

SUMMARY

SIGNIFICANT ISSUES HIGHLIGHTED IN THIS REPORT:

- Based on the enacted budget, the state is projected to experience significant deficits at the end of 2011–12, 2012–13 and 2013–14 that are unprecedented in our history.
- The use of one-time revenues including federal ARRA dollars to support on-going programs and projects adds over \$2.5 billion to these projected deficits.
- Projections for FY2011–12, FY2012–13, and FY2013–14 indicate that spending will exceed available revenue without further action.
- The budget reserve fund balance will be exhausted during FY2011, putting the state at risk in the current economic climate.
- Debt service will continue to grow and consume a significant portion of the budget.
- The state faces significant long-term obligations including debt, unfunded pension liabilities and unfunded post-employment retirement benefits that are estimated to exceed \$61 billion in total.
- Budgeted “below the line” savings targets may be difficult to achieve.

- Stagnant economic conditions and low-growth revenue projections will continue to be the most significant challenges facing the state.

CONNECTICUT MUST MEET THE CHALLENGE

Connecticut faces unprecedented budgetary challenges, both near term and into the future, based on the following findings of Governor Rell’s Council of Economic Advisors and national economic consultant MoodysEconomy.com:

- Economy won’t hit bottom until calendar year 2010
- Commercial credit markets are exceedingly tight, hampering job growth
- Job losses may reach 100,000 and the pace for recovering jobs will be slow
- The recovery will be slower and more prolonged than past recoveries
- Personal income growth will be low through 2012 compared with historic standards

The State must keep spending levels in check in order to thrive in the post “Great Recession” economy.

INTRODUCTION

The Fiscal Accountability Report has been prepared in accordance with Section 2-36b of the Connecticut General Statutes. It contains the estimated revenues and projected expenditures for the three fiscal years next ensuing the 2009-2011 biennium.

FINANCIAL SUMMARY OF FUNDS – CONSENSUS REVENUE

(in millions)

	Estimated	Revised Enacted ⁽²⁾	Projected		
	2009-10	2010-11	2011-12	2012-13	2013-14
General Fund					
Revenues ⁽¹⁾	\$ 17,204.0	\$ 17,432.7	\$ 15,794.8	\$ 16,755.5	\$ 17,485.7
Expenditures	17,582.8	17,691.1	18,943.7	19,491.6	20,176.3
Surplus Adjustment	(11.0)	-	-	-	-
Surplus/(Deficit)	\$ (389.8)	\$ (258.4)	\$ (3,148.9)	\$ (2,736.1)	\$ (2,690.6)
Special Transportation Fund					
Revenues	\$ 1,118.7	\$ 1,184.7	\$ 1,200.3	\$ 1,260.3	\$ 1,287.6
Expenditures	1,114.7	1,180.6	1,246.1	1,262.5	1,286.7
Surplus/(Deficit)	\$ 4.0	\$ 4.1	\$ (45.8)	\$ (2.2)	\$ 0.9
Other Funds ⁽³⁾					
Revenues	\$ 160.4	\$ 163.7	\$ 193.3	\$ 195.1	\$ 198.7
Expenditures	159.9	163.4	192.9	194.6	198.1
Surplus/(Deficit)	\$ 0.5	\$ 0.3	\$ 0.4	\$ 0.5	\$ 0.5
Total All Appropriated Funds					
Revenues	\$ 18,483.1	\$ 18,781.1	\$ 17,188.4	\$ 18,210.9	\$ 18,972.0
Expenditures	18,857.4	19,035.0	20,382.7	20,948.7	21,661.1
Surplus Adjustment	(11.0)	-	-	-	-
Surplus/(Deficit)	\$ (385.3)	\$ (253.9)	\$ (3,194.3)	\$ (2,737.8)	\$ (2,689.2)
Expenditure Cap Results ⁽⁴⁾					
Total All Appropriated Funds	\$ 18,857.4	\$ 19,035.0	\$ 20,382.7	\$ 20,948.7	\$ 21,661.1
Allowed Appropriations per Cap	19,485.8	19,516.6	19,932.9	20,444.9	20,883.7
Over/(Under) the Cap	\$ (628.4)	\$ (481.6)	\$ 449.8	\$ 503.8	\$ 777.4
Revenues and the Expenditure Cap ⁽⁵⁾					
Revenues – All Funds		\$ 18,781.1	\$ 17,188.4	\$ 18,210.9	\$ 18,972.0
Allowed Appropriations per Cap		19,516.6	19,932.9	20,444.9	20,883.7
Revenues Less Allowed Approps.		\$ (735.5)	\$ (2,744.5)	\$ (2,234.0)	\$ (1,911.8)

(1) Revenues reflect the October 15, 2009 consensus revenue figures.

(2) FY 2011 – Enacted Budget per PA 09-3 of the June Special Session as revised to reflect the rollout of the FY 2010 deficiencies

(3) Other funds include the: a) Mashantucket Pequot and Mohegan Fund, b) Soldiers', Sailors' and Marines' Fund, c) Regional Market Operating Fund, d) Banking Fund, e) Insurance Fund, f) Consumer Counsel and Public Utility Fund, g) Workers' Compensation Fund, h) Criminal Injuries Compensation Fund.

(4) Although sufficient room remains under the cap for deficiency appropriations, any such appropriations would violate the balanced budget requirement.

(5) Article 3, section 18 of the State Constitution requires a balanced budget.

Note: The report does not include an adjustment for conversion to GAAP.

Fiscal Accountability Report

The following table presents an updated financial summary, based on projections from data that became available after publication of the consensus revenue forecast on October 15, 2009.

FINANCIAL SUMMARY OF FUNDS – CURRENT REVENUE
(in millions)

	Estimated	Revised Enacted ⁽³⁾	Projected		
	2009-10	2010-11	2011-12	2012-13	2013-14
General Fund					
Revenues ⁽¹⁾	\$ 17,127.3	\$ 17,315.7	\$ 15,643.4	\$ 16,575.7	\$ 17,303.0
Expenditures	17,582.8	17,691.1	18,943.7	19,491.6	20,176.3
Surplus Adjustment	(11.0)	-	-	-	-
Surplus/(Deficit)	\$ (466.5)	\$ (375.4)	\$ (3,300.3)	\$ (2,915.9)	\$ (2,873.3)
Eliminate Sales Tax Rate Reduction ⁽²⁾	\$ 129.5	\$ 268.0	\$ 276.3	\$ 282.0	\$ 291.6
Revised Surplus/Deficit	\$ (337.0)	\$ (107.4)	\$ (3,024.0)	\$ (2,633.9)	\$ (2,581.7)
Special Transportation Fund					
Revenues	\$ 1,118.7	\$ 1,184.7	\$ 1,200.3	\$ 1,260.3	\$ 1,287.6
Expenditures	1,114.7	1,180.6	1,246.1	1,262.5	1,286.7
Surplus/(Deficit)	\$ 4.0	\$ 4.1	\$ (45.8)	\$ (2.2)	\$ 0.9
Other Funds⁽⁴⁾					
Revenues	\$ 160.4	\$ 163.7	\$ 193.3	\$ 195.1	\$ 198.7
Expenditures	159.9	163.4	192.9	194.6	198.1
Surplus/(Deficit)	\$ 0.5	\$ 0.3	\$ 0.4	\$ 0.5	\$ 0.6
Total All Appropriated Funds					
Revenues	\$ 18,535.9	\$ 18,932.1	\$ 17,313.3	\$ 18,313.1	\$ 19,080.9
Expenditures	18,857.4	19,035.0	20,382.7	20,948.7	21,661.1
Surplus Adjustment	(11.0)	-	-	-	-
Surplus/(Deficit)	\$ (332.5)	\$ (102.9)	\$ (3,069.4)	\$ (2,635.6)	\$ (2,580.2)
Expenditure Cap Results⁽⁵⁾					
Total All Appropriated Funds	\$ 18,857.4	\$ 19,035.0	\$ 20,382.7	\$ 20,948.7	\$ 21,661.1
Allowed Appropriations per Cap	19,485.8	19,516.6	19,932.9	20,444.9	20,883.7
Over/(Under) the Cap	\$ (628.4)	\$ (481.6)	\$ 449.8	\$ 503.8	\$ 777.4
Revenues and the Expenditure Cap⁽⁶⁾					
Revenues – All Funds		\$ 18,932.1	\$ 17,313.3	\$ 18,313.1	\$ 19,080.9
Allowed Appropriations per Cap		19,516.6	19,932.9	20,444.9	20,883.7
Revenues Less Allowed Approps.		\$ (584.5)	\$ (2,619.6)	\$ (2,131.8)	\$ (1,802.8)

- (1) Revenues reflect the most current revenue estimates as of the date of this report.
- (2) Assumes the sales tax rate reduction from 6.0% to 5.5% per PA 09-3-JSS, sec. 113, does not take effect 1/1/10.
- (3) FY 2011- Enacted Budget per PA 09-3 of the June Special Session as revised to reflect the rollout of the FY 2010 deficiencies
- (4) Other funds include the: a) Mashantucket Pequot and Mohegan Fund, b) Soldiers', Sailors' and Marines' Fund, c) Regional Market Operating Fund, d) Banking Fund, e) Insurance Fund, f) Consumer Counsel and Public Utility Fund, g) Workers' Compensation Fund, h) Criminal Injuries Compensation Fund.
- (5) Although sufficient room remains under the cap for deficiency appropriations, any such appropriations would violate the balanced budget requirement.
- (6) Article 3, section 18 of the State Constitution requires a balanced budget.

Note: The report does not include an adjustment for conversion to GAAP.

SECTION 1
ESTIMATE OF STATE REVENUES, EXPENDITURES
AND ENDING BALANCE

ASSUMPTIONS

ASSUMPTIONS USED TO DEVELOP EXPENDITURE ESTIMATES

The *Revised Enacted 2010–2011* column shows the original appropriation (PA09–03 JSS; PA09–7 SSS, etc.) adjusted to reflect the rollout of recognized FY2010 deficiencies. The three out years have been developed based on *Revised Enacted 2010–2011* level using the inflation factors noted below.

GENERAL ASSUMPTIONS

With notable exceptions, those expenditures not governed by statute were increased by projected standard inflation rates as follows:

2011–2012	2.03%
2012–2013	2.01%
2013–2014	2.00%

In addition, the following medical inflation rates were used where appropriate:

2011–2012	4.42%
2012–2013	4.10%
2013–2014	3.90%

Personal Services was inflated by 4.75% each year. Expenditures increased by the standard inflation rates include: Other Expenses, Other Current Expenses, and Grants. Partial year costs are annualized. Equipment costs are not inflated and reflect the FY2011 enacted budget; agency equipment requirements beyond this level are assumed to be funded from the Capital Equipment Purchase Fund.

NOTABLE EXCEPTIONS

Listed below are significant items within the three out years that were developed using other than the standard inflation guidelines, or that require further explanation.

STATEWIDE

- *Personal Services Reduction Lapse* – savings amounts included in Personal Services and fringe accounts in FY2012, FY2013, and FY2014.

STATE TREASURER – DEBT SERVICE

- *Debt Service* – Reflects actual and projected issuance schedules. See Section 5 for the projected issuance schedule.

STATE COMPTROLLER– MISCELLANEOUS

- *Equal Grant to Non-Profit Hospitals, Loss of Taxes on State Property, Loss of Taxes on Private Tax-Exempt Property, Mashantucket Pequot and Mohegan Fund* – Reflects level funding.

STATE COMPTROLLER – FRINGE BENEFITS

- *State Employees Retirement Contribution, General and Special Transportation Funds* – FYs 2010 and 2011 amounts are

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per the Actuarial Valuation Report as of June 30, 2008. FY 2012 includes the estimated impact of the Retirement Incentive Program and deferral of contributions in FY 2009 and FY 2010. FYs 2013 and 2014 utilize an average increase of 4.4%.

- *Higher Education Alternative Retirement System* – FY 2012 reflects 27 pay periods.
- *Judges and Compensation Commissioners' Retirement* – FYs 2010 and 2011 do not include funding per the enacted budget. FY 2012 assumes that the state will resume its contributions and utilizes an average increase of 5.2% in FYs 2012 and beyond.
- *Employers Social Security Tax – General Fund and Transportation* – The enacted budget for FYs 2010 and 2011 did not include adjustments for the 2009 SEBAC agreement (including RIP). The FY 2012 through FY 2014 amounts reflect adjustments due to the SEBAC agreement. In addition, FY 2012 includes 27 pay periods.
- *State Employees Health Service Costs – General Fund and Transportation* – The enacted budget for FYs 2010 and 2011 did not include adjustments for the 2009 SEBAC agreement (including RIP). The FY 2012 through FY 2014 amounts do reflect adjustments due to the SEBAC agreement. Medical inflation is applied.
- *Retired Employees Health Service Costs* – The enacted budget for FYs 2010 and 2011 did not include adjustments for the 2009 SEBAC agreement (including RIP). The FY 2012 through FY 2014 amounts reflect adjustments due to the SEBAC agreement. Medical inflation is applied.

OFFICE OF POLICY AND MANAGEMENT

- *Capping of Grant* – Assumes flat funding in the grant P.I.L.O.T. New Manufacturing Machine & Equipment.

DEPARTMENT OF LABOR

- *Workforce Investment Act* – Workforce Investment Act allocations from the federal government for the out-years are not currently known, but are anticipated to remain at current levels.

DEPARTMENT OF PUBLIC HEALTH

- *Medicaid Administration – Salary Inflation* – Salary inflation is applied to the 12268 – Medicaid Administration account as this account funds personnel.
- *Medical Inflation* – Medical inflation has been applied to the Immunization Services account.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- *Other Expenses – Annualization of FY2010 Deficiency* – \$2.3 million is included to annualize the anticipated FY2010 shortfall in Other Expenses.
- *Early Intervention – Annualization of FY2010 Deficiency* – \$13.4 million is included to annualize the anticipated FY2010 shortfall in Early Intervention. Anticipates annualization of \$4.5 million in federal stimulus funding.
- *Workers' Compensation – Annualization of FY2010 Deficiency* – \$2.0 million is included to annualize the anticipated FY2010 shortfall in Workers' Compensation.
- *Voluntary Services – Annualization of FY2010 Deficiency* – \$5.0 million is included to annualize the anticipated FY2010 shortfall in Voluntary Services. An additional \$2.5 million is necessary to annualize FY2010 caseload growth.
- *Employment Opportunities and Day Services – Annualization of FY2011 Caseload Growth* – \$562,497 is included to annualize funding for 92 FY2011 high school graduates and \$118,676 is included to annualize 15 FY2011 age outs.
- *Community Residential Services* – \$16 million is included to annualize the FY2010 deficiency in the Community Residential Services account. \$13.5 million to annualize the conversion of 17 state operated group homes in FY2010 and \$2.5 million for portability costs in FY2011.
- *Community Residential Services* – \$4,462,795 is included to annualize funding for 67 FY2011 residential age outs and \$1,107,280 to annualize 20 FY2011 placements made under the Money Follows the Person program in FY2012.

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- *Community Residential Services* – \$956,663 is included to reflect leap year costs (85.9% of costs) in FY2012.

DEPT MENTAL HEALTH & ADDICTION SERVICES

- *Personal Services – Disproportionate Share* – Adjustment includes inflation on Disproportionate Share amount of \$75,040,000 which shows in the Department of Social Services – DMHAS/Disproportionate Share account.
- *Other Expenses* – \$9 million is included to annualize the anticipated FY2010 shortfall in Other Expenses in FY2011.
- *Other Expenses* – Adjustment includes inflation on Disproportionate Share amount of \$2,600,000 which shows in the Department of Social Services – DMHAS/Disproportionate Share account in FY2012.
- *Professional Services – Annualization of FY2010 Deficiency* – \$800,000 is included to annualize the anticipated FY2010 shortfall in the Professional Services account in FY2012.
- *Discharge and Diversion Services – Annualization of FY2010 Deficiency* – \$7,000,000 is included to annualize the anticipated FY2010 shortfall in the Discharge and Diversion account. An additional \$3 million is necessary to annualize FY2010 community placements and Intermediate Care beds in FY2012.
- *General Assistance* – 5% caseload growth is assumed in each year.
- *General Assistance* – \$196,349 is assumed to support leap year costs in FY2012.
- *TBI Community Services – Annualization of FY2011 Caseload in FY2012* – \$671,500 is included to annualize 7 FY2011 community placements.
- *Home and Community Based Services* – \$238,600 is included to annualize housing subsidies in FY2012 for 72 individuals anticipated to go onto the waiver during FY2011.
- *Home and Community Based Services* – \$202,300 is included to annualize housing subsidies for 38 individuals anticipated to go onto the waiver during FY2012.

DEPARTMENT OF SOCIAL SERVICES

- *State Food Stamp Supplement, HUSKY Program, Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled, Temporary Assistance to Families, ConnPACE, Connecticut Home Care Program, Child Care – TANF/CCDBG, State Administered General Assistance* – Reflects rate and volume changes based on current trends.
- *Medicaid, Old Age Assistance, Aid to the Blind, Aid to the Disabled* – Reflects leap year payments in FY2012.

DEPARTMENT OF EDUCATION

- *Grants to Towns* – All Grants to Town reflect level funding, except for Magnet Schools, OPEN Choice and Interdistrict Cooperation, which reflect increases required to reach the goals outline in the Sheff Stipulated Agreement.
- *Charter Schools* – Reflect projected enrollment increases.

TEACHERS' RETIREMENT BOARD

- *Retirement Contributions* – FYs 2010 and 2011 amounts are per the Actuarial Valuation Report as of June 30, 2008. FYs 2012 and beyond reflect a 4% increase per year.
- *Retiree Health Costs* – The biennial budget did not include funding for this account. FY 2012 assumes that the state will resume appropriations and uses a medical inflation rate.
- *Municipal Health Insurance Cost* – The biennial budget did not include funding for this account. FY 2012 assumes that the state will resume appropriations and uses a medical inflation rate.

DEPARTMENT OF CORRECTION

- *Projected FY2010 Deficiency* – The Workers' Compensation Claims account is experiencing a projected deficiency of \$4.5 million in FY2010. FY2011 has been adjusted to reflect this and inflationary factors have been added in the out-years.

DEPARTMENT OF CHILDREN AND FAMILIES

- *Leap Year Adjustment* – Funds are provided in the Board and Care for Children accounts to acknowledge the cost of Leap Year on programs paid on a per diem basis. These include \$224,243 in Adoption, \$178,356 in Foster Care and \$257,168 in Residential account for FY 2012 and are removed from subsequent years.
- *Client Growth* – Funds are provided in Board and Care Adoption and Foster Care accounts to acknowledge an anticipated growth in the number of clients served. In each year, the Adoption account is increased by \$5.2 million and the Foster Care account is increased by \$2.8 million.
- *Single Cost Accounting* – Funds are provided for rate increases determined through the Single Cost Accounting System totaling \$2,715,579 in Board and Care Residential account and \$347,312 in No Nexus Special Education account per year.
- *Raise the Age of Jurisdiction of Juveniles* – Funds are provided in the Juvenile Justice Outreach Services account as a placeholder for all expanded services anticipated to meet the needs of youth who will be considered juveniles under the recent legislation that phases-in the raise the age of juvenile jurisdiction initiative. New funds include \$6,723,654 in FY 2012, \$11,205,612 in FY 2013 and \$2,241,123 in FY 2014.
- *Housing Vouchers for Support for Recovering Families* – Funds are increased by \$2.0 million each year to fund housing vouchers for new families in the Supportive Housing for Recovering Families program in DCF.

