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# INTRODUCTION

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# GETTING THERE: STABILITY AND SUSTAINABILITY

## I. THE BUDGET GOAL

Please find in these pages the Governor's Recommended Budget for the upcoming biennium, Fiscal Years 2012 and 2013. The bottom line is a balanced base budget of \$17.94 billion for FY 2012 and \$18.37 billion for FY 2013 in the General Fund. An important first step in achieving stability in state finances, this budget will serve as a blueprint as we build toward a larger goal: a government for 21<sup>st</sup> century Connecticut that is efficient in structure, sustainable in cost, excellent in service and successful in job creation as we work to restore our citizens' confidence and trust in state government.

## II. THE BUDGET CONTEXT

This budget is presented in a time of serious fiscal challenge. The state budget for the coming year is in deficit to the tune of \$3.2 billion; in a recent state-by-state comparison, Connecticut's budget gap was the 9<sup>th</sup> worst in the nation. With this biennial budget proposal, we must correct bad decisions, pay for deferrals and still meet the range of demands on state finances for the coming year. The bills have come due. We must pay off the borrowing that covered recent years' deficits, make pension contributions for both this and last year, address the reality of expiring federal stimulus support, and fund an extra payroll and extra day of operations for leap year. This budget bears a double burden. It must accommodate the very real service needs of hard times in a revenue-depleted environment – while at the same time filling the deep financial hole left by the last biennial budget.

The proposed biennial budget assumes modest economic growth. While unemployment remains high and FY 2012 growth projections show state revenue returning only now to 2008 pre-recession levels, it is also true that there is cause for cautious optimism: sales and income tax revenues are slowly rising, and other economic indicators are showing signs of life. Consumer confidence, too, is on the increase. The principles underpinning this budget, and the spending and revenue plans it contains, will also contribute to confidence on Main Street and on Wall Street, as citizens, businesses and municipalities alike depend on stable state finances as a foundation for Connecticut's progress.

Despite the challenging environment, this budget reflects Governor Malloy's top priority: jobs. Jobs created through infrastructure investment. Jobs attracted through the new "First Five" program for large-scale business development projects. Jobs resulting from a more organized and targeted use of state economic development funds and tax credits. Jobs grown through stronger partnerships with university research. Even the proposed restructuring and reprioritizing within our education system is a jobs issue: Connecticut's value-added is a highly educated workforce. It's all about jobs.

### III. THE BUDGET FRAMEWORK

This budget is built on a set of principles that will put us on the path toward fiscal stability and, ultimately, sustainability.

- Controlling Spending

This budget reflects a General Fund base budget of \$17.942 billion for FY 2012, compared to \$17.945 billion for FY 2011. This goal is achieved while still making the allocations necessary to filling the gaps established in past budgets. Excluding the impact of provider taxes (which require spending to secure federal revenue), the FY 2012 General Fund budget cuts \$1.76 billion from the “current services” spending level: that is, the level necessary to maintain services at FY 2011 levels. An additional \$327 million of expenditure that is required to secure additional federal revenue under the provider tax proposal included here produces a big General Fund bottom line budget \$18.268 billion.

The budget is \$406.4 million below the spending cap for FY 2012 and \$57.4 below for FY 2013.

- Paying on Time

There will be no delay in meeting the state’s obligations, whether in the form of contributions to the state’s pension system or paying off Economic Recovery Notes (the debt incurred to fill operating budget gaps in prior budgets).

- Living Within Our Means

There will be no borrowing to pay for the state’s operating expenses. Going forward, debt will be limited to long-term investments that support our economy and quality of life. Operating expenses will be supported by ongoing revenue streams, and every effort will be made to maximize federal (and other) reimbursement/revenue. In fact, the federal revenue from the health provider taxes proposed in this budget will result in \$150 million in net financial gain to state coffers. We will also work even harder to make sure every available dollar is used appropriately through expanded fraud recovery efforts.

- Ending Gimmickry

There will be no early retirement incentive program, a timeworn mechanism that produces illusory short term savings while in fact creating a greater long-term load on the pension system. We will not rely on “one-shots,” decisions that apply one-time revenues to on-going expenses, leaving future budgets high and dry.

- Respecting the State/Local Partnership

Solving the state’s financial problems by passing them on to our municipalities is no solution at all. Taken as a whole, under this budget cities and towns will have more revenue to support their operations without raising property taxes. ECS (Education Cost Sharing), the school funding formula, is level-funded, as is the grant for special education. PILOT funding for state-owned property, as well as colleges and hospitals, is level-funded, as are the Mashantucket Pequot and Mohegan Fund and the Local Capital Improvement Program (LoCIP). Town Aid Road Grants are maintained at \$30 million, and this funding will again come from the Special Transportation Fund (after costs were bonded in FY 2010 and FY 2011). One form of state support, the PILOT Manufacturing Machinery and Equipment program, has been eliminated, but a new source of municipal revenue is proposed: an estimated \$24 million from the state sales

tax will be shared with towns based on local retail sales. This important change, when combined with dedicating certain other taxes to towns, will help diversify the municipal tax base while building a new state-local relationship that will grow with the financial recovery. The budget also provides new incentives for voluntary regional planning consolidation, an important first step in achieving efficiencies at the local level, as well as studying the ideas of regional school transportation and common school calendars.

- Funding Our Priorities

The challenge of tough fiscal times should not slow us; rather, it should sharpen our focus as we direct scarce resources to our highest priorities. So this budget contains good news, too. There is increased funding for economic development, including tourism marketing. There is new support - \$50 million in FY 2012 alone - for education, including school readiness, magnet and charter schools, and the OPEN Choice program. There is provision for presumptive eligibility for the HUSKY B program, smoking cessation will be added as a Medicaid-funded benefit, and many more people will be able to move from institutional to community settings through expansion of the "Money Follows the Person" program. LIA, the Medicaid program for low income adults, sees a \$62 million increase in this budget to cover caseload growth. The capital budget dedicates, \$30 million in new funding to supportive housing, and \$50 million in each year, to affordable housing for workers, young professionals and low-income families.

