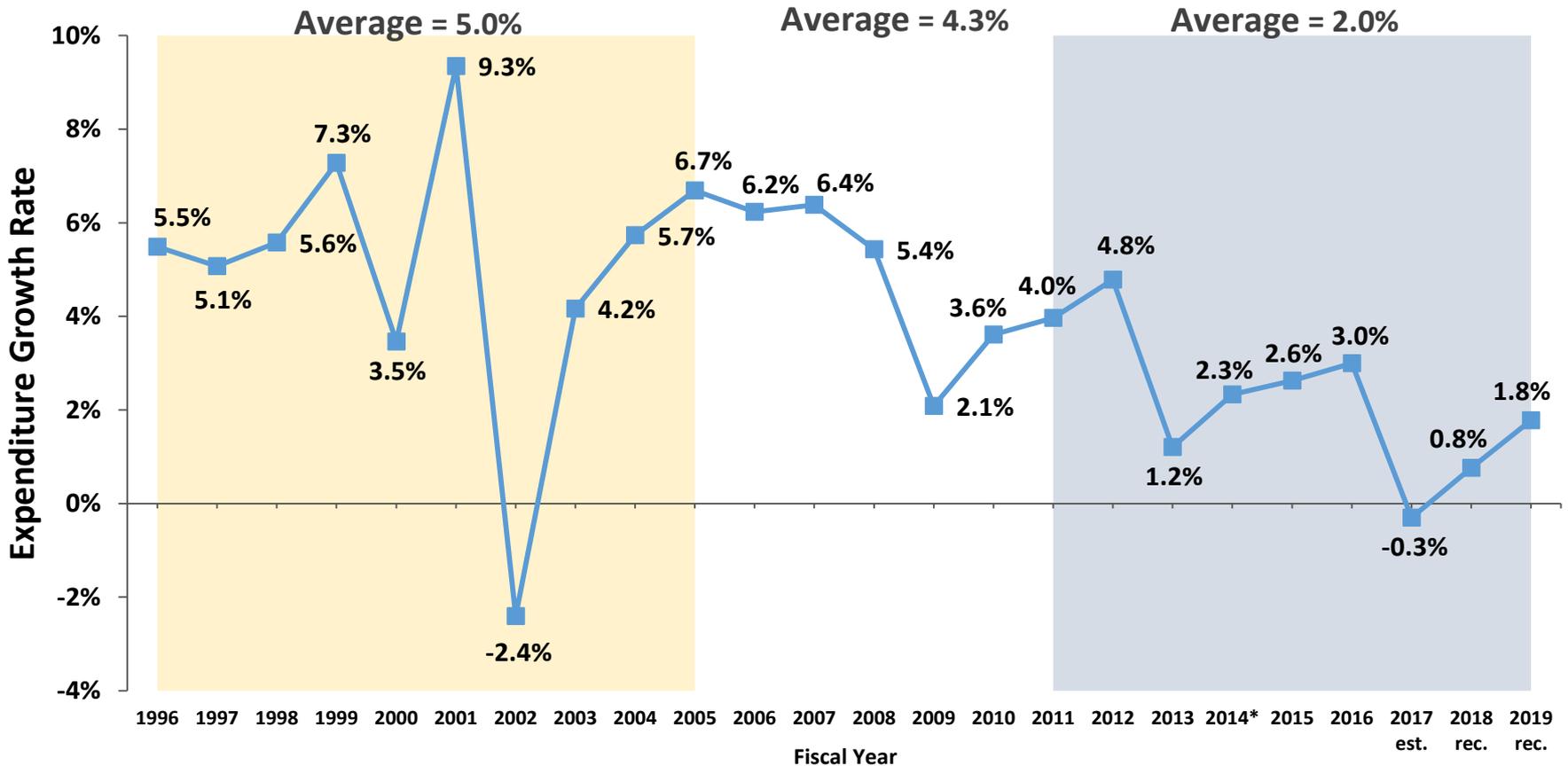
Addressing the FY 2018 General Fund Baseline Gap (in millions)

Spending reductions compared to baseline

▪ Collective bargaining savings	\$ (700.0)
▪ Municipal contribution to TRS	(407.6)
▪ All other spending changes (net)	<u>(256.2)</u>
▪ Total	\$ (1,363.8)