SUMMARY OF APPROPRIATED FUND PROJECTIONS

LARGEST ACCOUNTS

(In Millions)

	Estimated 2009-2010	Revised Enacted 2010-2011	2011-2012	Estimated 2012-2013	2013-2014
GENERAL FUND					
DSS – Medicaid	3,917.1	3,694.8	3,883.5	4,077.6	4,281.5
STATEWIDE – Personal Services	2,471.4	2,475.7	2,509.1	2,635.7	2,764.5
SDE – Education Equalization Grants	1,889.6	1,889.6	1,889.6	1,889.6	1,889.6
OTT – Debt Service	1,488.4	1,510.4	1,747.2	1,743.9	1,765.0
OSC – Employee Retirement Contribution	635.5	663.3	829.9	866.4	904.5
STATEWIDE – Other Expenses	571.0	552.4	563.6	575.2	586.7
TRB – Retirement Contributions	559.2	581.6	604.9	629.1	654.2
OSC – State Employees Health Serv Cost	554.9	516.9	480.4	500.1	519.6
OSC – Retired Employee Health Serv Cost	543.8	547.0	624.3	649.9	675.3
DDS – Community Residential Services	385.3	406.5	421.3	428.8	437.4
OSC – Employers Social Security Tax	239.7	249.8	249.5	245.1	250.0
DSS – State Administered General Assistance	232.0	304.0	319.2	335.2	352.0
UOC – Operating Expenses	222.4	222.4	227.0	231.5	236.2
DCF – Board & Care – Residential	191.9	195.6	202.5	209.3	216.2
DDS – Employment Opportunities & Day Svcs	177.5	185.0	189.5	193.3	197.2
CCC – Operating Expenses	157.1	157.4	160.6	163.8	167.1
CSU – Operating Expenses	155.5	155.5	158.7	161.9	165.1
SDE – Magnet Schools	153.1	174.6	199.4	217.2	230.8
DSS – Temporary Assist to Families – TANF	120.9	122.7	128.8	135.2	142.0
SDE – Excess Cost – Student Based	120.5	120.5	120.5	120.5	120.5
UHC – Operating Expenses	118.5	120.8	123.3	125.8	128.3
SDE – Priority School Districts	117.2	117.2	117.2	117.2	117.2
OSC – Loss Taxes Private Tax-Exempt Property	115.4	115.4	115.4	115.4	115.4
DCF – Board and Care for Children – Foster	112.4	115.1	120.4	125.7	131.0
OTT – UConn 2000 – Debt Service	106.9	118.4	122.7	132.5	144.0
DSS – DMHAS – Disproportionate Share	105.9	105.9	105.9	105.9	105.9
DOC – Inmate Medical Services	100.1	100.6	105.1	109.4	113.6
DSS – Child Care Services – TANF/CCDBG	93.2	95.9	98.8	101.8	104.8
MHA – General Assistance Managed Care	83.1	86.3	90.9	95.2	100.0
DCF – Board and Care for Children – Adoption	81.5	86.1	93.3	100.4	107.6
MHA – Grants for Mental Health Services	77.9	76.4	77.9	79.5	81.1
OSC – Loss of Taxes on State Property	73.5	73.5	73.5	73.5	73.5
DSS – Connecticut Home Care Program	70.4	75.7	78.8	81.9	85.2
DSS – Aid to the Disabled	60.6	62.7	65.7	68.7	71.8
OTT – Pension Obligation Bonds – TRB	58.5	65.3	80.9	121.4	145.1
OPM – P.I.L.O.T. New Mfg Machine & Equip	57.3	57.3	57.3	57.3	57.3
JUD – Alternative Incarceration Program	54.9	55.2	56.3	57.4	58.6
DSS – Disproportionate Share-Med Emer Asst	51.7	51.7	51.7	51.7	51.7
SDE – Charter Schools	48.2	53.1	61.6	65.3	66.9
SDE – Transportation of School Children	48.0	48.0	48.0	48.0	48.0
MHA – Young Adult Services	46.9	56.9	59.6	62.4	65.4
DSS – Housing/Homeless Services	44.1	47.3	48.3	49.2	50.2
DOC – Community Support Services	40.4	40.4	41.2	42.0	42.9
DSS – HUSKY Program	39.3	41.5	43.5	45.7	48.0
DDS – Early Intervention	39.2	42.3	44.2	46.0	47.8
MHA – Managed Service System	37.2	37.2	38.0	38.7	39.5
DSS – Old Age Assistance	36.3	38.1	39.9	41.7	43.6
DDS – Voluntary Services	35.2	37.7	38.5	39.2	40.0
OSC – Higher Ed Alternative Retirement Sys	33.4	34.2	36.2	35.5	36.3
DSS – DSH-Urban Hospitals/Distressed	31.6	31.6	31.6	31.6	31.6

SUMMARY OF APPROPRIATED FUND PROJECTIONS

LARGEST ACCOUNTS

(in millions)

	Estimated 2009-2010	Revised Enacted 2010-2011	2011-2012	Estimated 2012-2013	2013-2014
JUD – Juvenile Alternative Incarceration	31.2	30.2	30.8	31.4	32.0
DOL – Workforce Investment Act	30.5	30.5	30.5	30.5	30.5
DHE – CT Aid for Public College Students	30.2	30.2	30.2	30.2	30.2
OPM – Reserve for Salary Adjustments	29.7	153.5	156.6	159.8	163.0
DOC – Workers' Compensation Claims	29.4	29.4	30.0	30.6	31.2
DCF – Community KidCare	25.9	25.9	26.5	27.0	27.5
MHA – Grants for Substance Abuse Services	25.5	25.5	26.0	26.6	27.1
DAS – Workers' Compensation Claims	24.7	24.7	25.2	25.7	26.2
DHE – CT Independent College Student Grant	23.4	23.4	23.4	23.4	23.4
ITD – Statewide Information Technology Services	23.0	23.9	24.4	24.9	25.4
OPM – Tax Relief for Elderly Renters	22.0	24.0	24.5	25.0	25.5
DDS – Cooperative Placements Program	21.3	21.6	22.1	22.5	23.0
SDE – Adult Education	20.6	20.6	20.6	20.6	20.6
OPM – Prop Tax Relief Elder-Circuit Breaker	20.5	20.5	20.9	21.3	21.8
DSS – Charter Oak Health Plan	19.7	28.5	38.2	51.1	68.4
DOL – Jobs First Employment Services	17.6	17.6	17.9	18.3	18.6
SDE – Develop of Mastery Exams Grades 4,6&8	17.5	18.8	19.2	19.6	19.9
DCF – Individualized Family Supports	17.4	17.2	17.6	17.9	18.3
DDS – Workers' Compensation Claims	16.2	16.2	16.6	16.9	17.2
SDE – OPEN Choice Program	14.5	14.5	15.5	16.5	17.5
DCF – Gts Psychiatric Clinics for Children	14.2	14.2	14.5	14.8	15.1
SDE – Interdistrict Cooperation	14.1	14.1	14.4	14.7	15.0
DPW – Rents and Moving	13.9	13.6	13.8	14.1	14.4
MHA – Housing Supports and Services	12.7	13.2	13.5	13.7	14.0
DCF – Juvenile Justice Outreach Services	12.7	12.7	19.7	31.3	34.2
MHA – Workers' Compensation Claims	12.3	12.3	12.6	12.8	13.1
DCF – Support for Recovering Families	11.5	14.0	16.3	18.6	21.0
DSS – Children's Trust Fund	11.4	13.7	14.0	14.2	14.5
DCF – Family Support Services	11.2	11.2	11.4	11.7	11.9
DSS – Connecticut Children's Medical Center	11.0	11.0	11.0	11.0	11.0
MHA – Employment Opportunities	10.6	10.6	10.8	11.1	11.3
DSS – Child Day Care	10.6	10.6	10.8	11.1	11.3
DEP – Emergency Spill Response Account	10.6	10.6	10.8	11.0	11.2
MHA – Professional Services	10.5	10.5	11.0	11.4	11.8
DPH – School Based Health Clinics	10.4	10.4	10.7	10.9	11.1
CPC – Contracted Attorneys	10.3	10.3	10.5	10.8	11.0
DSS – Conn Pharmaceutical Assist to Elderly	10.3	6.8	7.1	7.4	7.7
STATEWIDE – ALL OTHER	590.6	610.7	667.1	682.4	698.5
General Fund – Gross	18,056.1	18,221.5	19,171.7	19,828.3	20,513.0
Personal Services Reductions	-191.0	-193.7	0.0	0.0	0.0
Legislative Unallocated Lapses	-2.7	-2.7	-2.7	-2.7	-2.7
Management Reduction	-10.0	-12.5	-12.5	-12.5	-12.5
27th Payroll Cost	0.0	0.0	108.7	0.0	0.0
Reduce Other Expenses to FY07 Levels	-28.0	-32.0	-32.0	-32.0	-32.0
Reduce Outside Consultant Contracts	-95.0	-95.0	-95.0	-95.0	-95.0
Estimated Unallocated Lapses	-87.8	-87.8	-87.8	-87.8	-87.8
General Personal Services Reduction	-14.0	-14.0	-14.0	-14.0	-14.0
General Other Expenses Reductions	-11.0	-11.0	-11.0	-11.0	-11.0
Enhance Agency Outcomes	-3.0	-50.0	-50.0	-50.0	-50.0
DoIT Lapse	-30.8	-31.7	-31.7	-31.7	-31.7
General Fund – Net	17,582.8	17,691.1	18,943.7	19,491.6	20,176.3

SUMMARY OF APPROPRIATED FUND PROJECTIONS

LARGEST ACCOUNTS

(in millions)

	Estimated 2009-2010	Revised Enacted 2010-2011	2011-2012	Estimated 2012-2013	2013-2014
SPECIAL TRANSPORTATION FUND – Gross	1,135.9	1,202.0	1,259.9	1,283.9	1,308.1
Estimated Unallocated Lapses	-11.0	-11.0	-11.0	-11.0	-11.0
Personal Services Reductions	-10.2	-10.4	-10.4	-10.4	-10.4
27th Payroll Cost	0.0	0.0	7.6	0.0	0.0
Special Transportation Fund – Net	1,114.7	1,180.6	1,246.1	1,262.5	1,286.7
BANKING FUND – Gross	19.6	20.6	21.3	22.0	22.8
27th Payroll Cost	0.0	0.0	0.5	0.0	0.0
Banking Fund – Net	19.6	20.6	21.8	22.0	22.8
INSURANCE FUND – Gross	25.7	26.6	27.5	28.5	29.5
27th Payroll Cost	0.0	0.0	0.5	0.0	0.0
Insurance Fund – Net	25.7	26.6	28.1	28.5	29.5
PUBLIC UTILITY FUND – Gross	23.2	24.0	24.8	25.7	26.5
27th Payroll Cost	0.0	0.0	0.5	0.0	0.0
Public Utility Fund – Net	23.2	24.0	25.3	25.7	26.5
WORKERS' COMPENSATION FUND – Gross	22.6	23.1	23.8	24.6	25.4
27th Payroll Cost	0.0	0.0	0.3	0.0	0.0
Workers' Compensation Fund – Net	22.6	23.1	24.1	24.6	25.4
MASHANTUCKET PEQUOT AND MOHEGAN FUND	61.8	61.8	86.3	86.3	86.3
SOLDIERS, SAILORS AND MARINES FUND – Gross	3.0	3.0	3.1	3.2	3.2
27th Payroll Cost	0.0	0.0	0.0	0.0	0.0
Soldiers, Sailors and Marines Fund – Net	3.0	3.0	3.1	3.2	3.2
REGIONAL MARKET OPERATION FUND – Gross	0.9	1.0	1.0	1.0	1.0
27th Payroll Cost	0.0	0.0	0.0	0.0	0.0
Regional Market Operation Fund – Net	0.9	1.0	1.0	1.0	1.0
CRIMINAL INJURIES COMPENSATION FUND	3.1	3.4	3.4	3.4	3.4
TOTAL ALL FUNDS – NET	18,857.4	19,035.0	20,382.7	20,948.7	21,661.1

PROJECTED REVENUES

PER THE OCTOBER 15, 2009 CONSENSUS REVENUE REPORT

(In Millions)

General Fund

Taxes	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Personal Income Tax	\$ 6,610.7	\$ 6,634.7	\$ 7,282.5	\$ 8,050.9	\$ 8,499.6
Sales & Use Tax	3,076.9	3,028.3	3,155.6	3,275.7	3,379.0
Corporation Tax	721.6	731.9	696.0	709.8	727.5
Public Service Tax	272.3	278.3	285.3	291.8	298.4
Inheritance & Estate Tax	202.2	102.0	105.6	109.3	112.1
Insurance Companies Tax	200.2	214.3	218.5	223.3	228.7
Cigarettes Tax	387.6	389.0	379.2	369.6	360.3
Real Estate Conveyance Tax	94.5	117.5	135.7	142.3	149.2
Oil Companies Tax	124.4	101.0	104.2	107.5	97.0
Alcoholic Beverages Tax	48.0	48.5	49.0	49.5	50.0
Admissions & Dues Tax	37.1	37.6	38.2	38.6	39.0
Miscellaneous Tax	145.5	146.5	147.3	148.1	149.0
Total Taxes	\$ 11,921.0	\$ 11,829.6	\$ 12,597.1	\$ 13,516.4	\$ 14,089.8
Less Refunds of Tax	(1,105.5)	(1,008.3)	(1,059.3)	(1,094.8)	(1,131.5)
Less R&D Credit Exchange	(9.4)	(10.5)	(11.2)	(11.7)	(12.1)
Total – Taxes Less Refunds	\$ 10,806.1	\$ 10,810.8	\$ 11,526.6	\$ 12,409.9	\$ 12,946.2
Other Revenue					
Transfers–Special Revenue	\$ 293.4	\$ 295.1	\$ 296.8	\$ 298.1	\$ 299.3
Indian Gaming Payments	371.0	353.3	365.5	374.6	384.0
Licenses, Permits, Fees	279.9	263.8	282.9	266.5	284.8
Sales of Commodities	33.2	34.3	35.1	36.0	36.7
Rents, Fines, Escheats	95.8	101.9	104.5	106.1	139.1
Investment Income	10.0	10.0	20.0	20.0	20.0
Miscellaneous	202.5	197.5	177.0	182.3	187.5
Less Refunds of Payments	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)
Total – Other Revenue	\$ 1,285.1	\$ 1,255.2	\$ 1,281.1	\$ 1,282.8	\$ 1,350.6
Other Sources					
Federal Grants	\$ 4,051.8	\$ 3,770.4	\$ 3,311.2	\$ 3,427.0	\$ 3,547.0
Transfer From Tobacco Settlement	107.3	106.1	104.7	104.1	103.0
Transfers From (To) Other Funds	953.7	1,490.2	(428.8)	(468.3)	(461.1)
Total – Other Sources	\$ 5,112.8	\$ 5,366.7	\$ 2,987.1	\$ 3,062.8	\$ 3,188.9
Total – General Fund Revenues	\$ 17,204.0	\$ 17,432.7	\$ 15,794.8	\$ 16,755.5	\$ 17,485.7

Special Transportation Fund

Taxes	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Motor Fuels Tax	\$ 494.7	\$ 489.7	\$ 494.6	\$ 499.5	\$ 504.5
Oil Companies Tax	141.9	165.3	165.3	165.3	179.2
Sales Tax – DMV	54.8	53.8	55.6	56.7	57.8
Total Taxes	\$ 691.4	\$ 708.8	\$ 715.5	\$ 721.5	\$ 741.5
Less Refunds of Taxes	(6.6)	(6.9)	(7.0)	(7.1)	(7.2)
Total – Taxes Less Refunds	\$ 684.8	\$ 701.9	\$ 708.5	\$ 714.4	\$ 734.3
Other Sources					
Motor Vehicle Receipts	\$ 224.5	\$ 228.2	\$ 232.5	\$ 236.5	\$ 240.6
Licenses, Permits, Fees	136.1	136.5	137.8	139.2	142.6
Interest Income	16.5	16.5	20.0	22.0	22.0
Transfers From (To) Other Funds	59.4	104.2	104.2	151.0	151.0
Less Refunds of Payments	(2.6)	(2.6)	(2.7)	(2.8)	(2.9)
Total – Other Sources	\$ 433.9	\$ 482.8	\$ 491.8	\$ 545.9	\$ 553.3
Total – STF Revenues	\$ 1,118.7	\$ 1,184.7	\$ 1,200.3	\$ 1,260.3	\$ 1,287.6

PROJECTED REVENUES

(In Millions)	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
		Mashantucket Pequot and Mohegan Fund			
Total – Mashantucket Pequot and Mohegan Fund Revenues	\$ 61.8	\$ 61.8	\$ 86.3	\$ 86.3	\$ 86.3
		Soldiers', Sailors', and Marines' Fund			
Total – Soldiers', Sailors', and Marines' Fund Revenues	\$ 3.0	\$ 3.0	\$ 3.1	\$ 3.2	\$ 3.3
		Regional Market Operating Fund			
Total – Regional Market Operating Fund Revenues	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0
		Banking Fund			
Total – Banking Fund Revenues	\$ 19.7	\$ 20.6	\$ 21.8	\$ 22.1	\$ 22.9
		Insurance Fund			
Total – Insurance Fund Revenues	\$ 25.7	\$ 26.7	\$ 28.1	\$ 28.6	\$ 29.6
		Consumer Counsel & Public Utility Control Fund			
Total – Consumer Counsel & Public Utility Control Revenues	\$ 23.3	\$ 24.0	\$ 25.3	\$ 25.7	\$ 26.6
		Workers' Compensation Fund			
Total – Workers' Compensation Fund Revenues	\$ 22.7	\$ 23.1	\$ 24.2	\$ 24.7	\$ 25.5
		Criminal Injuries Compensation Fund			
Total – Criminal Injuries Fund Revenues	\$ 3.2	\$ 3.5	\$ 3.5	\$ 3.5	\$ 3.5
Total – All Appropriated Funds Revenues	\$ 18,483.1	\$ 18,781.1	\$ 17,188.4	\$ 18,210.9	\$ 18,972.0

NOTES: The above revenue schedule reflects the October 15, 2009 consensus revenue estimates per PA 09-214. Since that time, additional revenue collection data has indicated that the following revisions to the estimates are required.