#### IV. SHARED SACRIFICE

The proposed biennial budget is a smart and solid spending and revenue plan that embodies the principles of shared sacrifice, as well as shared benefit and compassion. We must acknowledge that Connecticut is a group endeavor, more than three million people strong. While it is true that some important services target only the few – such as troubled youth, or our frail parents and grandparents – it is also true that many services help us all. There is perhaps no better, or timelier, example than the remarkable efforts of the snow removal crews whose fine work has kept our citizens safe and our commerce moving during the winter of 2011.

This budget is sensible and strives to be fair, both near- and long-term. In the short-term, there will be painful cuts necessary to achieve savings, as well as revenue changes necessary to the ongoing stability of core services. In the long run, plans for agency consolidation and restructuring will also yield financial and efficiency benefits.

Over the biennium and moving forward, these efforts will enable job creation, a state service structure and culture worthy of our taxpayers, and a social safety net that ensures that Connecticut's most vulnerable citizens will know that they can count on all of us. Every element of this budget is designed to maintain our competitive advantage where we have it, and to create it where we don't.

To achieve balance, this budget encompasses decreases and increases approximately in equal measure: half the gap is filled by programmatic changes and half is filled by tax changes. Excluding the net overall benefit to the state of \$150 million from the provider taxes, the General Fund budget includes reductions of \$1.76 billion on the spending side along with \$1.51 billion in increased income, sales, and other taxes.

Achieving this balance is especially challenging because of the significant one-time increases in costs that result from short-sighted budget gimmicks last year and the bad luck of having an extra payday in FY 2012.

<b>General Fund</b>	
<b>FY 2012 Current Services Increases</b>	
(\$ millions)	
27th Payroll Costs	\$118.5
State Employee Wage Increases	\$159.7
Deferred Pension & Benefits	\$316.9
Debt Service	\$246.4
Municipal Aid	\$148.4
Teachers' Retirement	\$208.0
Medicaid	\$248.6
Below-the-line Lapses	\$217.0
Leap Year Costs	\$7.4
All Other - Net	\$83.3
<b>Total</b>	<b>\$1,754.2</b>

<b>FY 2012 Reduction Proposals</b>	
(\$ millions)	
Fund Equipment through CEPF	(\$27.3)
Reduce Higher Education Block Grants	(\$71.4)
Municipal Aid Changes	(\$133.0)
Remove Statutory and Other Inflation	(\$156.4)
DSS - Medicaid Changes	(\$143.3)
DSS Changes	(\$137.6)
DCF Changes	(\$13.9)
DMHAS Changes	(\$23.4)
DOC Changes	(\$16.3)
Labor-Management Savings	(\$1,000.0)
All Other Changes - Net	(\$35.0)
<b>Total Reductions</b>	<b>(\$1,757.6)</b>
Provider Fee Change	\$326.5
<b>Net Appropriation Decrease</b>	<b>(\$1,431.1)</b>



- Spending Cuts

The urgent need to control spending means that there will be service cuts that, while painful, are necessary. But the safety net remains intact and caseload growth for the major entitlement programs is funded. The programmatic changes proposed in this budget result in the elimination of only 180 positions (of which 150 are filled), almost all of which are tied to the agency consolidations described below.

There are reductions throughout this budget, but some examples in the health and human services arena best demonstrate the difficulty of the choices we face this year. Limits on non-emergency adult dental and vision services (optional benefits under the Medicaid program) will be necessary to preserve core coverage. The imposition of Medicaid co-pay requirements exemplifies the need for “shared sacrifice.” The recent expansion of allowable asset limits for the “community spouse” of a Medicaid recipient is reversed, since it is simply unaffordable at this time. The Low Income Adults (LIA) program will see utilization management, benefit and rate changes, and co-pays, because only with these cost controls can we keep up with the expenditure demands of program growth.

Lower priority programs in the Departments of Children and Families, Public Health, and Social Services will see funding reduced. This is the hard reality of hard times, and we must all agree together to make the tough choices that total nearly a billion dollars in specific programmatic cuts in this budget.

- Labor/Management Savings

As we look to the long term, a key element in the state’s financial stability and success is its state workforce. State employees can, and should, expect fair compensation for their hard work, and a benefit structure that is both reasonable and sustainable. This budget calls for \$1 billion in cost reductions related to compensation and fringe benefits, and talks are underway. As part of these discussions, the Governor plans to take advantage of the front-line expertise of state employees as they make suggestions that can achieve savings and efficiencies. The overarching goal of this undertaking is to preserve - and improve - important public services, and with reasonable concessions this can be done.

The alternative route to a balanced budget – deeper spending cuts – will leave the safety net in tatters and core services decimated.

- Revenue Changes

Shared sacrifice applies to taxes, too. The major tax changes incorporated in this budget can be summarized as follows:

The sales tax base is expanded through the elimination of many exemptions. Years of lobbying by special interests have resulted in a conglomeration of tax expenditures that have no rhyme or reason; this proposal reflects common sense adjustments. The state sales tax rate will rise from 6% to 6.25%. An additional 0.10% (i.e., up to 6.35%) will be collected for cities and towns based on local sales at retail establishments. The estimated \$24 million in new municipal revenue from this tax will be augmented by other revenue sharing from the state tax base: the hotel occupancy tax and the rental car tax. A permanent and revamped municipal real estate conveyance tax will generate \$52.9 million. A personal property tax on boats and aircraft, at a statewide mill rate, will raise a total of almost \$43 million beginning in FY 2013.

The next element is the restructuring of the income tax to achieve greater progressivity – that is, to make the tax fairer – through the addition of five new brackets. The property tax credit, which has risen and fallen with the state’s economic fortunes, has been eliminated. One of the most important revenue changes is the introduction of the Earned Income Tax Credit, a mechanism used by many other states to enhance tax fairness and recognize the work commitment of our poorest families and individuals. For a family of four with an income of \$20,000, this 30% tax credit will mean an additional \$1,500 a year. This change will also help offset the impact of the sales tax increase on low income families.