Expenditure Growth

General Fund



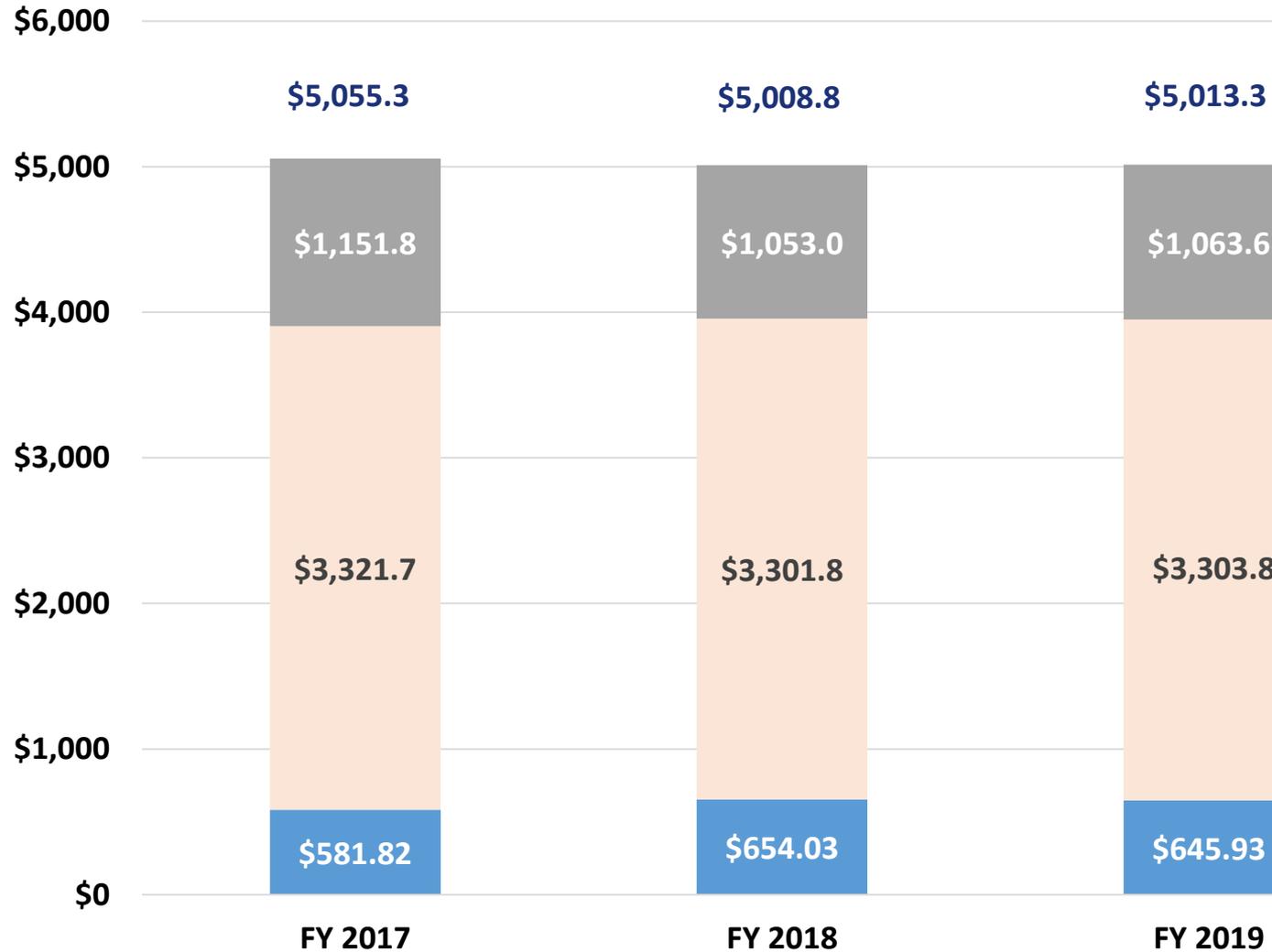
Average represents the compound annual growth rate of each shaded section
 *2013 to 2014 growth has been adjusted to reflect the net budgeting of Medicaid.