Revised Revenue Estimates—General Fund	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Sales and Use Tax-10/15/09	\$ 3,076.9	\$ 3,028.3	\$ 3,155.6	\$ 3,275.7	\$ 3,379.0
Sales and Use Tax-11/15/09	3,010.3	2,935.3	3,017.2	3,113.7	3,218.8
Change in projection	\$ (66.6)	\$ (93.0)	\$ (138.4)	\$ (162.0)	\$ (160.2)
Rents, Fines, and Escheats-10/15/09	\$ 95.8	\$ 101.9	\$ 104.5	\$ 106.1	\$ 139.1
Rents, Fines, and Escheats-11/15/09	112.3	101.9	104.5	106.1	139.1
Change in projection	\$ 16.5	\$ -	\$ -	\$ -	\$ -
Miscellaneous Revenue-10/15/09	\$ 202.5	\$ 197.5	\$ 177.0	\$ 182.3	\$ 187.5
Miscellaneous Revenue-11/15/09	176.6	173.5	164.0	164.5	165.0
Change in projection	\$ (25.9)	\$ (24.0)	\$ (13.0)	\$ (17.8)	\$ (22.5)
Federal Grant Revenue-10/15/09	\$ 4,051.8	\$ 3,770.4	\$ 3,311.2	\$ 3,427.0	\$ 3,547.0
Federal Grant Revenue-11/15/09	4,051.1	3,770.4	3,311.2	3,427.0	3,547.0
Change in projection	\$ (0.7)	\$ -	\$ -	\$ -	\$ -
Total Change in Projection	\$ (76.7)	\$ (117.0)	\$ (151.4)	\$ (179.8)	\$ (182.7)
11/15/09 Revised General Fund Revenues	\$ 17,127.3	\$ 17,315.7	\$ 15,643.4	\$ 16,575.7	\$ 17,303.0
Elimination of 0.5% Sales Tax—Rate Reduction—projected	\$ 129.5	\$ 268.0	\$ 276.3	\$ 282.0	\$ 291.6
Total Revised General Fund Revenues	\$ 17,256.8	\$ 17,583.7	\$ 15,919.7	\$ 16,857.7	\$ 17,594.6
Total – All Appropriated Funds Revenues	\$ 18,535.9	\$ 18,932.1	\$ 17,313.3	\$ 18,313.1	\$ 19,080.9

Fiscal Accountability

ASSUMPTIONS USED TO DEVELOP REVENUE ESTIMATES

	Fiscal 2009-10	Fiscal 2010-11	Fiscal 2011-12	Fiscal 2012-13	Fiscal 2013-14
UNITED STATES					
Gross Domestic Product	0.7%	3.2%	6.5%	6.2%	4.6%
Real Gross Domestic Product	0.2%	2.6%	5.0%	4.5%	3.0%
G.D.P. Deflator	0.5%	0.6%	1.4%	1.6%	1.6%
Housing Starts (M)	3.63	4.57	7.97	10.03	9.97
Unemployment Rate	10.0%	9.8%	8.0%	6.4%	5.7%
New Vehicle Sales (M)	10.91	12.68	15.18	16.60	17.03
Consumer Price Index	0.7%	1.6%	2.0%	2.0%	2.0%
CONNECTICUT					
Personal Income	-0.4%	1.7%	3.5%	4.7%	4.7%
Nonagricultural Employment	-3.3%	-0.3%	2.2%	3.1%	1.9%
Unemployment Rate	8.4%	8.6%	7.1%	5.6%	4.9%

M denotes millions.

ECONOMIC GROWTH RATES FOR PROJECTED TAX REVENUES
(PERCENT CHANGE)

Taxes	General Fund				
	2009-10	2010-11	2011-12	2012-13	2013-14
Personal Income Tax ¹	-2.9, -14.0	1.3, 10.0	5.3, 17.5	7.8, 15.5	7.8, 2.5
Sales & Use Tax ²	-6.3	3.2	2.8	3.1	3.4
Corporation Tax	-4.0	9.4	0.0	2.0	2.5
Public Service Tax	0.9	2.2	2.5	2.3	2.3
Inheritance & Estate Tax	-2.4	1.0	3.5	3.5	2.6
Insurance Companies Tax	-1.0	2.0	2.0	2.2	2.4
Cigarettes Tax	-4.9	-3.6	-2.5	-2.5	-2.5
Real Estate Conveyance Tax	-5.3	17.8	24.3	5.2	5.2
Oil Companies Tax	-0.6	0.0	3.0	3.2	3.2
Alcoholic Beverages Tax	2.0	1.0	1.0	1.0	1.0
Admissions & Dues Tax	3.1	1.4	1.6	1.0	1.0
Special Transportation Fund					
Taxes	2009-10	2010-11	2011-12	2012-13	2013-14
Motor Fuels Tax	0.0	1.0	1.0	1.0	1.0
Sales Tax - DMV	0.1	2.6	3.2	2.0	2.0

NOTES:

1. Rates for withholding and "estimates and final filings".
2. Revised growth rates based on current revenue projection

SECTION 2
PROJECTED TAX CREDITS

PROJECTED TAX CREDITS

It should be noted that the basis for projections of tax credits claimed relies upon data from several years ago. This is due to the fact that information regarding tax credits is typically delayed as firms often request an extension to file their final returns. This delays the receipt of such data by the tax department which then must still have the return information data captured.

In calculating the expected amount of credits to be claimed, OPM examined the most recent relevant years available (income years 2004 to 2006 for business credits and income year 2007 for the personal income tax credit) of both the number of credits claimed and their corresponding dollar value. An average value was derived over that time period which then became the base for fiscal year 2010. From fiscal year 2011 and forward, the number of credits claimed and the dollar value of credits claimed was increased by appropriate growth rates.

PROJECTED TOTAL AMOUNTS OF TAX CREDITS CLAIMED

(In Thousands)

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Personal Income Tax Credits					
Property Tax	\$ 370,000	\$ 377,000	\$ 385,000	\$ 393,000	\$ 401,000
Total Personal Income Tax	\$ 370,000	\$ 377,000	\$ 385,000	\$ 393,000	\$ 401,000
Business Tax Credits					
Fixed Capital	\$ 60,000	\$ 60,600	\$ 61,200	\$ 61,800	\$ 62,400
Film Industry	35,000	25,000	26,000	27,000	28,000
Electronic Data Processing	32,000	32,000	32,000	32,000	32,000
Urban and Industrial Reinvestment**	17,200	20,000	27,800	30,390	40,390
Research and Experimental Expenditures	15,000	15,200	15,000	15,000	15,000
Film Industry Digital Animation*	11,000	15,000	15,000	15,000	15,000
Insurance Reinvestment**	5,800	4,700	1,100	1,100	1,000
Historic Rehabilitation- Mixed Use*	5,000	5,000	10,000	16,700	16,700
Historic Structures	5,000	5,000	7,500	10,000	10,000
Research and Development Expenditures	5,000	5,100	5,000	5,000	5,000
Film Industry Infrastructure*	3,600	4,000	4,500	5,000	5,000
Housing Program Contribution	2,800	2,800	2,800	2,800	2,800
Human Capital	2,000	2,000	2,000	2,000	2,000
Machinery and Equipment	2,000	2,000	2,000	2,000	2,000
Neighborhood Assistance	1,200	1,200	1,000	1,000	1,000
Job Creation	1,100	2,300	3,500	4,700	5,500
Manufacturing Facility in Targeted Investment Community or Enterprise Zone	1,000	1,000	1,000	1,000	1,000
Apprenticeship Training	500	500	500	500	500
Donation of Open Space Land	500	500	500	500	500
Computer Donation	300	300	300	300	300
Historic Homes Rehabilitation	100	100	100	100	100
R&D Grants to Higher Education	100	100	100	100	100
Small Business Guaranty Fee	100	101	102	103	104
Traffic Reduction	75	76	77	78	79
Displaced Worker & Electric Worker	20	20	20	20	20
Hiring Incentive	10	10	10	10	10
Financial Institutions	3	3	3	3	3
Enterprise Zone	1	1	1	1	1
Service Facility	1	1	1	1	1
Total Business Tax	\$ 206,410	\$ 204,612	\$ 219,114	\$ 234,206	\$ 246,508
Total Amount Claimed	\$ 576,410	\$ 581,612	\$ 604,114	\$ 627,206	\$ 647,508

* New Tax Credits enacted during the 2007 Legislative Session

** Estimates are based on the DECD approved tax credits coming due in each fiscal year

Fiscal Accountability

PROJECTED NUMBER OF TAX CREDITS CLAIMED

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Personal Income Tax Credits					
Property Tax	<u>940,000</u>	<u>949,000</u>	<u>958,000</u>	<u>968,000</u>	<u>978,000</u>
Total Personal Income Tax	940,000	949,000	958,000	968,000	978,000
Business Tax Credits					
Fixed Capital	2,400	2,420	2,440	2,460	2,480
Film Industry	35	25	26	27	28
Electronic Data Processing	1,700	1,720	1,740	1,760	1,780
Urban and Industrial Reinvestment	5	7	8	11	11
Research and Experimental Expenditures	150	152	153	155	156
Film Industry Digital Animation*	1	1	1	1	1
Insurance Reinvestment	2	2	1	1	1
Historic Rehabilitation- Mixed Use*	5	5	5	5	5
Historic Structures	5	5	5	5	5
Research and Development Expenditures	145	146	148	149	151
Film Industry Infrastructure*	2	2	2	2	2
Housing Program Contribution	8	8	8	8	8
Human Capital	180	182	184	185	187
Machinery and Equipment	180	182	184	185	187
Neighborhood Assistance	75	76	77	77	78
Job Creation	5	8	10	12	15
Manufacturing Facility in Targeted Investment Community or Enterprise Zone	40	40	41	41	42
Apprenticeship Training	15	15	15	15	15
Donation of Open Space Land	4	4	4	4	4
Computer Donation	2	2	2	2	2
Historic Homes Rehabilitation	4	4	4	4	4
R&D Grants to Higher Education	1	1	1	1	1
Small Business Guaranty Fee	1	1	1	1	1
Traffic Reduction	3	3	3	3	3
Displaced Worker & Electric Worker	5	5	5	5	5
Hiring Incentive	2	2	2	2	2
Financial Institutions	5	5	5	5	5
Enterprise Zone	1	1	1	1	1
Service Facility	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total Business Tax	4,982	5,025	5,077	5,131	5,183
Total Number of Credits Claimed	944,982	954,025	963,077	973,131	983,183

* New Tax Credits enacted during the 2007 Legislative Session

SECTION 3
SUMMARY OF ESTIMATED DEFICIENCIES

SUMMARY OF ESTIMATED DEFICIENCIES

(Reasons for Deficiencies and Basis of Assumptions)

DEPARTMENT OF PUBLIC WORKS

The agency is projecting a deficiency in Other Expenses (\$4 million), Property Management Services (\$1 million), Facilities Design Expense (\$1 million) and Rents and Moving (\$2.3 million) as a result of the required contract savings and the Other Expenses reduction to FY 07 levels included in the budget adopted by the General Assembly.

DEPARTMENT OF PUBLIC SAFETY

The Department of Public Safety will experience a shortfall of \$3.3 million in their Fleet Services account due to the application of the bottom line contract savings required in PA09-3, JSS. This account provides funding for the acquisition of Department of Public Safety vehicles, primarily patrol cars for the Division of State Police. The funds that were appropriated were only sufficient to pay for existing vehicles for the Department.

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health has an estimated deficiency of approximately \$3 million in its personal services account due to "reinvention savings" identified in the Legislature's adopted budget. The agency is also projecting a shortfall of \$1 million in the other expenses line item. This shortfall is due to the reduced appropriation level and holdbacks that were necessary to implement PA 09-3, JSS.

DEPARTMENT OF DEVELOPMENTAL SERVICES

Deficiencies totaling \$21.7 million are anticipated in the Department of Developmental Services. The deficiency is composed of \$2.3 million in Other Expenses due to higher than budgeted costs, \$9 million in Early Intervention resulting from significant caseload growth, \$2 million in Workers' Comp due to higher than budgeted monthly claims, \$2.5 million in Voluntary Services due to unbudgeted caseload growth and \$5.9 million in Community Residential Services because of unbudgeted development needs and movement of clients from state operated to privately provided services.

DEPARTMENT OF MENTAL HEALTH AND ADDICTION SERVICES

Deficiencies totaling \$13.8 million are anticipated in the Department of Mental Health and Addiction Services. The deficiency is composed of \$9.0 million in Other Expenses due to higher than budgeted costs, \$800,000 in Professional Services due to higher than budgeted contracted medical services for DMHAS inpatients and \$4 million in the Discharge and Diversion account for unbudgeted costs of community placements.

DEPARTMENT OF SOCIAL SERVICES

A net deficiency of \$73.5 million is projected in the Department of Social Services. This includes a projected deficiency of \$68.2 million in Medicaid related to lower savings estimates for special needs plans, managed care for the aged, blind and disabled, and managed care rate changes. A deficiency of \$9.5 million in Other Expenses is projected as a result of higher than budgeted costs. Increased caseloads are resulting in projected deficiencies of \$6.0 million in the Charter Oak Health Plan and \$3.5 million in the Temporary Family Assistance program. A \$5.0 million deficiency is projected in the HUSKY B account due to higher caseloads and utilization. An estimated deficiency of \$4.0 million in the Connecticut Home Care Program is due to delays in the implementation of the cost sharing initiative as a July 1, 2009 date was assumed in the enacted budget. These increases are partially offset by lapses in the Child Care Subsidies and SAGA accounts.

DEPARTMENT OF CORRECTION

The Department of Correction is currently projected to be short \$21.5 million, \$17 million of which is in Other Expenses and \$4.5 million in Workers' Compensation Claims. The Other Expenses shortfall is the result of applying bottom line lapse amounts necessary to implement requirements of PA 09-3, JSS compounded with a reduced appropriation that reflects anticipated savings through the establishment of various correctional policies to manage the prison population.

The Workers' Compensation Claims account shortfall is due to an appropriation \$2 million below what was previously expended in FY08 and FY09 as well as medical expenditures in August and September at twice the expected level.

JUDICIAL

The department is projecting a deficiency of \$5.5 million. \$2.5m shortfall is in Other Expenses to cover general operating expenses and as a result of holdbacks necessary to implement PA 09-3, JSS. There is a \$2.0 million shortfall in Juvenile Alternative Incarceration due to the cost of programs and services for the juvenile justice system; facilities and early intervention projects for juvenile offenders and a \$1.0 million shortfall in Juvenile Justice Centers related to costs to develop and implement services at various Juvenile Justice Centers throughout the state.

OFFICE OF THE STATE COMPTROLLER – RETIREE HEALTH

The budgeted appropriations for the fringe benefits accounts under Public Acts 09-3 JSS and PA 09-7 SSS were not adjusted for the impact of the Retirement Incentive Program (RIP). Active employee health costs are divided among various funds depending on which agency the employee worked. However, once an employee retires their health costs are attributed to the general fund only. The \$60,900,000 represents the additional retiree health costs of the approximately 3900 state employees who participated in the RIP.

SECTION 4
PROJECTED BALANCE OF THE
BUDGET RESERVE FUND

BUDGET RESERVE FUND

PROJECTED FUND BALANCE

(Assumes Expenditure Reductions Are Made To Remain Below Spending Cap and to Balance Budget)

(In Millions)

Budget Reserve Fund Activity:

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Beginning Balance	\$ 1,381.7 ⁽¹⁾	\$ 342.0	\$ -	\$ -	\$ -
Deposits/(Withdrawals)	(1,039.7)	(342.0)	- ⁽²⁾	- ⁽²⁾	- ⁽²⁾
Ending Balance	<u>\$ 342.0</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Balance as Percent of Budget	2.0%	0.0%	0.0%	0.0%	0.0%
Balance Over/(Under) Target	<u>\$ (1,389.6)</u>	<u>\$ (1,564.3)</u>	<u>\$ (1,605.6)</u>	<u>\$ (1,638.4)</u>	<u>\$ (1,619.8)</u>
Available Over BRF Target ⁽³⁾	\$ -	\$ -	\$ -	\$ -	\$ -

Calculation of Budget Reserve Fund Target Balance:

General Fund Appropriations	\$ 17,370.3	\$ 17,594.7	\$ 18,943.7	\$ 19,491.6	\$ 20,176.3
G.F. Reductions to Remain Below Expenditure Cap	-	-	(511.2)	(564.4)	(822.1)
G.F. Reductions to Balance Budget	(219.0)	(49.0)	(2,500.0)	(8.0)	(40.9)
G.F. Reductions Due to Prior Years Budget Balancing Adjustments	-	(230.0)	(289.1)	(2,862.8)	(2,929.3)
Adjusted G.F. Appropriations	<u>\$ 17,151.3</u>	<u>\$ 17,315.7</u>	<u>\$ 15,643.4</u>	<u>\$ 16,056.4</u>	<u>\$ 16,383.9</u>
Target Balance ⁽⁴⁾	\$ 1,731.6	\$ 1,564.3	\$ 1,605.6	\$ 1,638.4	\$ 1,619.8 ⁽⁵⁾
Balance Over/(Under) Target	<u>\$ (1,389.6)</u>	<u>\$ (1,564.3)</u>	<u>\$ (1,605.6)</u>	<u>\$ (1,638.4)</u>	<u>\$ (1,619.8)</u>

(1) FY2009-10 beginning balance is based on final FY2008-09 balance.

(2) Deposited amounts assume expenditure reductions due to spending cap and balancing budget, and are not because Budget Reserve Fund targets have been met.

(3) Available for debt service and/or unfunded liabilities when BRF target of 10% has been reached.

(4) Target Balance is equal to ten percent of the next fiscal year's adjusted general fund appropriations.

(5) FY2013-14 Target Balance assumes average expenditure growth rate of previous four years.