In recognition of the need to support business and industry as they create jobs – and understanding the impact on them of unemployment compensation assessments – the proposed tax changes in this budget are designed so that less than 20% of the new tax burden will fall on the business sector. The limited revenue changes are: an extension of the existing 10% corporate tax surcharge for two years, some tax credit adjustments, and the establishment of a “throwback” rule.

Finally, the revenue package includes new taxes on certain services that will enable the state to maximize federal reimbursement in significant ways. This federal revenue maximization effort will provide net financial benefit to the state of over \$150 million in each year of the biennium.

## V. RESPONSIBLE GOVERNMENT

- Working Smarter  
This budget begins the task of government restructuring and agency consolidation. The effort to modernize and rationalize state service delivery will take a few years, but it starts here with some key changes. This proposal reduces the number of separately budgeted state agencies from the current 81 to 57, a 30% reduction. Since information technology is an essential element in achieving efficiencies, the capital budget provides for funds to finance enhancements and updates to the state’s computer systems, including the antiquated systems of the Department of Social Services.
- Investing for Long-Term Return  
Only long-term investment is worthy of long-term debt. The policy priorities of this administration are reflected in its proposed capital investment: transportation (rails, roads, bridges and ports), the environment (clean water, brownfield remediation, green space), education infrastructure, economic development, and key public facilities.
- Seeking Transparency  
It is not only that we right our fiscal ship that matters; how we do it is important, too. Our approach must be one that builds confidence among Connecticut taxpayers and businesses. We must also strive to restore Connecticut’s once-excellent credit rating. This budget is a straightforward reflection of our fiscal problems and proposed solutions. The Governor’s Recommended Budget (as well as this summary document and all of the related documents required by law to accompany the budget) are available on-line for all to see, a decision that will save on printing costs while enhancing openness, access and transparency.

Perhaps most important, this budget establishes the commitment to Generally Accepted Accounting Principles (GAAP) that was the subject of Governor Malloy's first official act, the signing of his first Executive Order. With this commitment, the administration signals a new era in responsible fiscal management.

- Putting, and Keeping, Our Fiscal House in Order

Our capacity to absorb any additional fiscal setbacks is exhausted. The Rainy Day Fund has been depleted; the borrowing to cover operating expenses must be repaid; the unfunded pension liability cannot be ignored. A balanced budget will address our current operating deficit, but our efforts must go beyond balance if we are going to be able to resolve these structural failings. Only a return to surplus operations will enable us to meet these challenges. The proposed budget will generate revenue sufficient to pay expenses, to meet the estimated cost of balancing on a GAAP basis for FY 2012, and still produce a small surplus. For FY 2013, an estimated \$400 million beyond expenses will allow us to continue our GAAP objectives and permit some movement toward short-term debt reduction (perhaps limiting the fiscal damage created by commitments to securitization) or, longer term, rebuilding savings (the Rainy Day Fund). The positive operations in each year of this biennial budget are in keeping with the Governor's proposals for budget reform, which include responsible approaches for managing future surpluses and one-time infusions of revenue.

In the pages that follow, the Governor's Recommended Budget is presented in greater detail.

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## **JOBS AND ECONOMIC DEVELOPMENT**

There may be economic forces beyond our control, but we can and will shape our future with every decision we make today. What's more, we cannot let those keep us from making real, substantive gains on the single biggest issue facing Connecticut: creating new jobs and protecting the ones we have. That's why, despite real fiscal challenges, this budget includes important investments in economic development.

### **"FIRST FIVE" PROGRAM TO JUMP START JOB CREATION**

Governor Malloy is proposing the creation of the First Five program for economic development and job creation. The First Five program is designed to provide extraordinary incentives to entice business development projects that will generate a significant number of new jobs. These incentives will be provided to up to five business development projects over the upcoming two year period.

The commissioner of the Department of Economic and Community Development (DECD), with the written consent of the Governor, will be authorized to augment and combine existing incentive and tax credit programs to attract business development projects that commit to creating not fewer than 200 new jobs within two years, or a business development project that commits to making a minimum investment of not less than \$25 million that results in the creation of not fewer than 200 new jobs within five years. The commissioner will be given discretion to override statutory limitations on the levels of direct financial assistance or tax credit program requirements for the first five. The first five will also be exempt from certain statutory requirements that can delay the delivery of incentive packages.

The Governor is proposing the following actions to provide additional funding for the First Five program:

- Raising the cap on the total credits that can be granted under the Urban and Industrial Site Reinvestment Tax Credit Program from \$500 million to \$750 million;
- Raising the annual cap on the Job Creation Tax Credit Program from \$11 million to \$20 million; and
- Authorizing \$80 million in additional bonding for the Economic Development and Manufacturing Assistance program.

### **UNLOCKING TAX CREDITS**

The budget also includes an innovative way for companies to unlock their existing unused tax credits while encouraging job creation in our state. Under current law companies can only access their tax credits up to 70% of their liability. The Governor's proposal would allow them to receive the full value of their credits, up to 100% of their liability, at a rate of \$6,000 for every net new job created. This will help address a longstanding problem with our existing economic development incentives while fostering new job creation.

## OTHER ECONOMIC DEVELOPMENT INITIATIVES

Another important element of the Governor's economic development plan is the consolidation of two small agencies, the Commission on Culture and Tourism (CCT) and the Office of Workforce Competitiveness (OWC) into the DECD. Cultural, tourism and historical programs are important elements in the state's economic development quiver. Workforce programs should be part of the state's economic development portfolio because human capital is one of the state's greatest economic development tools.

In this reconfiguration of Connecticut's economic development entities, there will be a common website for all inquiries related to economic development, including housing inquiries to the Connecticut Housing Finance Authority (CHFA). DECD will host the website, which will be a central portal to all of the state's economic development programs including tourism, film, DECD financing, Connecticut Innovations, Inc. (CII), Connecticut Development Authority (CDA) capital and CHFA housing finance. Finally, the website will include standardized business-friendly electronic forms for all entities hosted on the website.