Municipal Aid



State Aid to or on Behalf of Local Governments

(in millions)



■ Teachers' Retirement: Debt Service, Retiree Health and Retirement Contributions ■ Education ■ General Government

Municipal Revenue Sharing

Municipal Revenue Sharing

<u>Component</u>	Recommended		
	FY 2017	FY 2018	FY 2019
Support for ECS	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
Municipal Revenue Sharing Grant	127,851,808	123,767,688	123,767,688
Councils of Governments	3,000,000	7,000,000	7,000,000
Additional Payment in Lieu of Taxes	44,101,081	46,101,081	46,101,081
Motor Vehicle Property Tax	-	77,969,732	77,969,732
Subtotal - Designated Uses	\$ 184,952,889	\$ 264,838,501	\$ 264,838,501
Undesignated Municipal Revenue Sharing	47,111	75,261,499	84,161,499
Total	\$ 185,000,000	\$ 340,100,000	\$ 349,000,000

Teachers' Retirement

- The Governor proposes that municipalities begin to contribute one-third of the employer share of teachers' pension costs
- Proposal complies with bond indenture
- No changes to teachers' retirement benefits or contributions
- Municipal contributions will total \$407.6 million in FY 2018 and \$420.9 million in FY 2019

Support for Retired Teachers

(in millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Retired Teachers' Health Care	\$ 20.0	\$ 30.0	\$ 33.7
Teachers' Retirement - State Support	1,012.2	882.8	911.5
Debt Service - TRS Pension Obligation Bonds	<u>119.6</u>	<u>140.2</u>	<u>118.4</u>
Subtotal - State Support for Retired Teachers	\$ 1,151.8	\$ 1,053.0	\$ 1,063.6
Teachers' Retirement - Municipal Support	-	407.6	420.9
Total - Support for Retired Teachers	\$ 1,151.8	\$ 1,460.6	\$ 1,484.5

Retired Teachers' Healthcare

- The Governor's budget proposes raising the state share in support of these costs from about 18% to 25%
- This represents a \$10 million increase in funding for FY 2018 over the FY 2017 level and an additional \$3.7 million increase in FY 2019

Education Cost Sharing (ECS)

- The Governor's ECS proposal is responsive to the CCJEF decision, and makes our school funding system more fair and equitable with the following formula

$$\begin{aligned} & \textbf{Foundation} \\ & \$8,990 \\ & \times \\ & \textbf{Needs Students} \\ & \# \text{ Students} + (\# \text{ HUSKY A Students} \times 20\%) \\ & \times \\ & \textbf{Base Aid Ratio} \\ & 1 - [(\text{ENGL Adj. Factor} \times 90\%) + (\text{MHI Adj. Factor} \times 10\%)] \\ & + \\ & \textbf{Regional District Bonus} \\ & (\# \text{ Regional District Grades} / \# \text{ Students Sent to RSD}) \times \$100 \\ & = \\ & \textbf{Town's ECS} \end{aligned}$$

- These changes result in a fully functioning formula that produces \$1.59 billion in grants. A much larger share of resources is directed to communities with less property tax base and more student poverty than the current distribution, and funding for now-empty seats is eliminated