SECTION 5
PROJECTED BOND AUTHORIZATIONS,
ALLOCATIONS AND ISSUANCES

FIVE YEAR BOND PROJECTIONS

	FY2010	FY2011	FY2012	FY2013	FY2014
Bond Authorizations					
General Obligation Bonds	\$ 929,866,316	\$ 825,728,578	\$ 1,105,000,000	\$ 1,105,000,000	\$ 1,105,000,000
Special Tax Obligation Bonds	579,200,000	265,400,000	223,300,000	222,400,000	222,300,000
Clean Water Fund Revenue Bonds	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000
UCONN 21st Century	140,500,000	146,500,000	123,100,000	114,500,000	111,500,000
CSUS 2020	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
Total Bond Authorizations	\$ 1,824,566,316	\$ 1,412,628,578	\$ 1,626,400,000	\$ 1,616,900,000	\$ 1,613,800,000
Bond Allocations					
General Obligation Bonds					
School Construction Program	\$ 688,300,000	\$ 641,600,000	\$ 617,100,000	\$ 615,500,000	\$ 642,000,000
Urban Action Grants	10,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Small Town Economic Assistance Program	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Housing Trust Fund	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Clean Water Grants	65,000,000	40,000,000	65,000,000	65,000,000	65,000,000
Manufacturing Assistance Act	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Local Capital Improvement Program	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
New Public Health Laboratory	81,700,000	-	-	-	-
Community College System	215,000,000	55,200,000	86,500,000	65,500,000	84,100,000
Connecticut State University System – CSUS2020	95,000,000	95,000,000	95,000,000	95,000,000	95,000,000
All other GO projects/programs	124,500,000	111,700,000	103,300,000	134,500,000	92,400,000
UCONN 21st Century	140,500,000	146,500,000	123,100,000	114,500,000	111,500,000
Total General Obligation Bonds	\$ 1,500,000,000	\$ 1,200,000,000	\$ 1,200,000,000	\$ 1,200,000,000	\$ 1,200,000,000
Special Tax Obligation Bonds	500,000,000	500,000,000	325,000,000	325,000,000	325,000,000
Clean Water Fund Revenue Bonds	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000
Total Bond Allocations	\$ 2,080,000,000	\$ 1,780,000,000	\$ 1,605,000,000	\$ 1,605,000,000	\$ 1,605,000,000
Bond Issuance					
General Obligation Bonds	\$ 1,200,000,000	\$ 1,200,000,000	\$ 1,200,000,000	\$ 1,200,000,000	\$ 1,200,000,000
Special Tax Obligation Bonds	500,000,000	625,000,000	425,000,000	375,000,000	375,000,000
Clean Water Revenue Bonds	200,000,000	200,000,000	300,000,000	300,000,000	300,000,000
UCONN 21st Century	105,000,000	216,750,000	193,350,000	114,500,000	111,500,000
Total Bond Issuance	\$ 2,005,000,000	\$ 2,241,750,000	\$ 2,118,350,000	\$ 1,989,500,000	\$ 1,986,500,000
Debt Service					
General Fund	\$ 1,662,315,540	\$ 1,702,719,490	\$ 1,959,336,803	\$ 2,006,281,475	\$ 2,062,442,755
Transportation Fund	443,958,243	467,246,846	482,001,341	476,889,201	476,033,377
Total Debt Service	\$ 2,106,273,783	\$ 2,169,966,336	\$ 2,441,338,144	\$ 2,483,170,676	\$ 2,538,476,132
Debt Service as a Percentage of Budget					
GO Debt Service as Percentage of General Fund	9.45%	9.62%	10.34%	10.29%	10.22%
Total Debt Service	11.27%	11.50%	12.09%	11.96%	11.83%

Assumptions

Bond Authorizations

Projected General Obligation Bond authorizations assume that authorizations continue at historical average levels.

Clean Water Program Revenue Bond authorizations based on projected allocations.

UCONN 21st Century authorizations in accordance with C.G.S. 10a-109g as amended.

CSUS2020 authorizations in accordance with P.A. 07-7, June Special Session.

Bond Allocations

The projected bond allocations in no way represent a commitment to fund any of these programs or projects.

School Construction Program allocations based on budget projections prepared by the Department of Education.

Community College allocations are based on project status and available resources.

Debt Service

FY 2010– Includes estimated lapse and rescissions

As projected by Treasurer for actual and future annual issuance.

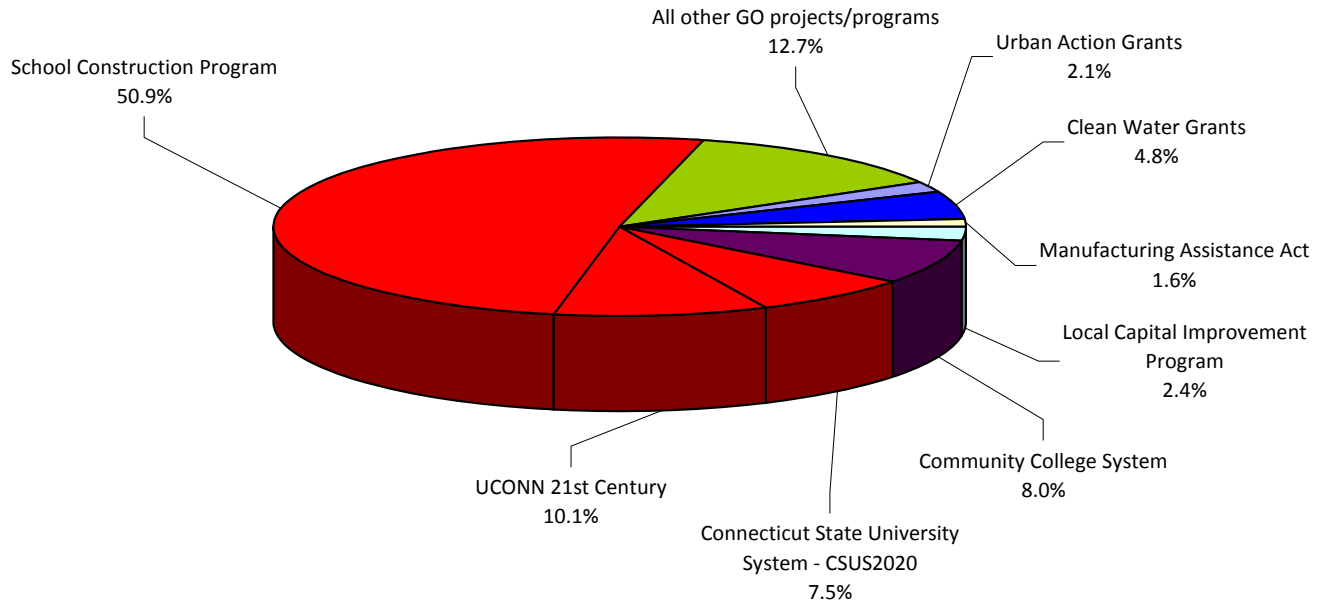
The General Obligation interest rate is assumed to be at 5.00% for FY2010

General Obligation Interest rates are assumed to be at 5.50% in FY 2011 and held constant at 5.75% in the following years

Special Tax Obligation interest rates are projected at 5.75% in FY 2011 and held constant at 6.0% in the following years

GENERAL OBLIGATION BOND ALLOCATIONS

PROJECTED FY2010 - FY2014



SECTION 6
REVENUE AND EXPENDITURE TRENDS,
MAJOR COST DRIVERS

WATCH LIST

FY2010 AREAS OF CONCERN

(In Millions)

GENERAL FUND

<u>Agency</u>	<u>Amount</u>
Statewide Lapses – unspecified cuts	\$ 473.3
Department of Social Services – budgeted Medicaid Savings	301.8
Particular Areas of Concern	
Medicaid trend re-estimate	13.0
Reduce MCO Rates by 6%	50.1
Special Needs Plans	25.0
Managed Services for aged, blind & disabled	27.8
Combat Medicaid Fraud	19.0
Judicial Department	7.9
Department of Correction	20.0
Department of Developmental Services	20.0
Total	<u>\$ 823.0</u>

STRUCTURAL HOLES

IMPACT ON FISCAL 2012- GENERAL FUND

(In Millions)

REVENUE

1. ARRA - Federal Stimulus	\$	594.8
2. Securitization		1,290.7
3. Budget Reserve Fund		342.0
4. Securitization - Loss of Revenue		216.5
5. UCHC Medical Malpractice Account Transfer		10.0
6. Sale of Assets		45.0
7. Corporate Tax Surcharge		34.1
Total Revenue	\$	2,533.1

EXPENDITURES

8. Debt Service - Economic Recovery Notes	\$	208.4
9. Leap Year Costs		6.0
10. 27 th Payroll (General Fund Only)		108.6
Total Expenditures		323.0

Grand Total **\$** **2,856.1**

% of FY2011 Enacted Budget 16.3 %

- A Structural Hole exists in FY2013 for the first RIP accrual payment (estimated at \$28.1 million)

LONG-TERM OBLIGATIONS

- The state's long-term obligations total \$61.7 billion, up 7.1% from last year's reported amount of \$57.6 billion.
- This equates to approximately \$17,628 for every man, woman and child in Connecticut, up \$1,002 from last year's reported amount of \$16,626.
- In comparison, total Personal Income Tax collections in FY 2010 will only be \$6.610 billion.

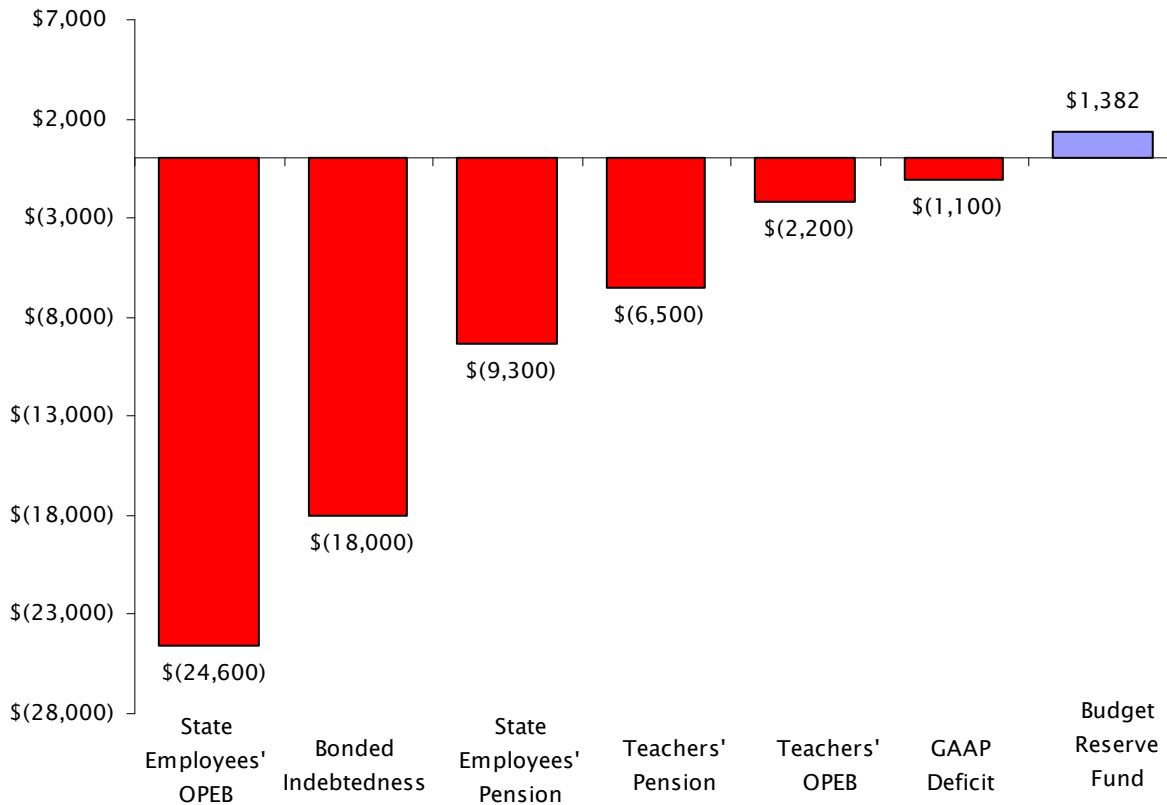
LONG-TERM OBLIGATIONS

(In Billions)

Bonded Indebtedness – As of 9/30/2009	\$	18.0
State Employee Pensions – Unfunded 6/30/2008		9.3
Teachers' Pension – Unfunded 6/30/2008		6.5
State Employees Post Retirement Health and Life – Unfunded		24.6
Teachers' Post Retirement Health and Life – Unfunded		2.2
GAAP Deficit		1.1
Total	\$	61.7

LONG-TERM OBLIGATIONS DWARF THE BUDGET RESERVE FUND*

(In Millions)



* the entire FY2009 Budget Reserve fund balance of \$1,382 million is budgeted as revenue to balance the FY2010-2011 budget

DEBT BURDEN

Ranked by Per Capita State Debt
Among the 50 States in 2007

Rank	State	Amount (\$)
1	Massachusetts	\$ 10,504
2	Alaska	9,621
3	Rhode Island	7,994
4	Connecticut	6,830
5	Delaware	6,082
6	New Jersey	5,938
7	New Hampshire	5,860
8	New York	5,666
9	Vermont	4,917
10	Montana	4,861
11	Hawaii	4,665
12	Illinois	4,252
UNITED STATES		\$ 3,113

Ranked by State Debt
As a % of Personal Income (PI)-2007

Rank	State	Debt/PI
1	Alaska	24.1%
2	Massachusetts	21.6%
3	Rhode Island	20.2%
4	Delaware	15.4%
5	Montana	14.8%
6	New Hampshire	13.9%
7	Vermont	13.3%
8	Connecticut	12.6%
9	New York	12.4%
10	New Jersey	12.1%
11	New Mexico	12.0%
12	Maine	11.8%
UNITED STATES		8.1%

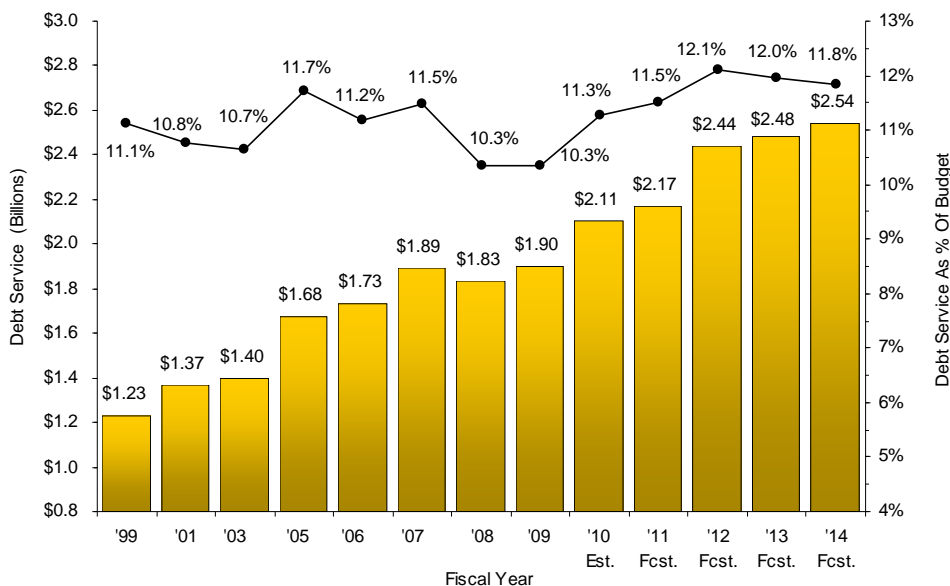
- Connecticut's debt burden in 2007 equals \$6,830 per person
- The state's burden is more than 2 times the national average, and higher than most of its neighboring states
- Even after adjusting for its high personal income, Connecticut would still rank 8th in the nation in 2007
- Even after adjusting for debt issued by counties and other political subdivisions, Connecticut would still rank 8th per capita in the nation or 35th on a personal income basis in 2007

Source: U.S. Department of Commerce, Census & BEA

IMPACT OF DEBT EXPENSES

DEBT SERVICE EXPENDITURES

GENERAL & SPECIAL TRANSPORTATION FUNDS



- Debt Service expenditures have doubled since 1999.
- The increase in debt service expenditures crowds out discretionary spending.
- With the issuance of nearly \$1.0 billion in Economic Recovery Notes to fund the FY2009 deficit, debt service as a percentage of expenditures jumps to 12.1% in FY 2012.

CONNECTICUT'S BOND RATING

CURRENT GENERAL OBLIGATION BOND RATING

<u>Moody's</u>	<u>Standard & Poor's</u>	<u>Fitch</u>
Aa3	AA	AA

- Prior to 1975, Connecticut's General Obligation (GO) bonds had the highest rating possible: Aaa by Moody's and AAA by Standard & Poor's (S&P)
- **The most recent revision in Connecticut's bond rating was a change in outlook to negative by both Moody's and Fitch in November 2009**

<u>Rating</u>	Number of States Rated		
	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Better than CT	28	22	13
Equal to CT	10	17	14
Lower than CT	<u>3</u>	<u>4</u>	<u>9</u>
Total*	41	43	36

* 44 states issue GO bonds. All 44 states are rated by Standard and Poor's. Moody's does not rate Nebraska. Fitch does not rate Arizona, Arkansas, Colorado, Nebraska, New Mexico, North Dakota, and Wyoming.