The proposed budget also includes:

- An historic increase in statewide marketing. In FY 2010 and FY 2011, the appropriation for marketing was a dismal one dollar per annum. Since the data are clear about the economic benefits of tourism to the state (\$9 billion in FY 2008 tourism revenues along with 110,000 related jobs), Governor Malloy's recommendation to provide \$15 million each year for this important activity could jumpstart a critical, but lately ignored, component of the state's economic development strategy.
- Significant capital investments in the state's transportation infrastructure totaling \$572.3 million in FY 2012 and \$515.2 million in FY 2013, including the dredging of Connecticut's ports to increase commerce, fully funding the Department of Transportation's (DOT) priority projects under the Fix-it-First initiatives to repair the state's roads and bridges, and providing \$196 million over the biennium to address long-deferred maintenance in bus and rail infrastructure.
- The largest infusion of funds into the Clean Water Fund in its 25 year history, an investment that will fund critical infrastructure projects which benefit the environment and create jobs.
- \$50 million in each year of the biennium for housing development and rehabilitation projects to increase the availability of affordable housing options for workers, young professionals and low income families.

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## **EDUCATION**

### EARLY CHILDHOOD EDUCATION AND CARE

Governor Malloy has long been committed to early childhood education. His proposed budget includes nearly \$2 million in each year of the biennium to equalize rates between Department of Social Services (DSS) child day care slots (in licensed facilities) and Department of Education (SDE) School Readiness slots. This funding will help stabilize the finances of these facilities so they can continue providing critical preschool programs. Any remaining funding would go to increase the infant/toddler slot rates in order to maintain the level of those slots.

The proposed budget also includes \$1.7 million over the biennium to finance the state portion of an important public/private partnership to support early childhood education, parent leadership training and early literacy. With this state investment, about \$4.1 million will be matched from private philanthropic sources, including the Graustein and Annie E. Casey Foundations as well as the Child Health and Development Institute.

#### ELEMENTARY AND SECONDARY EDUCATION

The proposed budget recognizes the importance of the Education Cost Sharing (ECS) grant, by recommending the restoration of \$270 million in each year of the biennium for ECS. In FY 2010 and FY 2011, the federal American Recovery and Reinvestment Act (ARRA) funded about fourteen percent of the ECS grant. To offset the loss of ARRA funding, the proposed budget increases state funding for ECS by about \$540 million over the biennium.

In concert with this significant investment, the Governor is proposing the creation of a high level commission to recommend ways to sustain, stabilize and provide a measure of predictability regarding education funding. The recommendations of that group will be submitted for consideration by the General Assembly in 2012.

While ECS is being studied, the proposed budget nevertheless furthers education reform with funding for potentially transformative changes. First, the budget recommends \$1.1 million in each year of the biennium for data collection and staffing infrastructure for implementation of, and accountability in, high school reform. Second, \$50,000 is proposed for the Regional Educational Service Center Alliance (RESC) to study ways for communities to regionalize transportation and save local dollars. A study of a uniform school calendar will also be included as part of this study. Third, the importance of local vocational high school education will be reinvigorated by phasing in the transfer of the state Technical High Schools to their resident communities (or to the area RESC). A state grant will allow communities (or the RESCs) to gradually absorb the costs of these new high schools.

To improve urban education and reduce racial isolation, the budget contains significant new funding for school choice including the following:

- An additional \$41 million for magnet schools in FY 2012 to pay for approximately 5,400 additional seats and \$19.7 million more in FY 2013 to pay for approximately 2,800 more seats due to increased enrollment and additional schools;
- An additions \$3 million in FY 2012 for 367 new charter school seats and \$3.5 million in FY 2013 for 380 more charter school seats; and
- An additional \$5 million for OPEN Choice in FY 2012 to fund an estimated 960 seats and \$2.2 million more in FY 2013 to fund approximately 350 seats for expanded voluntary school transfer options. Proposed legislation would allow the Commissioner of Education to provide more bonus money (within available funding) to communities willing to accept more OPEN Choice students.

Finally, the budget recommends capping formula grants and other limited grant reductions including the following:

- A \$22 million reduction in both FY 2012 and FY 2013 in Public Transportation;
- A \$4 million reduction for Priority School District Grants; and
- \$76 million in FY 2012 and \$96 million in FY 2013 will be saved by capping formula grants.

## HIGHER EDUCATION

The proposed restructuring of higher education (see Consolidation section below), combined with budgetary reductions, is expected to yield savings in excess of \$78 million in FY 2012 and \$83 million in FY 2013 throughout the higher education system, including the constituent units of higher education and aid for private colleges.

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## **HEALTH AND HUMAN SERVICES**

Each individual's health is important not only to that person, but to our society and our economy. The budget's aim is to deliver better care at lower cost; expand and coordinate services to meet client needs; promote efficiencies and generate greater federal revenue where possible. This budget fully funds caseload growth in all entitlement programs.

In recognition of the state's inability to fund increases at this time, the budget does not include any cost of living increases to private providers, but neither does it reflect across-the-board reductions to private provider funding from current levels. Bond authorizations of \$32 million over the biennium are proposed for private providers for facility renovations and improvements.

Where program changes affect funding needs, adjustments are made accordingly. For example, Medicaid expansion for low-income adults has increased reimbursement and improved funding to hospitals, and has significantly reduced the level of uncompensated care. The budget therefore eliminates separate funding for uncompensated care. Recent expansion in eligibility for the Medicare Savings Programs will expand access to pharmaceuticals and hence allow the state to phase-out the ConnPACE program.

Other program reductions or eliminations are necessary to deal with the state's fiscal situation. A number of grant-based programs in various human services agencies are scaled back or suspended, particularly where they may not represent activities that are part of an agency's core mission. For example, low priority programs were reduced in the Departments of Public Health, Children and Families and Social Services.

## CASELOAD AND PROGRAM SERVICE INVESTMENTS

Consistent with the Governor's commitment to maintain the safety net for the state's most vulnerable citizens, this budget maintains critical programs and provides funding for significant caseload growth where it is projected to occur.