Special Education

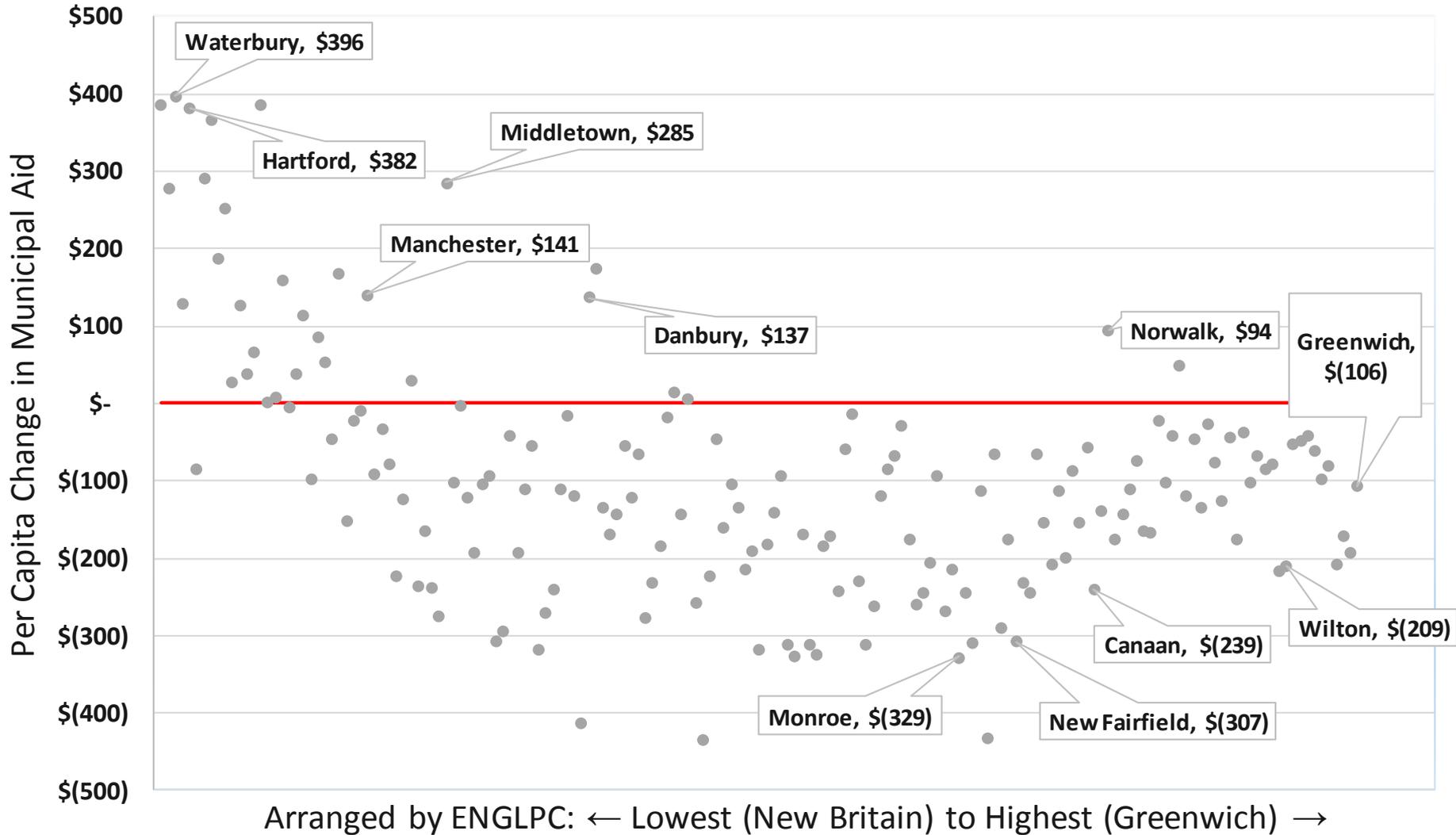
- The following funding is provided for a new Special Education grant (in millions)
 - Reallocate special education funding from ECS \$448.0
 - Reallocate Excess Cost – Student Based funding 140.0
 - New resources 10.0
 - Total funding – new Special Education grant \$598.0
- The new Special Education grant will reimburse town special education costs on a sliding scale from 0% to 54% based on the ranking of each town’s adjusted equalized net grand list per capita
- Towns will be required to bill for special education services provided to Medicaid-eligible children
 - Towns receive half of additional federal revenue from billing for these services

Maximizing Federal Revenue and Local Option Property Taxation of Hospitals

- The tax exemption for hospitals' real property is eliminated
- A local real property tax option is created which could add an estimated \$212.2 million to town local revenue
- New supplemental payments of \$250.3 million are provided to hospitals from the state to help address the potential tax impact
- These supplemental payments will generate \$162.7 million in federal Medicaid reimbursement

Changes in Municipal Aid Are Progressive

Per Capita Change in Municipal Aid from FY 2017 to FY 2018 Arranged by Equalized Net Grand List Per Capita (ENGLPC)



Changes in Municipal Aid

Changes in municipal aid levels reflect communities' widely varying fiscal needs and ability to pay