Moody's Rating Service Assessment

State Credit Strengths

- Operating surpluses in FY 2004 – FY 2008 were deposited into the Budget Reserve Fund
- Early repayment of the Economic Recovery Notes issued to cover the FY 2002 and FY 2003 operating deficits
- Wealthiest state in the nation

State Credit Challenges

- Use of deficit financing to close the FY 2009 budget gap
- Use of one-time solutions, including securitization and federal stimulus funds to balance the FY 2009–2011 biennial budget
- Pension systems have low funding ratios
- Debt ratios are among the highest in the nation
- Over-reliance on volatile income streams

What could make the state rating improve

- Established trend of structural budget balance
- Significantly improving the funding of pension liabilities
- Evidence of a stronger economic performance
- Reduced debt ratios

What could make the state rating deteriorate

- Increased use of one-time budget solutions
- Continued revenue weakness due to delay in economic recovery
- Reduction in cash flow– reduced liquidity
- Further use of deficit financings to resolve budget gaps
- Failure to identify a fiscal plan to restore structural budget balance after the use one-time solutions including securitization and federal stimulus funds

CONNECTICUT'S CREDIT RATING

Neighboring States' Ratings

- Currently, neighboring states that are rated better or lower than Connecticut's Aa3 Moody's rating are:
 - Better than CT: Vermont (Aaa), Massachusetts (Aa2), and New Hampshire (Aa2)
 - Lower than CT: None
- Currently, neighboring states that are rated better or lower than Connecticut's AA Standard and Poor's rating are:
 - Better than CT: Vermont (AA+)
 - Lower than CT: None
- Currently, neighboring states that are rated better or lower than Connecticut's AA Fitch rating are:
 - Better than CT: Vermont (AA+)
 - Lower than CT: New Jersey (AA-), New York (AA-), and Rhode Island (AA-)

Importance of Bond Ratings

- The rating process informs investors about risk
- The rating process shows how we compare relative to other investments
- Connecticut is a high-debt state
- Low ratings will result in higher borrowing costs

TAX BURDEN

Per Capita State Tax Burden 2007

<u>Rank</u>	<u>State</u>	<u>Amount</u>
1	ALASKA	\$ 5,055
2	VERMONT	\$ 4,122
3	HAWAII	\$ 3,988
4	WYOMING	\$ 3,870
5	CONNECTICUT	\$ 3,681
6	MINNESOTA	\$ 3,431
7	DELAWARE	\$ 3,371
8	NEW JERSEY	\$ 3,364
9	NEW YORK	\$ 3,251
10	MASSACHUSETTS	\$ 3,195
	United States Avg.	\$ 2,489

- Connecticut has one of the highest tax burdens in the U.S. on a per capita basis
- Ranks 5th highest in the nation, at \$3,681 for every, man, woman and child in the state in FY 2007
- Connecticut's tax burden is 47.9% higher than the national average, much higher than its neighbors

Source: U.S. Department of Commerce, Census & BEA

Total Connecticut State Tax Burden* State, County, and Local Taxes 2008

<u>Rank</u>	<u>State</u>	<u>% of Personal Income</u>
1	New Jersey	11.8%
2	New York	11.7%
3	Connecticut	11.1%
4	Maryland	10.8%
5	Hawaii	10.6%
6	California	10.5%
7	Ohio	10.4%
8	Vermont	10.3%
9	Minnesota	10.2%
10	Pennsylvania	10.2%
	United States Avg.	9.7%

- When county, and local taxes are added to state taxes and adjusted for Personal Income, Connecticut ranks 3rd in the nation
- Connecticut ranks 1st in state, county and local tax burden on a per capita basis at \$7,007 which is 63.6% higher than the national average of \$4,283

Source: Tax Foundation

* Defined as total tax divided by income

STATE BUSINESS COMPETITIVENESS

BHI STATE COMPETITIVENESS INDICATORS INDEX- 2008

<u>State</u>	<u>Overall Index</u>	<u>Rank</u>
Massachusetts	7.33	1
Utah	6.79	2
North Dakota	6.75	3
Colorado	6.73	4
Idaho	6.58	5
Washington	6.57	6
Minnesota	6.17	7
Oregon	5.97	8
Wyoming	5.94	9
Montana	5.88	10
Vermont	5.69	13
New Hampshire	5.63	17
Connecticut	5.16	21
Rhode Island	4.58	31
New York	4.38	35
New Jersey	4.15	42

- The index is based on 43 indicators that are divided into 8 sub-indexes
- CT ranked favorably in security (2nd), technology (7th), openness (12th), and human resources (13th)
- CT ranked poorly in business incubation (36th), infrastructure (38th), environmental policy (41st), and governmental and fiscal policy (43rd)
- CT's ranking reflects a better than average environment for retaining business and its standard of living for residents over the long run

Source: The Beacon Hill Institute, 11/19/08

STATE BUSINESS TAX CLIMATE INDEX-FY 2010

<u>State</u>	<u>Score</u>	<u>Rank</u>
South Dakota	7.42	1
Wyoming	7.38	2
Alaska	7.38	3
Nevada	7.05	4
Florida	6.62	5
Montana	6.32	6
New Hampshire	6.25	7
Delaware	5.98	8
Washington	5.81	9
Utah	5.80	10
Maine	4.83	34
Massachusetts	4.73	36
Connecticut	4.72	38
Vermont	4.56	41
Rhode Island	4.33	44
New York	3.66	49
New Jersey	3.60	50

- The State Business Tax Climate Index gauges the tax system, rather than tax burden among the 50 states
- Favorable tax systems levy low, flat rates on the broadest bases possible, instead of lucrative tax incentives, exemptions, and subsidies
- States with favorable tax systems are able to attract new businesses and have an advantage in generating economic & employment growth

Source: Tax Foundation, 9/22/09

RETIREMENT SYSTEM STATISTICS

STATE EMPLOYEES' AND TEACHERS' SYSTEMS COMBINED

(In Thousands)

State	Actuarial Funding Ratio	Unfunded Liability (Surplus)	State	Actuarial Funding Ratio	Unfunded Liability (Surplus)
1 Oregon	112.2%	-\$6,456,600	26 New Mexico	82.7%	\$4,619,733
2 Florida	105.3%	-\$6,633,333	27 Virginia*	82.3%	\$10,301,000
3 New York	105.1%	-\$9,912,700	28 Arizona SRS	82.2%	\$6,019,010
4 North Carolina	104.7%	-\$2,468,032	29 Massachusetts	80.5%	\$10,491,797
5 Delaware*	103.7%	-\$202,093	30 Maine	78.8%	\$2,749,511
6 Wisconsin	99.6%	\$320,500	31 Maryland*	78.7%	\$10,094,353
7 South Dakota	97.2%	\$192,500	32 Wyoming	78.6%	\$1,316,247
8 Tennessee	96.2%	\$1,025,156	33 Nevada	77.7%	\$5,363,013
9 Georgia*	93.5%	\$3,938,889	34 Alabama	77.0%	\$9,164,561
10 Idaho	92.8%	-\$573,400	35 Alaska	74.3%	\$3,524,901
11 Texas	90.9%	\$13,414,362	36 Mississippi	72.9%	\$7,719,974
12 Nebraska	90.6%	\$673,972	37 New Jersey	72.7%	\$24,859,558
13 Iowa	89.1%	\$2,665,094	38 Kansas	70.8%	\$5,551,800
14 Michigan	88.2%	\$7,590,000	39 South Carolina	69.7%	\$10,225,240
15 California	87.3%	\$50,442,000	40 Colorado	69.2%	\$15,851,170
16 Washington	87.0%	\$5,727,000	41 Louisiana	69.2%	\$10,977,726
17 Pennsylvania	86.9%	\$13,239,000	42 New Hampshire	67.8%	\$2,519,282
18 Ohio	86.8%	\$20,817,340	43 Hawaii	67.5%	\$5,106,773
19 North Dakota	86.5%	\$548,900	44 Indiana	66.2%	\$10,558,117
20 Vermont*	86.5%	\$466,606	45 Kentucky	63.7%	\$12,065,755
21 Arkansas	86.5%	\$2,692,000	46 West Virginia	62.4%	\$4,867,236
22 Minnesota	84.5%	\$4,726,644	47 Connecticut	58.5%	\$14,392,325
23 Utah*	84.2%	\$2,869,805	48 Oklahoma	57.8%	\$11,492,459
24 Missouri*	83.9%	\$7,029,062	49 Illinois	53.4%	\$43,047,558
25 Montana	83.9%	\$1,391,136	50 Rhode Island	53.4%	\$4,924,784

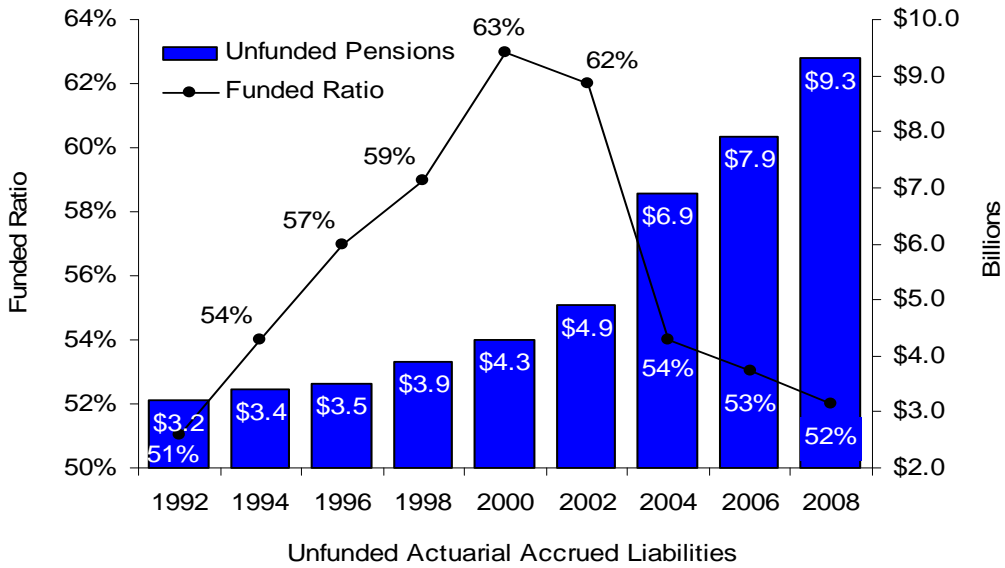
* States with AAA credit ratings per Moody's

Mean	81.6%
Median	83.3%

Source: National Association of State Retirement Administrators Public Fund Survey for FY 2009

UNFUNDED PENSIONS

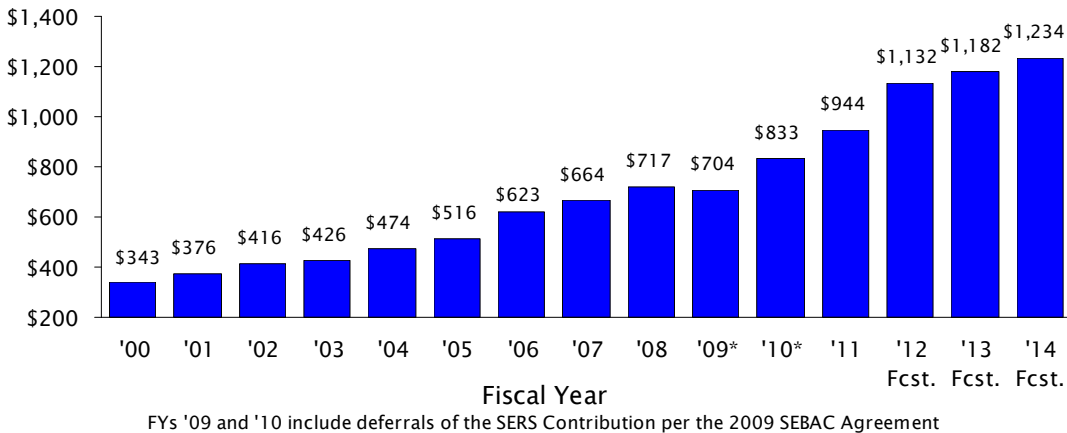
STATE EMPLOYEES RETIREMENT SYSTEM AS OF 6/30



- State Employees unfunded pension liabilities continue to grow
- The State's obligations at the end of FY2008 total \$9.3 billion
- This obligation represents roughly \$2,650 for every man, woman, and child in the State

STATE EMPLOYEES RETIREMENT SYSTEM CONTRIBUTIONS

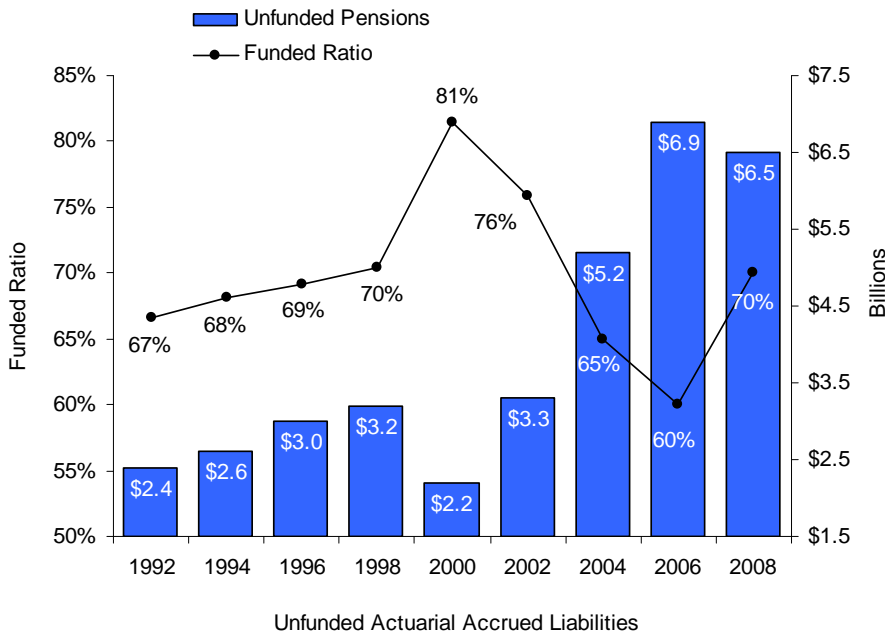
(In Millions)



- This obligation rose even with the large increase in equity valuations that took place over the 1990s
- The required contribution will rise by approximately \$299M over the next two fiscal years
- The deferral of the SERS contribution is \$50M in FY09 and \$64.5M in FY10.

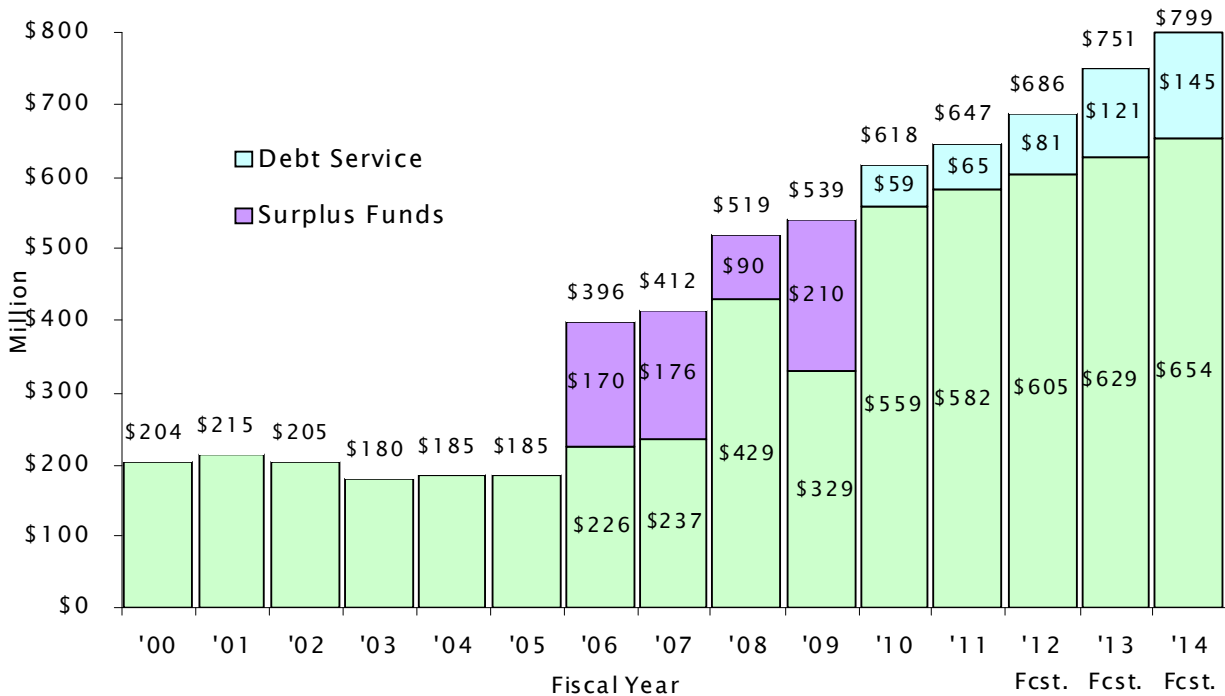
UNFUNDED PENSIONS

CONNECTICUT TEACHERS' RETIREMENT SYSTEM AS OF 6/30



- The State's obligations at the end of FY2008 total \$6.5 billion
- Contributions in FY2006, FY2007, FY2008 and FY2009 were insufficient and were supplemented by the use of surplus funds
- The \$6.5 billion does include an increase in obligations due to the elimination of the cost of living adjustment reserve account (CLARA), and does include the impact of the issuance of Pension Obligation Bonds

CONNECTICUT TEACHERS' RETIREMENT SYSTEM CONTRIBUTIONS *

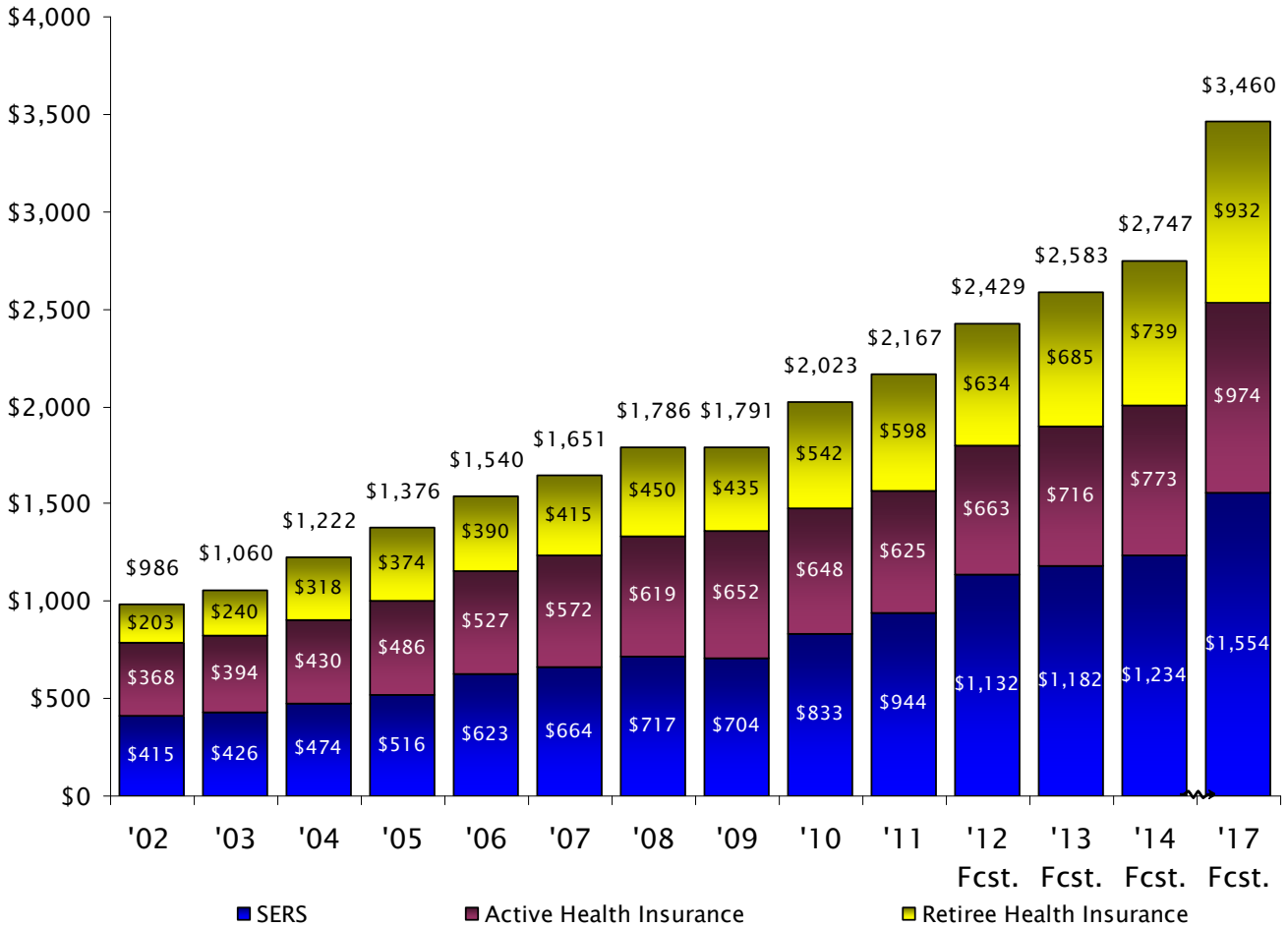


* FY06 and FY07 figures include \$170M and \$176M respectively from FY2005 and FY2006 surplus appropriations; FY08 includes \$90M and FY09 includes \$210M from FY2007 surplus appropriations. FY10 and beyond include debt service on the \$2.3 billion pension obligation bonds issued on April 30, 2008 on behalf of the Teachers' Retirement System.