Significant caseload growth is budgeted for the Department of Developmental Services (DDS). This budget includes \$21.3 million in FY 2012 and an additional \$24.5 million in FY 2013 to support new cases. Funds will support day programs for 367 individuals who are graduating from high school or aging out of services provided by the Department of Children and Families or local school districts, as well as 108 placements into residential services provided under DDS' adult service system in FY 2012 and an additional 390 individuals in day programs and 83 residential placements in FY 2013. Funding also supports 6 forensic (court involved) cases and caseload growth under the Money Follows the Person (MFP) program.

The Governor's budget includes funding for caseload and utilization growth in many Department of Mental Health and Addiction Services (DMHAS) programs. Increases of \$21.7 million in FY 2012 and \$15.4 million in FY 2013 are recommended to fund anticipated caseload growth of 11% and 8% respectively in the behavioral health portion of the Medicaid Low Income Adults (LIA) program (see LIA section below). Additional funding will support 50 additional high risk youth each year transitioning from the Department of Children and Families or the Judicial Department's Court Support Services Division (CSSD). Significant funding is also recommended for the Medicaid Home and Community Based Waiver for adults with serious mental illness: \$2.4 million in FY 2012 and an additional \$2.1 million in FY 2013 will fund 219 placements over the biennium. Furthermore, 30 additional waiver slots intended to be used to divert individuals who enter emergency rooms or shelters from nursing homes are being funded each year through a transfer of funds from the DSS Medicaid account. Finally, \$562,000 is recommended to support the operating costs of 150 new units of supportive housing anticipated to come on-line in January 2013.

Resources are also being recommended to improve programs and opportunities for individuals in DMHAS state-operated inpatient settings. Over the biennium, \$4.8 million will support the development of integrated client information systems for treatment planning, seclusion and restraint information and medication, pharmacy, and incident management, and \$3.4 million will fund 18 placements each year from inpatient settings into various levels of care. Additional funding will support 11 placements over the biennium for individuals with traumatic or acquired brain injury.

The Governor's budget includes significant funding for caseload and utilization growth in many programs under the DSS. Areas of substantial growth include HUSKY A and Medicaid fee-for-service. The budget assumes approximately 11% growth in average monthly caseload in HUSKY A over the biennium, with caseload expected to increase from 398,800 to 436,300 by the end of FY 2013. This will require additional funding of approximately \$70.7 million over the biennium. Caseload under Medicaid fee-for-service, excluding LIA, is expected to grow by approximately 8% over the biennium. Approximately \$104.7 million has been added over the biennium to support both increased caseload and utilization. Under LIA, \$62.1 million in additional funding has been included in the Governor's budget to support the medical cost associated with a caseload increase of 25% over the biennium.

Under the Department of Children and Families, the Governor's budget recommends increased support for permanent homes for our most vulnerable children. Additional funds are recommended to support a net increase of over 400 subsidized adoptions and subsidized guardianships in each year of the biennium. New cases are estimated to cost \$2.7 million each year of the biennium. Additionally, the budget recommends a net increase of approximately 140 additional foster care placements over the biennium at an estimated cost of \$4.2 million.

#### PRESUMPTIVE ELIGIBILITY FOR HUSKY B

The Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) contains provisions that allow qualifying states to receive additional federal funding if their Medicaid enrollment of children has increased above a baseline level. To qualify, a state must implement at least five of eight program features that simplify the application and renewal process. The goal is to encourage and assist states in reaching and enrolling more uninsured children who are eligible for Medicaid. Connecticut currently meets four of the conditions required. With the Governor authorizing DSS to extend presumptive eligibility to HUSKY B children with family incomes between 185% and 300% of the federal poverty level, DSS will meet the necessary five of eight requirements by April 1, 2011, allowing the state to qualify for a CHIPRA enrollment/retention bonus in late calendar year 2011. While the amount of bonus dollars



that will accrue to the state is not yet determined, it is expected to be in the range of \$1 million to \$4 million. The additional expenditures to implement presumptive eligibility are expected to be minimal. This initiative will enable children under HUSKY B to get coverage sooner and is consistent with the process that is already in place for children under HUSKY A.

### MEDICAID COVERAGE FOR TOBACCO CESSATION SERVICES

Effective October 2010, Connecticut began providing smoking cessation coverage for pregnant women on Medicaid as required under federal health care reform, but smoking cessation services for other Medicaid recipients are not yet covered. Medicaid recipients are at higher risk for tobacco addiction than the general population because low income is a variable strongly associated with tobacco use. In 2006, Massachusetts began providing a smoking cessation benefit for Medicaid beneficiaries and in the first 2.5 years, the smoking rate fell 26% with corresponding decreases in heart attacks and emergency department visits for asthma symptoms among cessation benefit users. The budget includes funding of \$3.75 million in FY 2012 and \$7.5 million in FY 2013 to provide coverage of tobacco use cessation services for all Medicaid recipients beginning January 1, 2012. This benefit is expected to improve health outcomes and result in significant savings over the long term.

### MONEY FOLLOWS THE PERSON

The Governor's budget includes a major expansion of the Money Follows the Person (MFP) Rebalancing Demonstration. The federal government encourages states to reduce their reliance on institutional care for Medicaid recipients by transitioning individuals out of institutional settings and into community settings with appropriate supports. DSS receives enhanced federal Medicaid reimbursement for the first year of an individual's transition. Originally, the department had planned to transition 700 individuals to the community under MFP. Given recent successes, and with the encouragement and support of the federal government, DSS is increasing its goal to over 5,200 transitions by 2016. The Governor's budget includes additional funding of \$28.1 million in FY 2012 and \$57.7 million in FY 2013 to support the transition of 2,251 Medicaid clients residing in higher costing nursing homes and other institutional settings. MFP combines cost-effectiveness with improved quality of life for individuals who can live on their own with the necessary support services.