- The 20 towns with the lowest reserve levels had an average of less than 3% of annual spending in reserve, compared to 25% for the towns with the best reserves
- Municipal debt per capita, including bonded debt and unfunded pension liabilities, averages \$2,326 statewide. But the 20 towns with the lowest-debt have only \$229 per capita and the most indebted 20 average over \$5,500 per capita
- Local spending growth shows the same distribution, averaging about 3% per year overall, but with fast-growing communities averaging over 5% per year, and slow-growing communities averaging less than 1% per year, compared to state average growth of 2%

Municipal Accountability

- Governor Malloy is proposing a plan for greater accountability by municipalities receiving higher levels of state aid, coupled with relief from municipal mandates for all communities
- Establishes a nine member Municipal Accountability Review Board (MARB)
- Provides for a four-tiered system of review
 - Tiers determined by factors including bond ratings, fund balance as a percentage of revenues, state aid as a percent of the General Fund budget, increased levels of state aid and equalized mill rates
- Eliminates the existing municipal spending cap
- 3% grand levy limit for tier II, III and IV communities
- Governor's proposed budget includes funding of \$200,000 for necessary staff and expenses to support the work of the Municipal Finance Advisory Commission (MFAC) and the MARB

Other Program Changes



Health and Human Services

- DPH - \$630,000 in FY 2018 and \$1.9 million in FY 2019 to address insufficient federal funding for the Drinking Water program, funded by new licensing fees starting in FY 2019
- DPH - \$9.5 million to provide universal access for both boys and girls to human papillomavirus (HPV) vaccine according to CDC recommendations
- DDS - \$3.8 million in annualized funding for the ID Partnership
 - \$1.0 million to help address the waiting list
 - \$1.0 million to explore initiatives to develop a broader continuum of community-based residential services
 - \$1.8 million to increase rates for lower-paid providers undergoing conversion of DDS grant-funded services to Medicaid fee-for-service payments
- DMHAS - Reflects conversion of certain state-operated programming offered through Local Mental Health Authorities (LMHAs) to private providers, saving \$2.5 million in FY 2018 and \$5.0 million in FY 2019
- DMHAS - Centralizes detox services at Connecticut Valley Hospital in Middletown by relocating a 21-bed program from the Blue Hills campus in Hartford, saving \$900,000 in FY 2018 and \$1.2 million in FY 2019

Department of Social Services

- Changes to Medicare Savings Program (MSP)
 - Net savings to the state of \$66.4 million in FY 2018 and \$81.6 million in FY 2019
 - Revert to FY 2010 eligibility levels – 100-135% FPL, depending on category, plus income disregard – but no asset test
 - Brings Connecticut more in line with other states

- Additional net reductions totaling \$14.5 million in FY 2018 and \$33.2 million in FY 2019 include
 - Aligning income eligibility for HUSKY A adults with other states
 - Eliminating funding for the small hospital pool
 - Capping adult dental benefits
 - Limiting intake to the state-funded home care program
 - Consolidating several non-entitlement accounts and programs and reducing their overall funding

Health Care Reform

- Office of Health Strategy (FY 2019)
 - Coordinate efforts to react to potential health care reform changes at the federal level
 - Components
 - ✓ Office of Health Care Access from DPH
 - ✓ State Innovation Model program office from the Office of Healthcare Advocate (OHA)
 - ✓ Health information technology officer from OHA
 - Under DPH for administrative purposes only, with no new costs
- Two new positions for the Office of Health Care Access (OHCA) to implement the findings of the Certificate of Need (CON) task force. Will support expansion of monitoring and oversight responsibilities over health care mergers and acquisitions
- License urgent care centers to support DSS “Safe to Wait” initiative to reduce non-emergent Emergency Department visits by educating Medicaid beneficiaries about alternatives such as urgent care centers

Juan F.