STATE EMPLOYEES PENSION & HEALTH INSURANCE

ALL FUNDS – AS OF 6/30

(In Millions)



Note: Retiree Health includes offsets for the Medicare Part D Employer Subsidy starting in FY2007. The impact of the 2009 SEBAC agreement is also included.

- FY2009 – FY2011 pension costs are an estimated 25.0% higher than in prior biennium.
- FY2009 – FY2011 health insurance costs for active employees are estimated to be only 0.2% higher than in the prior biennium. This is mainly due to increases in employee co-pays for pharmacy and employee premium cost sharing for medical coverage per the 2009 SEBAC agreement.
- FY2009 – FY2011 health insurance costs for retirees are estimated to be 28.8% higher than in the prior biennium. This is mainly due to the increased number of retirees from the Retirement Incentive Program.
- FY2009 – FY2010 estimated average health insurance cost to the state is \$11,400 per active employee.

OTHER POST EMPLOYMENT BENEFITS

- The Government Accounting Standards Board (GASB) requires states to report on unfunded liabilities due to other post-employment benefits (OPEB), such as health, dental and life insurance for retirees.
- There is currently no requirement to fund OPEB liabilities
 - Required funding is expected within the next several years
 - Some states have already begun funding OPEB, which is looked upon favorably by rating agencies
- Under various measures, Connecticut consistently ranks among the states with the highest unfunded Other Post Employment Benefit levels.

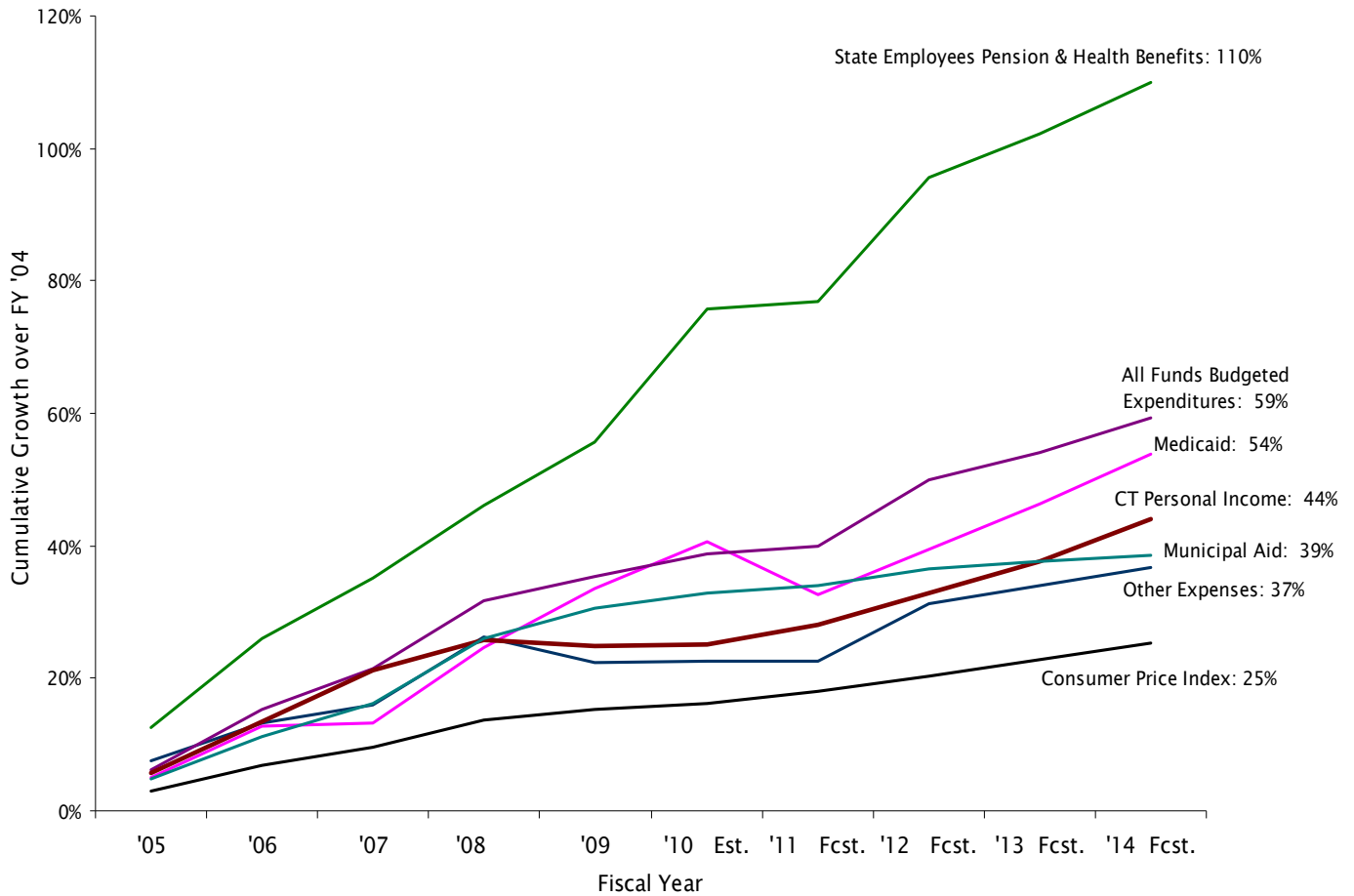
States With Highest Unfunded OPEB Liabilities (Millions of Dollars) Highest Ten States		States With Highest Per-Capita Unfunded OPEB Liabilities (Dollars) Highest Ten States	
<u>State</u>	<u>Amount</u>	<u>State</u>	<u>Amount</u>
New Jersey	\$ 68,833	New Jersey	\$ 7,947
New York	49,660	Hawaii	7,652
California	47,880	<u>Connecticut</u>	<u>7,030</u>
<u>Connecticut</u>	<u>24,614</u>	Louisiana	4,360
Illinois	24,210	West Virginia	4,320
North Carolina	23,785	Delaware	3,688
Louisiana	19,600	Maine	3,658
Ohio	18,700	Alabama	3,444
Texas	17,670	North Carolina	2,742
Alabama	15,635	Maryland	2,609

Source: February 2009 Connecticut OPEB Actuarial Report and State OPEB Actuarial

Valuations compiled by the Center for State & Local Government Excellence, July 2009

- Connecticut ranks third highest of all the states in total unfunded OPEB per-capita at \$7,030, compared to the median per-capita unfunded OPEB of \$1,333.
- Five states appear in the top ten on both lists: Connecticut, New Jersey, North Carolina, Louisiana and Alabama.
- Connecticut ranks fourth highest of all the states in total unfunded OPEB at \$24.6 billion according to the February 2009 Actuarial Report. This is a \$2.9 billion increase from the prior report of April 2006.

GROWTH IN SIGNIFICANT STATE EXPENDITURES



- The increase for State Employees Pension and Health Benefits is nearly double that of the overall budget over this period and the rate of growth is accelerating relative to the other categories
- State Employees Pension and Health Benefits and Medicaid are the principal cost drivers during this period and show increasing growth trends over the Consumer Price Index (CPI), and the remaining budget
- The above figures assume no amortization of Other Post Employment Benefits (OPEB) obligations
- The Other Expenses line does not include budgeted lapses (\$135.7 million in FY2010) in the biennium and the out-years

GENERAL FUND – OTHER EXPENSES

MAJOR EXPENDITURES BY ACCOUNT

<u>Account Title</u>	<u>FY2009 Expenditures</u>
Electricity	\$ 49,922,813
Medical Program Support Services	39,664,297
Institutional Food and Beverages	29,542,092
Premises Rent Expense–Landlord	26,970,829
Natural Gas	26,165,926
IT Data Services	25,419,627
Management Consultant Services	18,877,656
Motor Vehicle Rental	14,044,570
Local/Long Distance Telecom	12,332,078
Regular Postage	11,956,708
IT Software Maint & Support	11,297,028
Premises Repair/Maint Services	11,271,592
Non–Medical Program Support Services	10,839,592
Motor Vehicle Fuel – Gasoline	10,426,155
Premises Repair/Maint Supplies	10,369,458
IT Consultant Services	10,230,300
Premises Property Management Services	9,669,651
General Office Supplies	9,549,265
IT Hardware Maint & Support	8,142,301
Office Equipment Lease/Rental	6,650,825
Fuel Oil – Heating	6,235,051

- The total expended for FY2009 Other Expenses was \$524.6 million, a decrease of \$16.8 million from FY2008
- The majority of Other Expense spending is fixed based on overall programmatic activity – numbers of clients, inmates, patients, cases, facilities
- Growth in Other Expenses expenditures averaged 4% per year from FY2004 through FY2009; this growth rate is modest when compared with the inflation rates for fuel and utilities over the same period

STATUS OF COLLECTIVE BARGAINING AGREEMENTS

Bargaining Unit	Full Time Employees As of 7/1/09	Full Time Payroll (All Funds) As of 7/1/09	Expiration Date
Contract Expires End Of FY 2011			
Correctional Officers (NP-4) ^a	5,040	\$258,822,198	6/30/2011
Contract Expires End Of FY 2012			
State Police (NP-1)	1,098	\$81,426,489	6/30/2012
Service/Maintenance (NP-2) ^b	3,921	\$190,939,259	6/30/2012
Administrative Clerical (NP-3)	4,157	\$210,393,156	6/30/2012
Protective Services (NP-5)	843	\$51,887,595	6/30/2012
Health Care Paraprofessional (NP-6) ^c	3,685	\$195,110,612	6/30/2012
Health Care Professionals (P-1) ^c	2,952	\$252,080,161	6/30/2012
Social and Human Services (P-2)	3,660	\$251,715,806	6/30/2012
Education – Administrators (P-3A) ^c	251	\$25,956,620	6/30/2012
Education – Educators (P-3B) ^c	734	\$56,933,192	6/30/2012
Engineering, Scientific and Technical (P-4) ^c	2,524	\$202,812,767	6/30/2012
Administrative and Residual (P-5)	3,008	\$234,876,984	6/30/2012
Vocational Technical Faculty ^c	1,110	\$86,673,365	6/30/2012
Vocational Technical Administration ^c	52	\$6,885,491	6/30/2012
Technical College Faculty	167	\$13,308,423	6/30/2012
Connecticut State University Faculty (AAUP)	1,679	\$123,630,934	6/30/2012
Connecticut State University Administrative Faculty	690	\$51,331,671	6/30/2012
Community College Faculty	1,774	\$95,504,651	6/30/2012
University of Connecticut Faculty (AAUP)	1,547	\$158,227,481	6/30/2012
University of Connecticut Professionals (UCPEA)	1,653	\$100,750,976	6/30/2012
Judicial Professional Employees	1,247	\$97,764,764	6/30/2012
Judicial Non-Professional Employees	1,286	\$74,314,936	6/30/2012
UConn Health Center Non-Faculty Professionals	1,977	\$120,343,577	6/30/2012
Criminal Justice Prosecutors	253	\$32,238,713	6/30/2012
Technical College Administrators	91	\$6,321,377	6/30/2012
Criminal Justice Employees	130	\$7,029,461	6/30/2012
Department of Higher Education Professionals	37	\$2,693,409	6/30/2012
Charter Oak State College Professionals	60	\$3,935,195	6/30/2012
Judicial Marshals	657	\$27,836,843	6/30/2012
Correctional Supervisors (NP-8)	505	\$40,108,697	6/30/2012
Criminal Justice Inspectors	76	\$6,780,957	6/30/2012
Supervising Judicial Marshals	63	\$3,738,100	6/30/2012
Total 6/30/2012	<u>41,887</u>	<u>\$2,813,551,660</u>	
Total – All Contracts	46,927	\$3,072,373,858	

Note: The payroll numbers include all wages for full time employees excluding overtime.

(a) Standard schedule is 36.25 hours/week

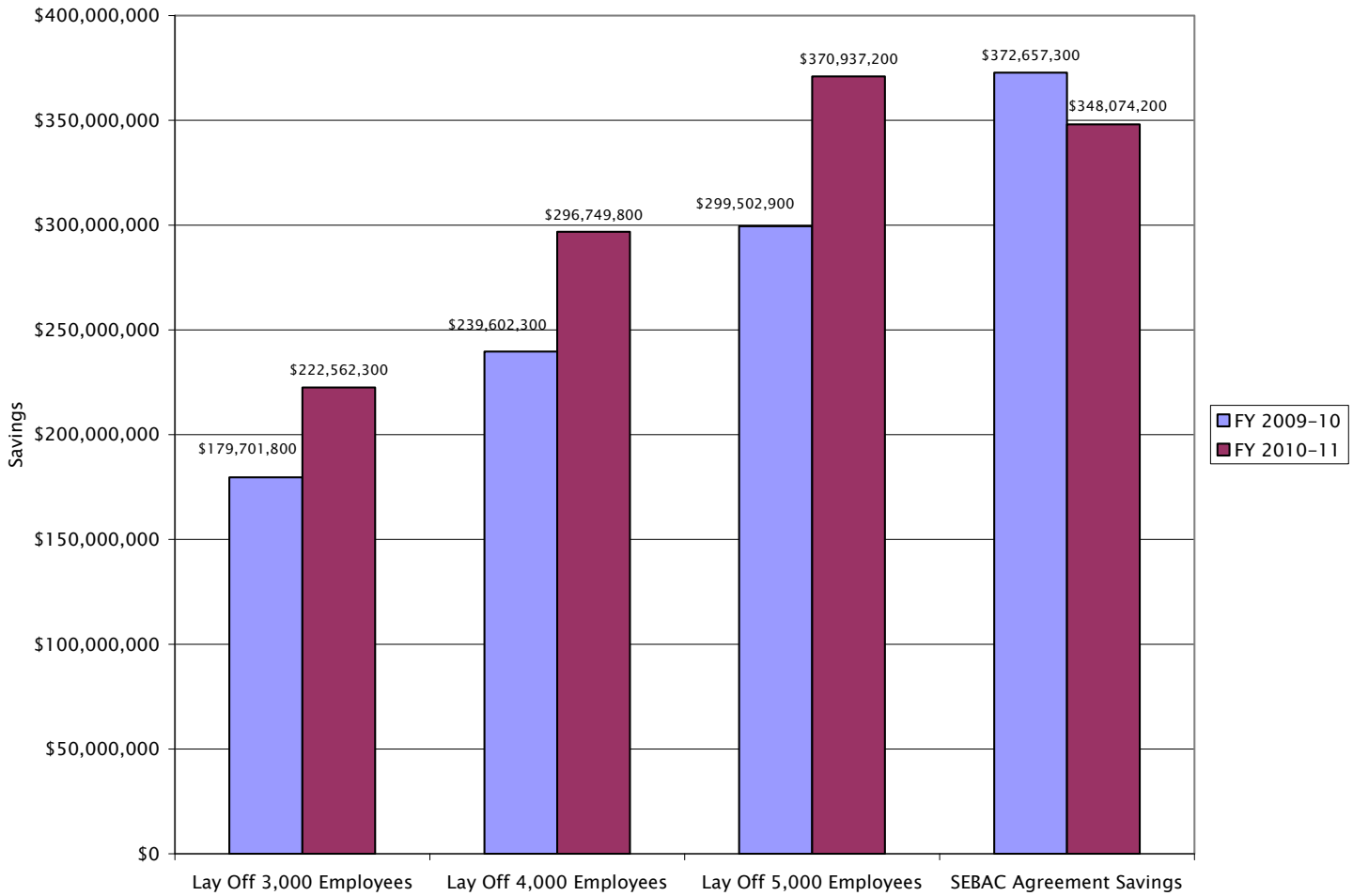
(b) Standard schedule is 37.5 hours/week

(c) Standard schedule is 35 hours/week. In the health care units, some employees are on 37.5 and 40 hour/week schedules. In the Engineering, Scientific, and Technical unit, some employees are on 40 hour/week schedules.

SEBAC AGREEMENT

COMPARATIVE ANALYSIS – SEBAC AGREEMENT VERSUS LAYOFF SCENARIOS

COMBINED GENERAL AND SPECIAL TRANSPORTATION FUNDS



- Savings from the SEBAC agreement are roughly the same as what would have been realized by laying off 5,000 employees
- SEBAC savings are shown net of approved temporary and permanent refills

SUMMARY OF LOCAL AID

ESTIMATED FORMULA GRANTS TO MUNICIPALITIES

(In Millions)

GRANT	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
State Owned PILOT	\$ 76.0	\$ 76.5	\$ 76.8	\$ 76.8	\$ 76.8	\$ 76.8
College & Hospital PILOT	115.4	115.4	115.4	115.4	115.4	115.4
Pequot Grant	86.3	61.8	61.8	86.3	86.3	86.3
Town Aid Road Grant	30.0	30.0	30.0	30.0	30.0	30.0
LoCIP	30.0	30.0	30.0	30.0	30.0	30.0
Miscellaneous General Grants	18.6	20.8	22.0	22.5	23.1	23.8
Machinery & Equipment	57.3	57.3	57.3	57.3	57.3	57.3
Subtotal – General Government	\$ 413.6	\$ 391.8	\$ 393.3	\$ 418.3	\$ 418.9	\$ 419.6
Public School Transportation	\$ 48.0	\$ 48.0	\$ 48.0	\$ 48.0	\$ 48.0	\$ 48.0
Non–Public School Transportation	4.0	4.0	4.0	4.0	4.0	4.0
Adult Education	19.6	20.6	20.6	20.6	20.6	20.6
Education Cost Sharing	1,882.9	1,889.6	1,889.6	1,889.6	1,889.6	1,889.6
Magnet Schools	128.6	148.1	174.6	199.4	217.2	230.8
Special Education – Student Based	140.0	120.5	120.5	120.5	120.5	120.5
Miscellaneous Education Grants	146.4	147.1	147.2	148.5	149.8	151.1
Subtotal – Education	\$ 2,369.5	\$ 2,377.9	\$ 2,404.5	\$ 2,430.6	\$ 2,449.7	\$ 2,464.6
Total – Formula Grants	\$ 2,783.1	\$ 2,769.7	\$ 2,797.8	\$ 2,848.9	\$ 2,868.6	\$ 2,884.2

- FY2009 Town Aid Road Grant includes \$8 million in FY2007 surplus funds.
- Education Cost Sharing includes \$269 million in ARRA funds in both FY2010 and FY2011.
- *Grants to Municipalities* comprises 14.6% of the FY2010 General Fund budget.
- *Grants to Municipalities* will be \$2.8 billion in FY2012 and FY2013 which is a 1.5% increase over the fiscal year 2009 level.