In total, this initiative will result in net savings to the state of \$4.1 million in FY 2012 and \$12.3 million in FY 2013. Recognizing that this effort will result in a significant reduction in nursing home revenues (\$32.2 million in FY 2012 and \$69.9 million in FY 2013), the department has pursued federal support to help nursing facilities diversify their existing business model. The department will be working with the nursing home industry to help address low census due to individuals transitioning to the community. The administration recently received approval from the Centers for Medicare and Medicaid Services (CMS) for this "right-sizing" initiative.

### MEDICAID CHANGES

Despite the state's fiscal position, the Governor's budget retains the social services safety net by addressing areas where savings can be achieved with minimal impact on the state's neediest. With that philosophy in place, the budget includes savings of \$76.3 million in FY 2012 and \$82.7 million in FY 2013 as a result of reducing reimbursement levels under DSS' pharmacy programs by aligning them with those under the state employee and retiree programs. The Governor's budget further strengthens fraud

recovery efforts, providing additional staffing to expand department oversight, investigate fraud and increase recoveries under both Medicaid and the Care4Kids Program, for savings of \$3.6 million in FY 2012 and \$7.6 million in FY 2013. The Governor is also proposing to reverse the recent expansion in the amount of assets that a community spouse may retain when their spouse is institutionalized. Last year's decision to increase the maximum level of assets from \$75,000 to \$109,560 (excluding the home and car) at a cost of \$29.3 million in FY 2012 and \$32.0 million in FY 2013 is unaffordable in this fiscal climate. These levels are well beyond the vast majority of states that use the federal minimum of \$21,912 and, in fact, Connecticut is one of only fourteen states that allow the community spouse to keep up to the federal maximum of \$109,560.

In the area of dental services, Connecticut provides full dental benefits for adults while most states have annual expenditure caps or provide only emergency coverage under their Medicaid programs. Rather than eliminate non-emergency adult dental benefits (as has been proposed in the past), the budget makes changes to current benefits, reducing overall program expenditures while maintaining services that will prevent further disease, unnecessary emergency department use and maintain appropriate oral health. Proposed changes include limiting adult periodic exams, cleanings and bitewing x-rays to once per year for healthy adults, for savings of \$9.8 million in FY 2012 and \$10.3 million in FY 2013. Also in keeping with other states, the budget imposes cost-sharing requirements on certain individuals receiving Medicaid services. Connecticut is one of only six states that have no co-payment requirements. Under the Governor's budget, DSS will require co-pays for adults of up to \$3.00, not to exceed 5% of family income on allowable medical services (excluding hospital inpatient, emergency room, home health, laboratory and transportation services) for savings of \$8.3 million in FY 2012 and \$9.5 million in FY 2013.

The Governor is proposing additional changes to specific benefit areas to enable service to be provided by specially qualified providers at lower cost. In the area of transportation under Medicaid, the Governor is proposing to expand transportation options to include stretcher van service for those individuals who are medically stable but must lie flat during transport. The new stretcher van rate will be roughly one-fifth the cost of the non-emergency ambulance rate. This change is consistent with at least twelve other states that have recognized the economic value of stretcher vans and will result in savings of \$6.3 million in FY 2012 and \$7.0 million in FY 2013. In the area of home health, the Governor is proposing to allow specially trained and qualified home health aides to administer oral and topical medications and eye drops for savings of \$1.8 million in FY 2012 and \$4.2 million in FY 2013. This is similar to an initiative authorized by the legislature two years ago to support medication administration by trained staff in residential care homes.

#### RESTRUCTURING OF THE HEALTH CARE DELIVERY SYSTEM UNDER THE DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) currently manages services for individuals who qualify for Medicaid on the basis of age or disability status, as well as low-income adults, under a fee-for-service program. In contrast, individuals who are enrolled in HUSKY A, HUSKY B and Charter Oak receive health care services through three managed care entities that contract with DSS.

Consistent with existing statutory authority, DSS is in the process of procuring an Administrative Services Organization (ASO) to manage the medical services provided to these Medicaid recipients. Under its contract with DSS, the ASO will provide a range of management services including centralized customer

call center services, utilization management, care coordination, care management, predictive modeling, health risk assessment, provider profiling and other administrative services.

After aggregating all those populations currently receiving benefits through the fee for service system and managed care organizations, the new ASO will be responsible for managing care for nearly 600,000 recipients, which will allow for greater administrative efficiencies for both the state and the Medicaid provider community. In total, when fully annualized in FY 2013, the conversion to an ASO is expected to save \$29.5 million under HUSKY and \$56.6 million under fee-for-service. These savings are based on a combination of: (1) a more cost-effective and efficient administrative structure than the existing structure under managed care; and (2) medical efficiencies as a result of moving from the current unmanaged fee-for-service environment for aged, blind and disabled clients both in the community and nursing homes, as well as low-income adults under LIA.

#### OTHER REDUCTIONS AND EFFICIENCIES IN HEALTH AND HUMAN SERVICES

Approximately \$9 million will be saved in DDS over the biennium through the consolidation of campus settings at Southbury and closure of 5 public group homes because of natural attrition in various state operated programs, in accordance with a recent labor agreement.

Annualized savings of \$3.2 million are budgeted in the Birth to Three program by amending Birth to Three insurance legislation to clarify that while the annual maximum benefit for Birth to Three services is \$6,400, that maximum is \$50,000 annually for children with a diagnosis of autism spectrum disorder. Proposed legislation will also eliminate co-pays and deductibles for all Birth to Three reimbursements.

The budget proposes saving approximately \$491,000 in DMHAS by reducing support for research activities at the Connecticut Mental Health Center and administrative functions in the Yale Staffing contract. An additional \$1 million will be saved through the transfer of 15 staff currently assigned to the Office of the Commissioner to fill critical infrastructure

The Governor's budget proposes to reallocate \$8.3 million from the Court Support Services Division (CSSD) into a new account in DMHAS that supports behavioral health services for the criminal justice population. Consolidating service dollars for the adult criminal justice population into one agency will reduce redundancies in contracting and program monitoring and will not reduce service levels.

In both the Department of Public Health and Children and Families, reductions in contracted services are proposed (\$9.9 million in the Department of Children and Families and \$1.6 million in the Department of Public Health) that are deemed of low priority. Funding for some of these contracts was rescinded during the last fiscal year.