- Governor is committed to meeting the state's obligations to children and families and moving to end over twenty-five years of federal court oversight of DCF
- Budget includes additional \$14.5 million to address identified gaps under *Juan F.* consent decree, more than required under the rejected exit plan's so-called "lock-box" provision
- The plaintiffs in the *Juan F.* matter have already provided notice of non-compliance to DCF, which may lead to Federal court intervention in order to bring the state into compliance with the existing 2006 exit plan. Such intervention may require expenditures above the level recommended by the Governor

Housing

- Building on the Governor's Zero:2016 commitments to end veteran and chronic homelessness
 - Preserves funding to ensure every chronically homeless person is matched to permanent housing
 - Maintains funding for rental assistance, wrap-around services and emergency shelters
 - Provides funding in FY 2019 for housing services and wrap-around services for 70 individuals with Intellectual Disabilities or Autism Spectrum Disorder
- Provides \$2.7 million to subsidize interest rates on loans for residents impacted by crumbling foundations

Crime is Down

- As of January 1, 2017, the total inmate population was 14,532, down nearly 1,000 from one year ago
- The Governor is proposing a prison closure in FY 2018 along with 4 units throughout other correctional facilities
- Closures possible due to Governor's proposed criminal justice reform
- \$11.9 million in staff and operating costs will be saved in FY 2018

Department of Emergency Services and Public Protection (DESPP) – Fee Changes

- State portion of the pistol permit fee will increase from \$70 to \$300, initial 5 year pistol permit fee will increase from \$140 to \$370
 - Local authorities will still retain \$70 of the initial permit
 - 5-year renewal will also increase from \$70 to \$300
 - Estimated revenue from this change is \$9 million annually
- Background check fees will increase from \$50 to \$75
 - Estimated revenue from this change is \$2.6 million annually
- Resident state trooper charge to towns increasing to 100% of the total cost for all troopers
 - Current charge is 85% for first two troopers and 100% for each trooper thereafter
 - Estimated revenue from this change is \$1.5 million annually
- \$750 surcharge per constable supervised by a resident state trooper
 - Estimated revenue from this change is \$200,000 annually

Arts and Tourism Funding

- Increases funding for Arts Commission by \$600,525 in FY 2018
- Increases funding for Statewide Marketing by \$1.8 million each year
- Funding for line item recipients in arts and tourism is consolidated into two accounts and maintained at current levels in FY 2018

Department of Economic and Community Development Arts and Tourism Funding

	Available	Recommended	
	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Arts - Line Item Grants	3,085,264	3,085,264	2,849,378
Arts Commission	1,497,298	2,097,823	2,097,823
Total Arts Funding	4,582,562	5,183,087	4,947,201
Change from prior year		600,525	(235,886)
	Available	Recommended	
	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Tourism - Line Item Grants	1,525,100	1,525,100	1,343,976
Change from prior year		-	(181,124)

Education Changes

- Connecticut Technical High School System (CTHSS)
 - Strengthen system management and provide better service and coordination by realigning business functions in the CTHSS central office and four regions. Saves \$2.7 million and will not impact classroom instruction or require closure of any schools
- Office of Higher Education (OHE)
 - Realign OHE as a separate division under the State Dept. of Education, consistent with Every Student Succeeds Act requirement to coordinate K-12 through higher education systems
- Mandate Relief
 - Foster flexibility for school districts on curricular instruction, professional development, teaching in local high schools, and hiring and retention of superintendents
- Regional Incentives
 - Increase ECS for regional participants, add eligibility to general improvements grants
- School Construction
 - Governor submits priority list with budget, criteria include a review of district enrollment and capacity
 - Cap priority list at \$450 million for grants as submitted and \$500 million when legislatively approved