EFFORTS TO OBTAIN FEDERAL FUNDS

The American Recovery and Reinvestment Act (ARRA, P.L. 111-5) recognizes that financial aid to states has a vital role in promoting national fiscal stability. The stimulus law provides increased Medicaid and Title IV-E grants and new funding for educational stabilization and other general government functions such as public safety. The recently passed budget bill, Public Act No. 09-3 of the June Special Session, reflects the increased federal aid that is expected to flow to the state as a result of these changes to federal law.

As a result of ARRA, Medicaid funding is increased beyond Connecticut's normal 50% reimbursement rate. Under the Act, Connecticut will receive a base increase in the reimbursement rate as well as a supplemental increase resulting from increased unemployment levels. The budget assumes Connecticut will receive \$599.0 million in FY 10 and \$310.5 million in FY 11. The budget also reflects additional federal reimbursement for Title IV-E foster care and adoption services totaling \$9.0 million over the same two fiscal years. The enhanced reimbursement for IV-E is not eligible for adjustment based on unemployment levels. On October 29, 2009, the U.S. House of Representatives introduced language for a comprehensive health care reform proposal, the Affordable Health Care for America Act (H.R. 3962). The bill extends the enhanced federal reimbursement provisions under ARRA for two quarters, through June 30, 2011. Assuming this provision becomes law, Connecticut would receive an additional \$320 million during FY 11.

The federal stimulus package also provides a number of programs that will assist unemployed workers. The Act increases unemployment insurance benefits by \$25 per week and extends the benefits for unemployed workers to 33 weeks. The law also provides unemployment compensation modernization incentive payments to states that meet certain unemployment compensation benefit levels. Connecticut's share of this funding is approximately \$87 million. Connecticut is eligible for the first one-third payment (approximately \$29.2 million) since the state meets the requirement of providing an alternative base period for establishing unemployment insurance eligibility. In order to access the remaining two-thirds of the incentive payment (approximately \$58.5 million), the state expanded its eligibility during the June 2009 Special Session. Connecticut provides a dependency allowance and, therefore, meets one of the two additional required provisions in the federal stimulus bill. To meet the other requirement, PA 09-3 expands the state's provisions regarding individuals who separate from employment due to compelling family reasons. The expansion addresses individuals who voluntarily separate from employment due to the need to accompany a spouse to a place from where it is impractical to commute and makes minor modifications to the domestic violence and family illness/disability provisions. In addition to the \$87 million incentive payments for modernization efforts, Connecticut also received approximately \$6.2 million for administrative expenses related to unemployment compensation benefits.

ARRA also includes provisions for an increase for cash assistance to families eligible for Temporary Family Assistance (TFA). In recognition of the increased demand for TFA, the Act will provide emergency grants due to caseload increases. Based on earlier data, DSS had expected to file for \$4.5 million in additional ARRA funding. While more recent data is pointing to higher TFA caseloads, recent federal proposals to extend unemployment benefits further may mitigate these increases. DSS will continue to monitor these developments closely, and if additional caseload growth continues, this earlier estimate of additional ARRA funding may be revised upward.

The American Recovery and Reinvestment Act recognizes that families across the nation have been impacted by the current economic crisis. Accordingly, the federal stimulus law provides \$13.6 million to Connecticut for child care services. Connecticut's Care 4 Kids program makes child care more affordable for low-income families currently on or transitioning from Temporary Financial Assistance, teenage parents attending high school and working families with income less than 75% of the state median income.

Additionally, the federal stimulus legislation also provides a structure for an as-yet to be determined funding level to the states to support the creation and ongoing operation of a national health information network. This network will provide

for the exchange of electronic health records (EHR). The key provisions in the law provide a grant program for states (or state-designated entities) to plan for and help build a health records exchange, a loan program to be administered by states to help providers purchase the equipment they need to “plug into” the exchange. The bill places a great deal of responsibility on the states to plan and help create a nationwide electronic health records exchange. It is anticipated that \$2 billion will be available nationwide to begin this initiative.

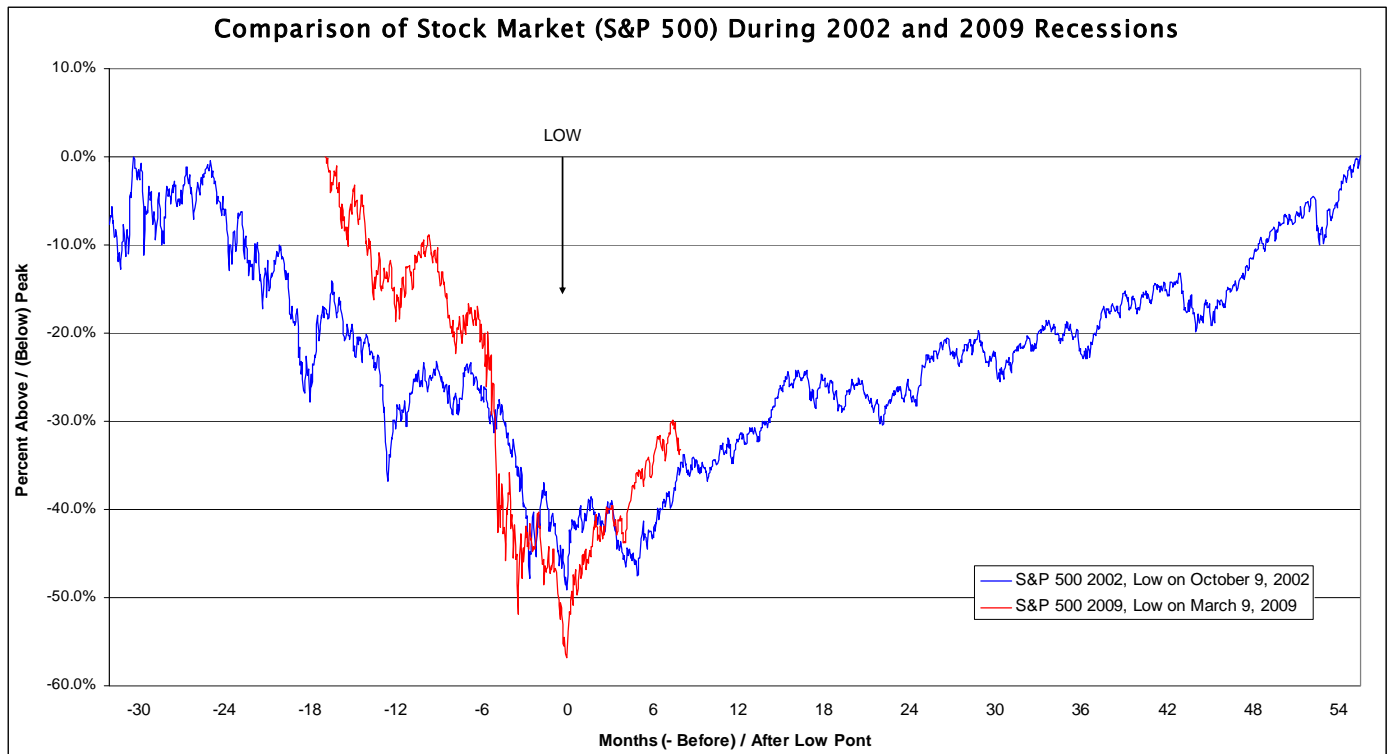
In the education area, ARRA has provided \$395,599,571 to Connecticut under the State Fiscal Stabilization Funds (SFSF) program (\$296,978,743 Education Grants and \$98,620,828 for Government Services as of September 30, 2009). The two strands of SFSF in total equal approximately 14.26 percent of the Education Cost Sharing (ECS) grant (9.19 percent from the Education State Grants and 5.07 percent from Government Services).

In addition, for the next two years ARRA will provide unprecedented increases in other major education grants, especially those that primarily flow directly to local education agencies (LEAs) and higher education institutions. As of September 30, 2009, here are the latest ARRA education grants awards for CT:

- \$70,714,174 under Title I Part A to improve teaching and learning for students most at risk of failing to meet State academic achievement standards.
- \$4,614,065 under the Title II, Part D -- Enhancing Education Through Technology grant to improve student academic achievement through the innovative use and the effective integration of new and emerging technology with teacher training, curriculum development, and successful research-based instructional methods in elementary and secondary schools.
- \$132,971,468 under the ARRA IDEA Part B, Grants to States for the Education of Children with Disabilities in order to assist states in providing special education and related services to children with disabilities in accordance with Part B of the IDEA.
- \$5,089,013 under the IDEA Preschool Grants for Children with Disabilities in order to assist states to make available special education and related services for children with disabilities ages 3 through 5 years.
- \$336,688 under the Education for Homeless Children and Youth in order to ensure that each homeless child and youth has equal access to the same free, appropriate public education, including a public preschool education, as other children and youth.
- \$785,878 under the ARRA National School Lunch Program Equipment Assistance grant for the purchase of food service equipment, with priority given to schools with at least 50 percent of students eligible for free or reduced-priced meal benefits.

Connecticut is receiving a total of \$12 million in funding from the Justice Assistance Grants (Byrne/JAG) and approximately \$1.8 million in Violence Against Women Act funding under the ARA. Approximately \$4.3 million is going directly to the state's municipalities. The Governor has directed the remainder to be used to enhance the policies and priorities identified in Public Act 08-01, An Act Concerning Criminal Justice Reform that significantly strengthened the state's criminal justice and parole systems. In addition this funding has been used for a wide range of programs to prevent violence against women and to help law enforcement prosecute sexual assaults and domestic violence. These efforts include: expanding staff at domestic violence shelters, funding to preserve prosecutors, teen dating violence outreach efforts, competitive grant programs for prevention of abuse in a digital world and outreach to underserved populations, sexual assault services, enhanced information sharing among the correction, probation and parole systems, automated fingerprint information system, support for the statewide narcotics task force, DNA sampling of offenders, and recidivism reduction efforts.

STOCK MARKET FLUCTUATIONS



The Stock Market is not expected to experience a robust recovery from the 2009 recession.

The S&P 500 took 30 full months to fall from peak to trough, and more than 55 full months to recover back to the previous high, in the 2002 recession.

The S&P 500 fell from peak to trough in 18 months during the 2009 recession.

The S&P 500 fell to lows with losses of 49.2% in 2002 and 56.8% in 2009.

In the bear market of 1974:

- The Dow fell 45.1% by October of 1974 and took until November of 1982, more than eight years, to recover.
- The S&P 500 fell 48.2% by October of 1974 and took until July of 1980, five years and nine months, to recover.

In the Great Depression:

- The Dow fell 89.2% by July of 1932 and took until November of 1954, 22 years and four months, to recover.
- The S&P 500 fell 86.2% by June of 1932 and took until September of 1954, 22 years and three months, to recover.

CAPITAL GAINS FLUCTUATIONS

CAPITAL GAINS REALIZATIONS REPORTED BY CT RESIDENTS AND RETURN ON THE S&P

(In Millions)

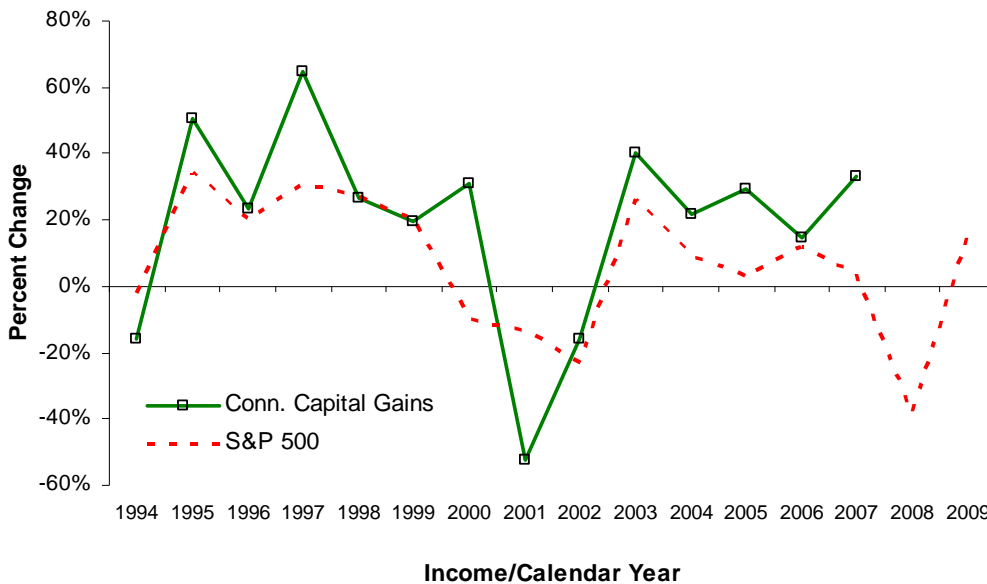
Income Year	Conn. Capital Gains	Percent Change	S&P 500 Percent Change
1994	\$2,547	-16%	-2%
1995	\$3,832	50%	34%
1996	\$4,732	23%	20%
1997	\$7,787	65%	31%
1998	\$9,867	27%	27%
1999	\$11,800	20%	20%
2000	\$15,435	31%	-10%
2001	\$7,391	-52%	-13%
2002	\$6,231	-16%	-23%
2003	\$8,723	40%	26%
2004	\$10,626	22%	9%
2005	\$13,765	30%	3%
2006	\$15,784	15%	12%
2007	\$21,006	33%	4%
2008			-38%
2009			16% YTD

- In 2007, Capital Gains reached a record high of \$21.0 billion, surpassing the level reached in 2006
- While the equity markets could provide a modest recovery later, returns in 2008 do not bode well for Capital Gains in the short run
- Market returns for 2008 were lower than any in recent memory

Sources: Department of Revenue Services and Internal Revenue Service various years YTD through 11/4/2009

INCOME TAX GROWTH IS TENUOUS

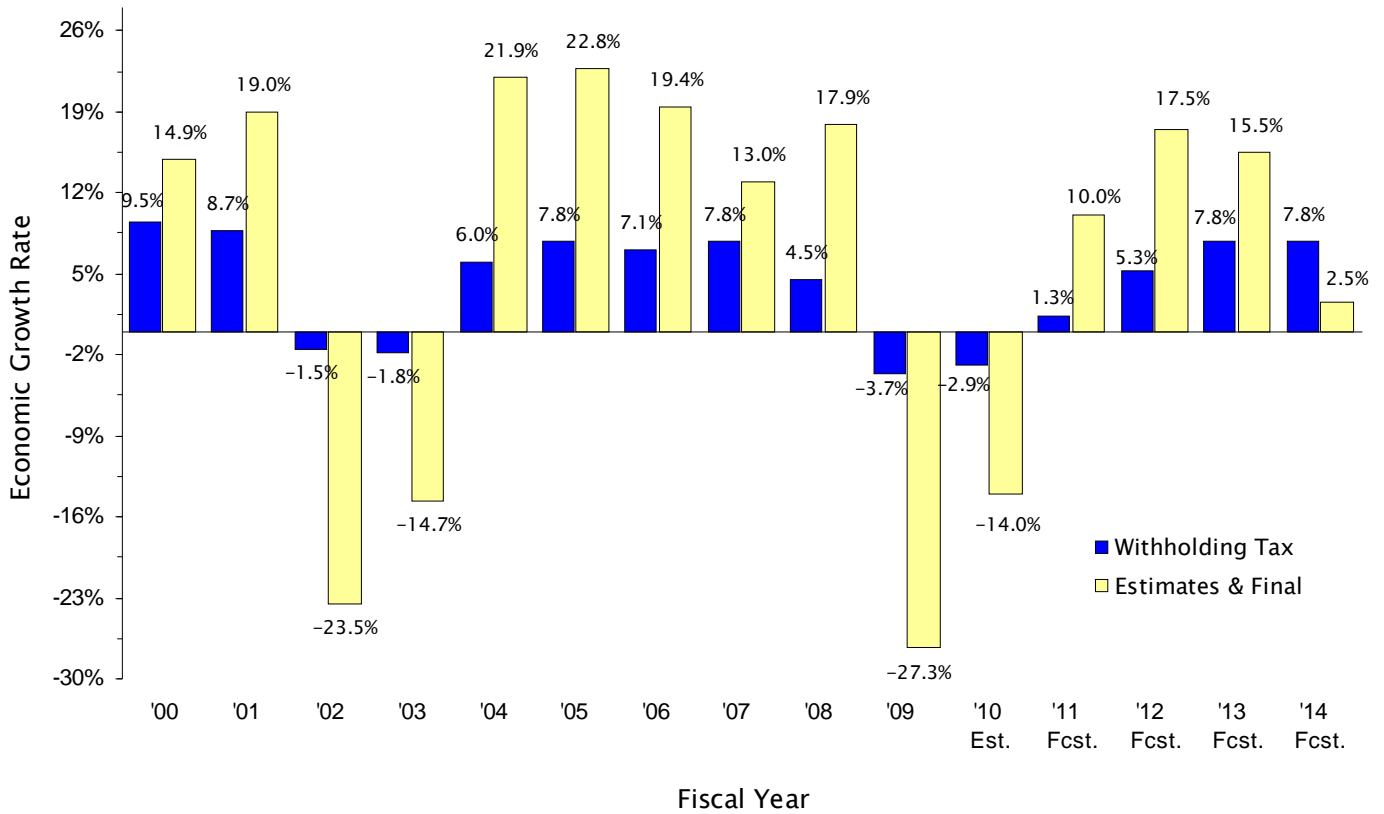
CONNECTICUT CAPITAL GAINS AND THE S&P 500



- The drop in the markets has had a negative impact on the state's revenue collections
- Every 1% drop in Estimates and Finals currently equals approximately \$25 million