Position reductions are also being recommended to improve efficiency and align priorities in the Department of Children and Families (22 positions in Parole Services), Office of Protection and Advocacy (4 positions in advocacy and clerical support) and in the Office of the Child Advocate (7 positions). These changes will save money by reducing staffing in programs where caseloads have decreased or where a focus on core services will allow savings in resources currently applied to lower priority services.

#### CONTINUING EFFORTS TO MAXIMIZE FEDERAL REVENUE

There is general consensus that the state should be making every effort to maximize federal revenue opportunities, especially where services are being provided at 100% state cost. The proposed budget assumes \$25 million in FY 2012 and another \$20 million in FY 2013 (not including the health care

provider/user fees described below) in additional revenue through revenue maximization efforts. To assure this is realized, funding is being recommended in OPM for consulting services to assist the interagency workgroup that will continue to meet regularly to study and operationalize various ideas.

Areas to be explored include:

- The possibility of a State Plan Amendment allowing the state to develop a 1915(i) waiver to cover community support programs and other recovery services for specific populations to allow the state to bill for certain rehabilitation services being provided by DMHAS that are currently at 100% state cost;
- Billing for inmate general hospital stays for Department of Correction inmates allowing the state to receive reimbursement on services that are currently being supported at 100% state cost;
- A review of the data collected and our ability to sustain a claim for Community Based Medicaid Administrative Claiming (CBMAC) for behavioral health services;
- Billing for Medicaid administration activities in various human service agencies; and
- Opportunities for generating reimbursement for services to individuals in Supportive Housing.

#### HEALTH CARE PROVIDER / USER FEE SUMMARY

Given the state's fiscal situation and the need to address rising health care costs, the budget proposes expanding the existing user fee and implementing two new user fees to maximize federal revenue while also bringing new dollars to the Medicaid system. All three user fees will comply with federal rules, which allow for user fees not to exceed 5.5% of provider revenue through September 30, 2011, increasing to 6.0% thereafter. In total, this proposal will garner additional net revenue to the state of approximately \$150 million in each year of the biennium.

By increasing the existing nursing home user fee to maximize the amount of revenue to the state, the nursing home industry will receive a substantial infusion of new funding through their Medicaid rates. The revenue gained from the user fee assessment will be returned to the nursing homes in the form of increased Medicaid rates along with any federal dollars gained from that initial federal reimbursement claim. When fully annualized in FY 2013, this initiative means nursing homes will be assessed an additional user fee of \$34.3 million while realizing a Medicaid rate increase of \$51.5 million.

Extending a similar fee to intermediate care facilities for the mentally retarded (ICFs/MRs) is consistent with the direction that many states have taken – according to the Kaiser Family Foundation, 33 states had in place an ICF/MR user fee in 2010 with an additional state planning to adopt an ICF/MR user fee in 2011. For private ICFs/MR, the revenue gained from the user fee assessment will be returned in the form of increased Medicaid rates as well as any federal dollars gained from that initial federal claiming. When fully annualized in FY 2013, the result is that private ICFs/MR will be assessed a user fee of \$3.9 million while realizing a Medicaid rate increase of \$5.8 million. For public ICFs/MR, the Department of Developmental Services' appropriation has been increased to cover the cost of the user fee that will be assessed by and paid to the Department of Revenue Services; DSS will then be able to claim revenue on the DDS payments for net annualized savings of \$6.7 million in FY 2013.

The proposal also reinstates a user fee on hospitals. Funds will be redistributed to the hospitals under the disproportionate share hospital (DSH) program and the state will receive 50% federal reimbursement. Recognizing that the DSH program may be phased down beginning in 2014 due to changes under the federal Affordable Care Act, hospital rates may be increased in combination with the

DSH payments to hospitals to maintain the overall payments to hospitals in the aggregate. The user fee will hold the hospitals harmless in the aggregate and will allow the state to claim additional revenue of \$134.5 million in FY 2013. The hospital user fee was first instituted in April 1994 and was eliminated in April 2000. Reinstating a hospital user fee is consistent with many other states – according to the Kaiser Family Foundation, 29 states (including all of the other New England states) had in place a hospital user fee in 2010 and another five states plan to adopt a user fee in 2011.

### LOW INCOME ADULTS

On July 1, 2010, in order to maximize federal revenue, the state initiated the Medicaid for Low Income Adults (LIA) program to make 45,000 individuals who had previously been enrolled in State Administered General Assistance (SAGA) eligible for Medicaid. The conversion extended long-term care and home health benefits to this population and provided greater access to non-emergency medical transportation. Although income eligibility remained unchanged at 56% of the federal poverty level, the asset limit of \$1,000 was eliminated to comply with federal requirements. Elimination of the asset test, poor economic conditions, as well as inclusion of populations who didn't formerly qualify for SAGA (19 and 20 year olds, some Charter Oak and Medicare disabled persons among others) created an unanticipated level of caseload growth – from 44,752 in April, 2010, to 59,655 in January, 2011, an increase of 33.4% over nine months. This increased caseload, along with higher than anticipated utilization, created significant FY 2011 shortfalls in the accounts that support LIA services – \$78.9 million in DSS' Medicaid program and \$60.2 million in DMHAS' General Assistance Managed Care program.

The proposed budget assumes a number of initiatives intended to reduce the rate of program growth by addressing caseload composition, utilization management and/or rates where reimbursements are in excess of costs, as well as changes to other programs in recognition of the growth in the LIA program. Some changes, all specific to the LIA program, include:

- Savings of \$12.9 million in FY 2012 and \$13.9 in FY 2013 in DMHAS assumed from utilization management by the new administrative savings organization expected to be in place by April 2011;
- Savings of \$17 million over the biennium (in DMHAS and DSS) through various initiatives including implementation of an alternative benefit package, rate changes, and targeted co-pays;
- Savings of \$7.4 million (in DMHAS and DPH) and \$83.3 million in DSS in recognition of the decreased need for uncompensated care grants for hospitals and FQHCs as a result of increased LIA reimbursement;
- Savings from reductions in DSS' AIDS drug assistance program to reflect populations that have transitioned to LIA;
- Seeking approval from the federal government to permit consideration of family assets for 19 and 20 year old applicants;
- Examination of payment methodologies for lab services and methadone maintenance.