Transportation

Continued transportation improvement by including funding in DOT for

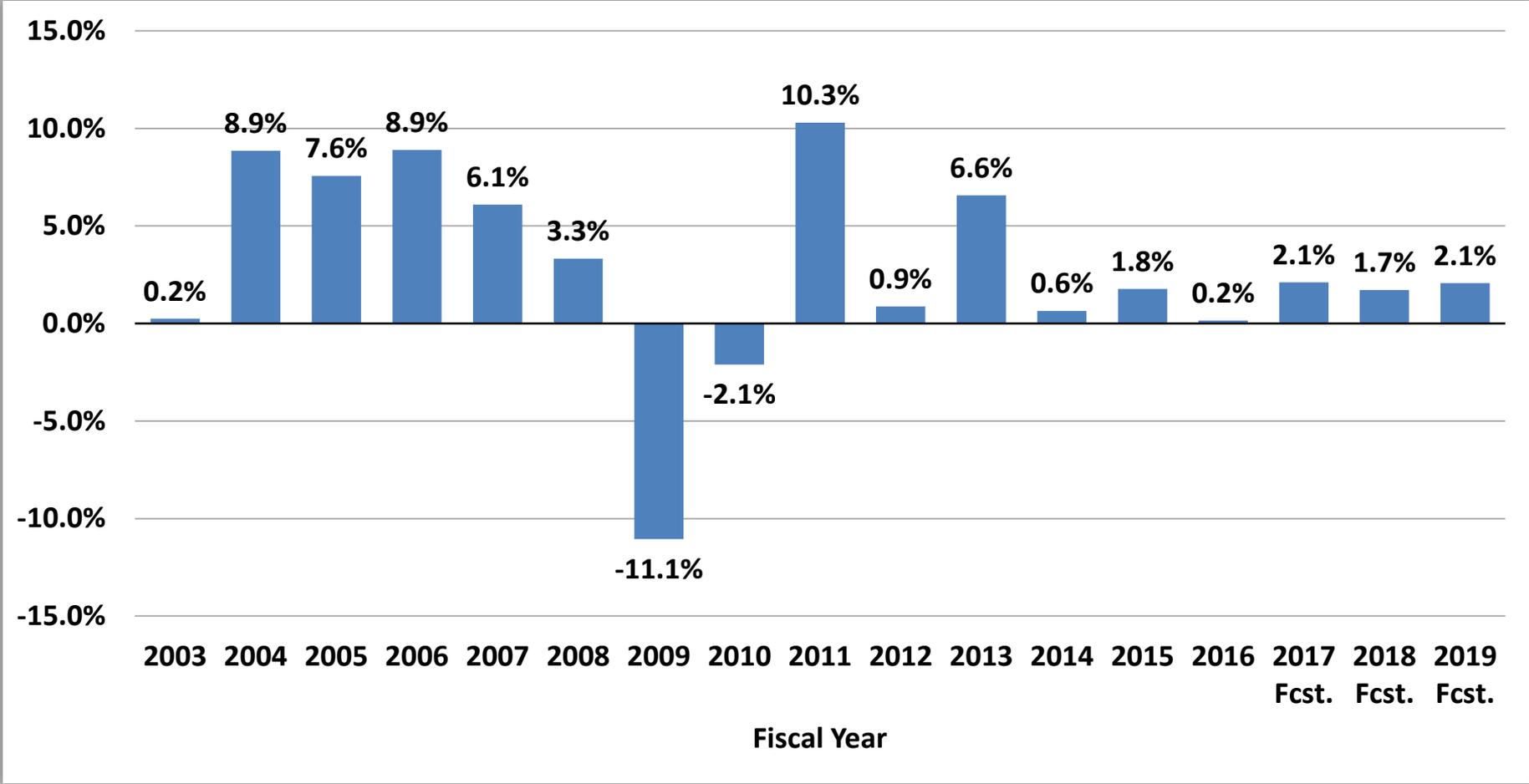
- 86 positions to support the expanded transportation capital plan and transit-oriented development initiatives
- 8 positions to provide technical support to field inspectors and assist in the development and administration of DAS contracts
- 5 positions in FY 2018 and 5 additional positions in FY 2019 to allow more bridge inspection work to be brought in-house
- The launch of the Hartford Line in FY 2018 and continued support for statewide bus and rail operations

Revenue



General Fund Revenue

Economic Growth Rates



Revenue

- Preserves previously enacted tax changes that take effect during the biennium
 - Phase-in of teachers' pension exemption
 - Sunset of 20% corporate surcharge
 - Phase-in increase of the cap on R&D and URA tax credits

- Gift and Estate Tax
 - Phase in exemption to federal level over three years

- Insurance Premiums
 - Makes Connecticut a more competitive state for the insurance industry by lowering the insurance premium tax rate from 1.75% to 1.5%

- Tobacco Taxes – Increases rates on cigarettes, cigars, and snuff
 - Aligns Connecticut's cigarette tax with New York state, and taxes on other tobacco products with surrounding states