PERSONAL INCOME TAX TRENDS

ECONOMIC GROWTH RATES OF THE PERSONAL INCOME TAX

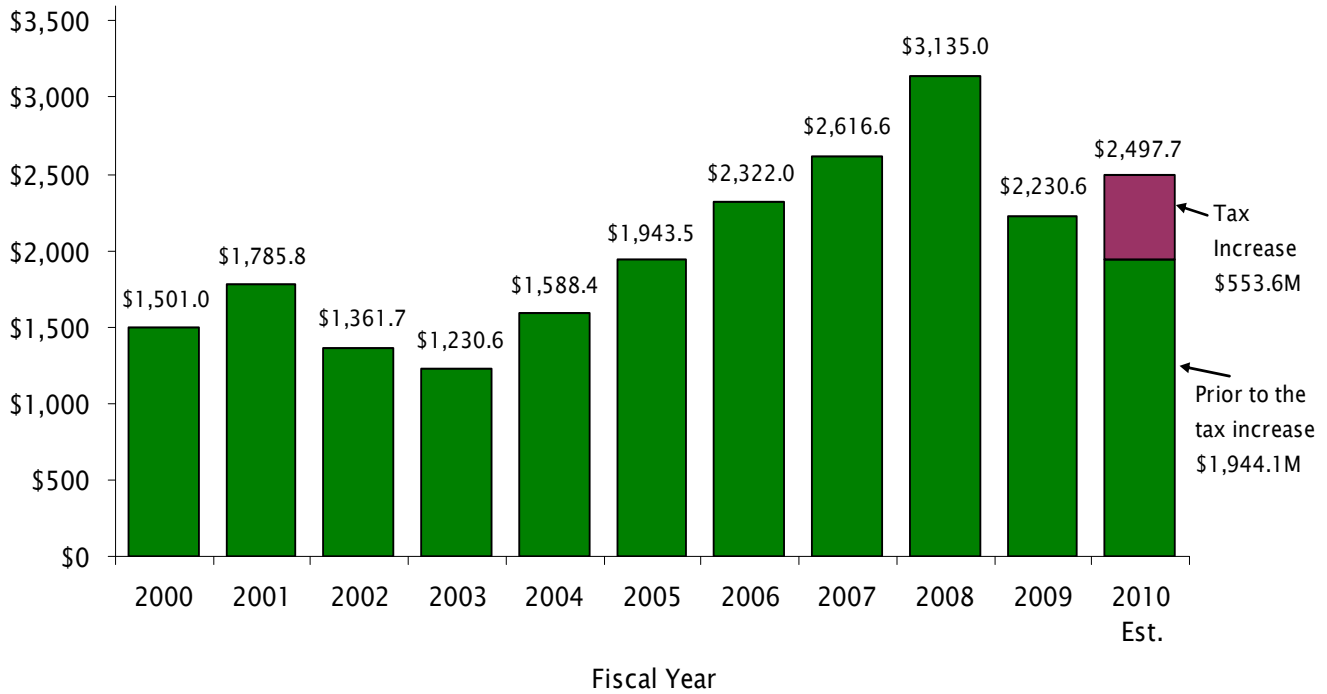


- Over the past decade Connecticut's income tax revenue has fluctuated dramatically
- This was due to the performance of the stock market and a recession
- Performance in the financial markets significantly influences the growth in this revenue source

ESTIMATES AND FINALS INCOME TAX

ESTIMATES AND FINALS PERSONAL INCOME TAX COLLECTIONS

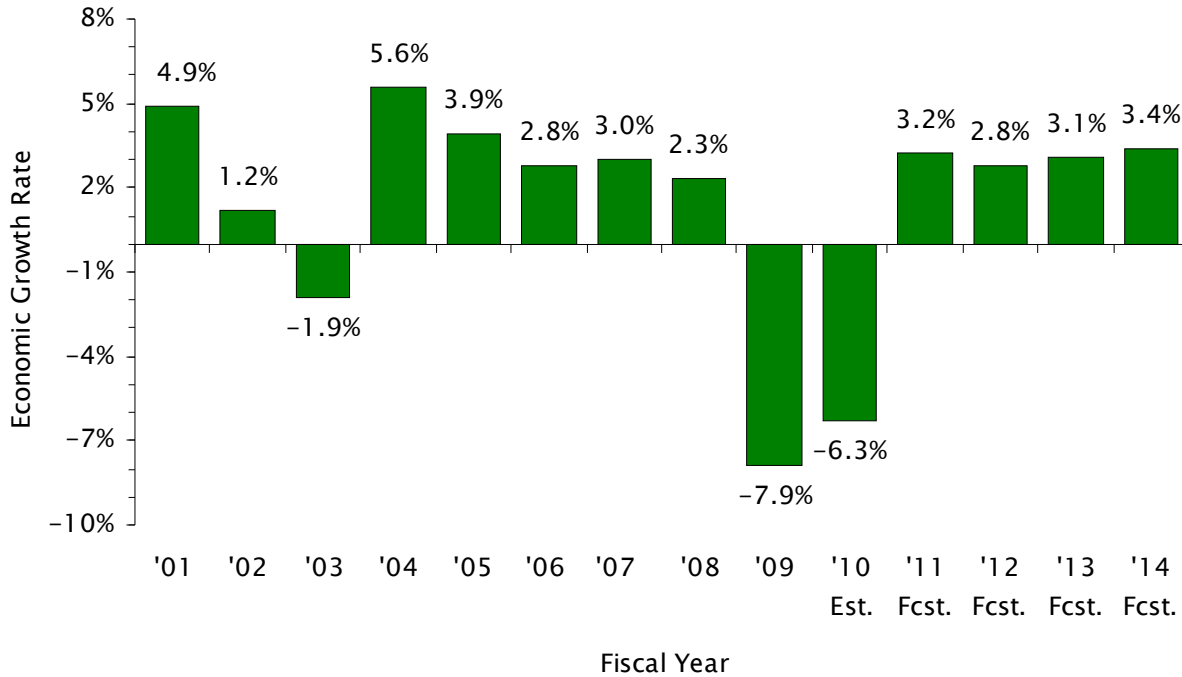
(In Millions)



- In FY 2002, estimates and finals fell by \$424.1 million
- In FY 2003, they fell by an additional \$131.1 million for a total of \$555.2 million or 31% from the 2001 peak
- In FY 2009 alone, estimates and finals fell by \$904.4 million and were projected to fall an additional \$286.5 million in FY 2010 for a total decline over two years of approximately \$1.2 billion or 38% from the 2008 peak
- The increase in the projection for FY 2010 is a result of increasing the top tax rate from 5.0% to 6.5%, the underlying economic growth rate is -14.0%

SALES TAX TRENDS

ECONOMIC GROWTH RATES OF THE SALES AND USE TAX*

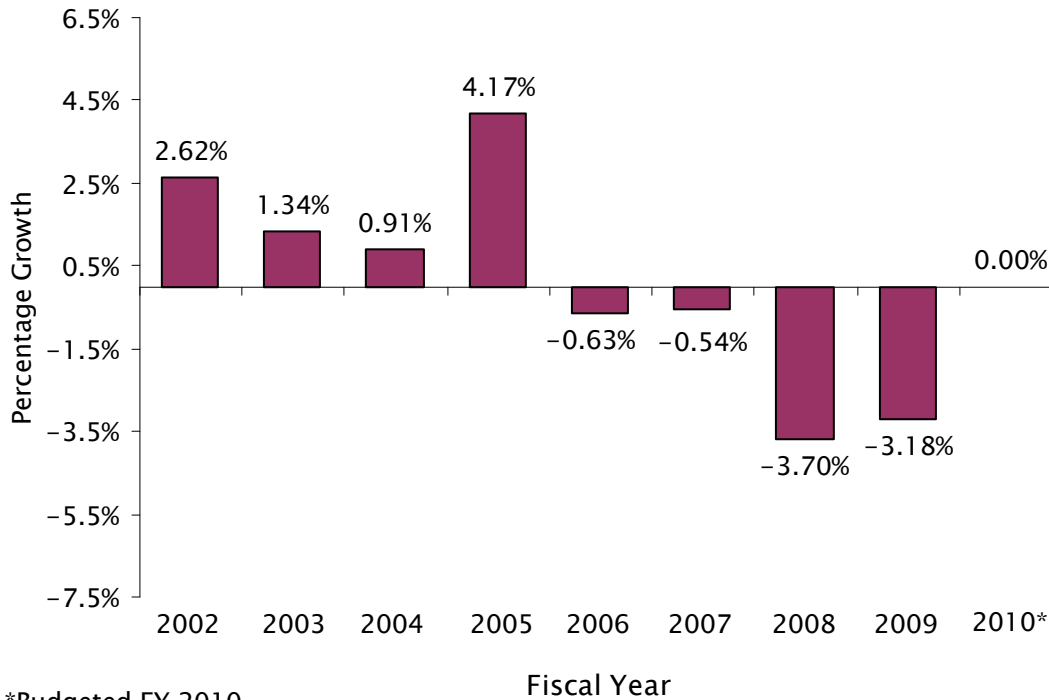


*Based on current estimate of sales and use tax collections, not October 15, 2009 consensus figures

- The sales tax dropped in fiscal 2009 due to recession and chaos in the financial market
- Beginning in late fiscal 2008, collections started to weaken as the housing market deteriorated with prices declining and foreclosure rates increasing
- Without the past year's federal stimulus funding FY2009 would have been worse
- Fiscal 2010 collections are not optimistic given the worst economic downturn since the WWII
- Consumers have increased their saving in an attempt to reduce debt and improve their balance sheets and yet households' wealth remains double digits below its peak
- Consumer credit availability is limited as financial institutions continue to tighten credit and restrict borrowing
- A 1.0% drop in the sales and use tax growth rate results in a revenue loss of more than \$30 million

MOTOR FUELS TAX TRENDS AND THE SPECIAL TRANSPORTATION FUND

ECONOMIC GROWTH RATES OF THE MOTOR FUELS TAX



*Budgeted FY 2010

- In FY 2009, Motor Fuels tax revenue equaled 46% of the total revenue of the Special Transportation Fund
- Consumers responded to the record high gasoline prices in the summer of 2008 by significantly altering their driving habits and/or mode of transportation in an effort to reduce their gasoline bill in the short term, therefore the 3.41% growth in the tax seen year to date in FY 2010 is the result of comparing an unsustainably low consumption level to a more “normal” level and thus growth will likely moderate as the year progresses
- The Special Transportation Fund ran an operating deficit in FY 2009 of \$84.7 million

DEPARTMENT OF TRANSPORTATION

The Special Transportation Fund (STF) is an area of concern and is being closely monitored to ensure that current revenue will support the level of expenditures in this fund.

If current trends continue, the Rail Operations account in the Department of Transportation (DOT) could experience a shortfall. Without any cuts in services or increases in rail fares, the amount appropriated for this account may not be sufficient for FY 2010. Ridership levels are down requiring a larger subsidy. In addition, Connecticut is required to pay a fare credit adjustment (part of the Metro North agreement) based on the fare increase by the State of New York. The adjustment maintains comparability between fares along the line so that New York fares are not more expensive than fares in Connecticut. Simply to maintain current services, an additional \$15.1 million may be required. DOT is in discussions with Metro North regarding their proposed budget for calendar year 2010 in an effort to find savings. To the extent possible, costs will be offset by funds freed up in other agency accounts.

With only an additional \$10 million appropriated to Rail Operations for FY2011 over FY2010, funding for the account could continue to be a problem.

DOT was budgeted for \$13.2 million less in Other Expenses in FY2010 and FY2011 than in FY 2009. Funding will be needed to replenish consumables, particularly salt supplies. The severity of the winter weather will, as always, play a crucial role in dictating the level of expenditures required from this account.

The budgeted balance for the Special Transportation Fund was \$4 million in FY2010 and \$4.1 million in FY2011. Although the agency is identifying funds from other accounts that may be available to offset any shortfalls in Rail Operations and Other Expenses, any additional requirements would eliminate the surpluses projected in the STF.

HOUSING, MORTGAGES AND CREDIT QUALITY

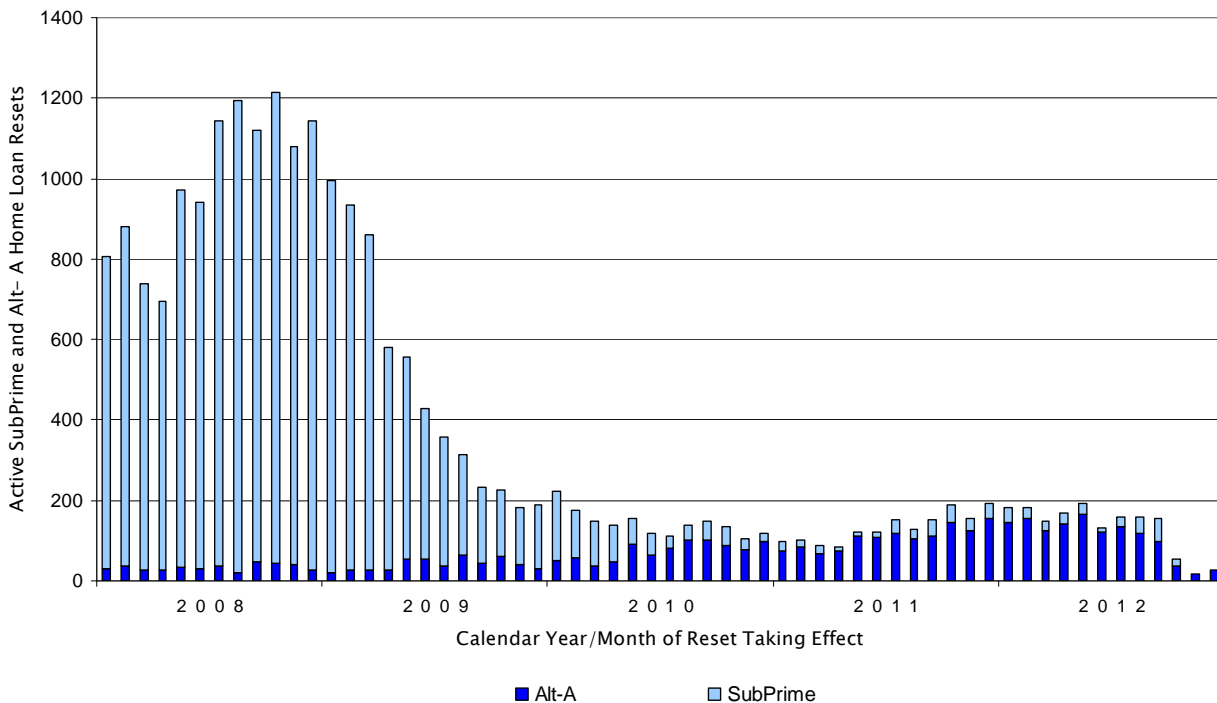
Nationwide:

- Existing home sales activity is at the highest level in over two years, since July of 2007
- Existing home sales in September 2009 increased 9.2% from the level realized in September 2008
- The median existing home sales price in September 2009 for all housing types was \$174,900, which is 8.5% lower than September 2008
- Foreclosure-related filings affected nearly 938,000 properties in the July-September quarter of 2009, compared to approximately 890,000 in the prior three months

In Connecticut

- Housing Starts declined in FY 2009 for the fourth year in a row
- Housing permits in calendar year 2008 were down 32.6% compared to 2007, which was down 16.1% compared to 2007
- Subprime loans are currently about 10.5% of all mortgage loans outstanding, down from 13.0% in the first quarter of 2006, compared to 11.0% for the nation, down from a peak of 14.0%
- As can be expected with a high unemployment rate, foreclosure activity has increased slightly. For the State of Connecticut, in the third quarter of 2009:
 - 1.1% of all loans are in the foreclosure compared to the 0.65% in the third quarter of 2008
 - 26.4% of all subprime loans are in foreclosure compared to 20.7% in the third quarter of 2008
 - 8.0% of all loans are past due or delinquent in their mortgage payment compared to 5.7% one year ago
 - 4.3% of subprime loans are past due or delinquent in their mortgage payment, 1.0% higher than the same time last year

ACTIVE SUBPRIME AND ALT-A HOME LOANS IN CONNECTICUT AND TIMING OF RESETS



FY2011 BUDGET CHALLENGES

- Stagnant Economic Conditions
- Low-growth Revenue projections
- Budgeted Lapses that are unprecedented
- Substantial, aggressive Medicaid savings – \$353 million in FY2011 in addition to FY2010 budgeted savings of \$301.8 million

SECTION 7

ANALYSIS OF POSSIBLE USES OF SURPLUS FUNDS

ANALYSIS OF POSSIBLE USES OF SURPLUS FUNDS

Current projections indicate that, in the near term, a surplus is unlikely to occur.

Article XXVIII of the Amendments to the State Constitution requires that any unappropriated surplus for the fiscal year shall be used to fund a budget reserve fund (BRF), to reduce bonded indebtedness or for any other purpose authorized by at least three-fifths of each house of the General Assembly. Furthermore, Sec. 4-30a of the Connecticut General Statutes provides that no further transfers to the BRF shall be made when the balance of the fund equals 10% of the net General Fund appropriations for the year in progress, and directs the Treasurer to transfer additional surplus to the State Employees Retirement Fund, in an amount not exceeding 5% of the unfunded past service liability.

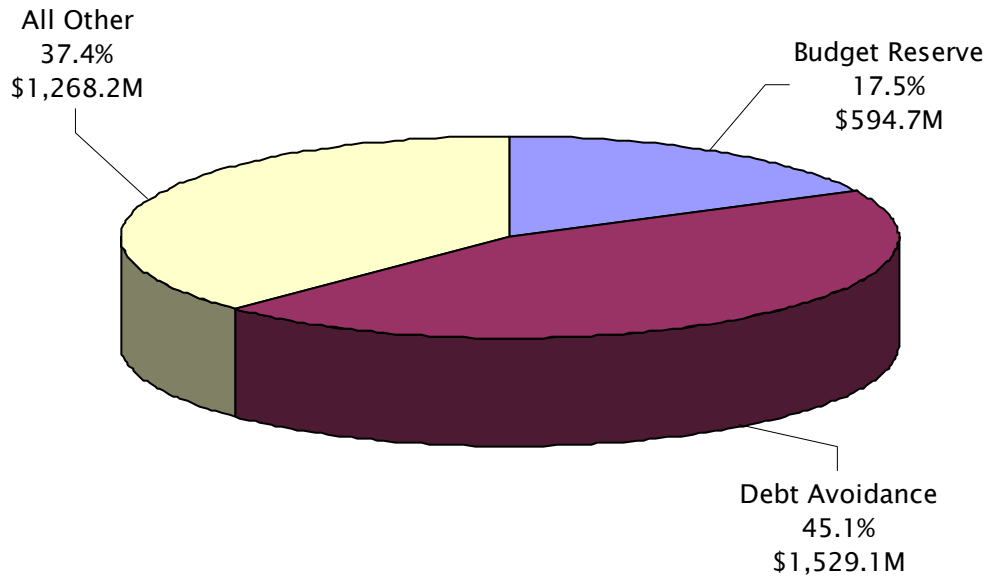
There have been lost opportunities in recent years when surplus funds were appropriated to address needs which were perceived to be most pressing at the time, but in retrospect have proven to divert funds from what should have been considered a priority, paying down some of our long term obligations. Utilizing a higher portion of any of the previous year's surpluses to address our long term obligations certainly would have better positioned the state to weather the financial situation in which we find ourselves.

The first use of future unappropriated surpluses will be to retire the FY2009 Economic Recovery Notes. Other possible uses of surplus funds upon meeting BRF 10% balance include:

- Reduce bonded indebtedness
- Provide funds for Higher Education Matching Grants as per sections 10a-77a, 10a-99a, 10a-109c, 10a-109i and 10a-143a of the general statutes
- Reduce unfunded liability in the State Employees Retirement Fund
- Reduce unfunded liability in the Teachers Retirement Fund
- Actuarially fund the unfunded Other Post Employment Benefits

USE OF GENERAL FUND SURPLUSES

ACTUAL FY1992 TO FY2003 – \$3,392.0M



ACTUAL FY2004 TO FY2008 – \$3,716.3M