- Tax Credits – Eliminates property tax credit and sets the earned income tax credit at 25% of the Federal EITC

Summary of Revenue Changes

(in millions)

	FY	FY
	2018	2019
<u>Legislative Proposals</u>		
Eliminate the \$200 Property Tax Credit	\$ 105.0	\$ 105.0
Increase Cigarette Tax to \$4.35 per pack and Other Tobacco Changes	\$ 59.8	\$ 52.9
Decrease EITC from 27.5% to 25.0%	\$ 25.0	\$ 26.0
Lower Insurance Premiums rate from 1.75% to 1.50%	(11.0)	(22.4)
Make Insurance Premiums 3-tier credit cap permanent	17.4	16.0
Make moratorium on film production tax credits permanent	<u>4.0</u>	<u>4.0</u>
Subtotal - Insurance Premium Tax	\$ 10.4	\$ (2.4)
Gift and Estate modifications	\$ -	\$ (20.1)
Modify minimum bottle pricing	\$ 1.9	\$ 2.5
Impact on sales tax due to cigarette and minimum bottle changes	\$ 4.0	\$ 3.7
Modifications to Ambulatory Surgical Center Tax	<u>\$ (1.0)</u>	<u>\$ (1.0)</u>
All Tax Related Changes	\$ 205.1	\$ 166.6
Fresh Start Initiative	\$ 60.0	\$ 25.0
Eliminate Sales Tax Transfer To MRSA	\$ 340.1	\$ 349.0
Transfer to MRSF from the resources of the General Fund	\$ (340.1)	\$ (349.0)
All Other Revenue Changes	<u>\$ 55.7</u>	<u>\$ 95.8</u>
All General Fund Revenue Changes	\$ 320.8	\$ 287.4

Proposed Capital Budget



Capital Investments

Governor Malloy's capital budget focuses on funding projects and programs that address economic development and critical infrastructure needs

- New general obligation bond authorizations
 - \$1.792 billion in FY 2018
 - \$1.714 billion in FY 2019

- New transportation bond authorizations
(in addition to previously approved Let's Go CT! authorizations)
 - \$818.8 million in FY 2018
 - \$820.2 million in FY 2019

Capital Investments

Significant capital investments for state and local projects over the biennium include

Local

- \$1.2 billion for the school construction program
- \$722 million for Clean Water Fund grants and subsidized low interest loans
- \$130 million for Town Aid Road and Local Bridge Programs
- \$126 million for Local Transportation Capital Program
- \$125 million for LoCIP
- \$125 million for the XL Center
- \$100 million for Urban Act
- \$60 million for Alliance District school improvements

State

- \$491 million previously authorized for UConn
- \$415 million for business development programs
- \$340 million for housing projects and programs
- \$245 million previously authorized for CSCU
- \$140 million additional for CSCU

Defining the Spending Cap



Spending Cap Definitions

- The Governor is offering definitions to implement the Constitutional spending cap
 - “Increase in personal income” – The compound annual growth rate of personal income in the state over the preceding five calendar years
 - “Increase in inflation” – The increase in the CPI-U, all items, less food and energy, during the preceding calendar year, calculated on a December over December basis
 - “General budget expenditures” – Expenditures from appropriated funds authorized by public or special act of the General Assembly, with the exception of
 - ✓ Debt service, as required by the State Constitution
 - ✓ Expenditures pursuant to the Budget Reserve Fund
 - ✓ Federal mandates and court orders in their first year
 - ✓ Payment for unfunded liabilities in the state’s retirement systems
 - Requires that a base adjustment be made in the event that any expenditures are converted from an appropriation to another non-appropriated funding source, or vice versa, to prevent gamesmanship surrounding the cap

Conclusion



Conclusion

- The Governor's budget proposal includes a fairer, more transparent distribution of municipal aid, based on the needs and fiscal capacity of each community
- It addresses the serious constitutional issues with our school funding system that were raised in the CCJEF decision
- It achieves balance through recurring, structural spending reductions
- It includes savings of \$700 million in employee-related costs to reflect anticipated collective bargaining savings
- It includes no increases in income, sales, or corporation tax rates