### RAISE THE AGE

The initiative to "Raise the Age" of juvenile jurisdiction will continue to have an impact on the Department of Children and Families. By statute, as of January 1, 2010, sixteen year olds were considered juveniles. Seventeen year olds will be considered juveniles on July 1, 2012. Usually, a juvenile delinquent is committed to DCF for services at the Connecticut Juvenile Training School (CJTS) or a residential treatment facility for a period of time before they "step down" to community services.

The proposed budget recommends funding for about 30 additional residential beds each year of the biennium for this population, in addition to opening a new ward at CJTS late in FY 2013. Additional community services are also recommended in FY 2013 to support the continuum of care for this population.

### AUTISM SERVICES

The proposed budget provides funding to support a study of the needs of persons with autism spectrum disorder, including the feasibility of creating a Center for Autism and Developmental Disabilities. Three new home and community based waivers for persons with autism (and not mental retardation) will become effective in July, 2011. These waivers will allow the state to claim costs for services being provided to 191 individuals in the DDS autism pilot program, the DCF voluntary services program, and to certain populations under DMHAS (including the Young Adult Services program) at 100% state cost. This initiative is expected to garner approximately \$4 million in revenue by FY 2014. Three additional case managers are being recommended in the DDS budget to support caseload growth resulting from the waivers and one position at DSS to assist with the eligibility for the waivers.

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## **HOUSING**

Governor Malloy is proposing the development of 150 new units of supportive housing across the state. This successful and cost-effective approach to addressing homelessness creates permanent, affordable housing with services designed to support individuals and families who are at risk of homelessness and who often have multiple barriers to employment and housing stability. Over the past fifteen years Connecticut has been a national leader in developing more than 2,000 units of supportive housing through a collaborative, multi-agency partnership. Residents of supportive housing have become contributing members of their communities, their use of expensive emergency services has been significantly reduced, and once-blighted buildings have been rehabilitated, creating newly vibrant neighborhoods. This budget will continue to expand this important initiative by authorizing \$30 million in general obligation bonds, providing an annualized \$1.1 million for supportive services through DMHAS and \$1.5 million for new rental assistance subsidies through DSS.

In addition, \$50 million is proposed in each year of the biennium for housing development and rehabilitation projects to increase the availability of affordable housing options for workers, young professionals and low income families.

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## **CORRECTIONS**

### PASS THROUGH FUNDING FROM COURT SUPPORT SERVICES

The Governor is proposing that funds previously budgeted under the Judicial Department's Court Support Services Division (CSSD) that are passed on to the Department of Correction (DOC) for contracts that DOC manages with private providers be placed in the DOC budget in order to align funding with the agency that procures the service. Such funding includes monies for sex offender treatment beds, mental health programming, and other non-residential services. This will not result in a reduction of these critical services.

## OFFENDER MANAGEMENT INCENTIVE PLAN

After reaching an all-time high of 19,894 inmates in February 2008, the prison population has declined to less than 17,746 during FY 2011, a ten-year low and more than an 11% reduction in that period. The DOC closed the Webster Correctional Institution in January 2010 as a result of the continued prison population decline.

In order to continue this trend, the Governor is proposing that the DOC implement an Offender Management Incentive Plan for inmates. Many states have acted to manage their inmate populations by establishing incentives that encourage positive behavior and responsibility for personal development by offering inmates an opportunity to “earn” a reduction of time served in their sentences. The Offender Management Incentive Plan ties an inmate’s compliance with the Offender Accountability Plan to “risk reduction credits” for successful program completion and acceptable behavior while incarcerated; these credits would then count toward reducing the inmate’s sentence. This program will be an appropriate and effective method of reinforcing public safety by offering incentives to inmates for behavioral and program compliance, while investing in the safe and successful re-entry of offenders into the community.

These changes will support Connecticut’s sound system of risk assessment, truth in sentencing and victims’ rights. They will create strong incentives for inmates to take full advantage of rehabilitative programs in prison, which have the dual benefit of reducing their risk of reoffending and saving money for taxpayers.

## HOUSE ARREST FOR DRIVING UNDER THE INFLUENCE AND MINOR DRUG OFFENSES

The Governor is proposing that some of those individuals sentenced to serve time in a DOC facility for Driving Under the Influence (DUI) or minor drug convictions be confined under house arrest as a form of DOC community supervision. When appropriate, these offenders will be required to wear an alcohol monitoring device and to install in their vehicles a breath alcohol ignition interlock device. This proposal targets low-risk, non-violent offenders to be placed under community supervision rather than taking up costly prison space. Once fully implemented, it is estimated the DOC will be able to further decrease the prison population enough to close another facility during FY 2013.

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## **TRANSPORTATION**

The Governor’s budget for the Department of Transportation (DOT) provides continued funding of \$9 million, with additional one-time funding of \$5 million in FY 2012, for expanded pay-as-you-go transportation projects. These funds will be combined with recommended current services funding in the amount of \$14 million from the Highway and Bridge Renewal account and placed in a new account for pay-as-you-go projects. The new account will be used for non-bondable transportation projects (those with a project life of less than twenty years) – not just for highway and bridge projects, but for other transportation projects as well. An additional \$5 million is also provided in FY 2012 in the Highway and Bridge Renewal-Equipment account to allow the Department to replace equipment as it addresses its aging fleet. (Please see also the Special Transportation Fund detail in the Revenue section below.)

Town Aid Road Grants will be fully funded by an appropriation in the Special Transportation Fund at the level of \$30 million. This funding will be especially critical in light of the damage to local roads and bridges during the winter of 2011.

The Governor's budget provides for the delayed implementation of the statutory fare increases that were part of the rail car replacement program. The statutes will be amended to reflect the fact that the prior administration did not institute two fare increases as called for by statute. The schedule will call for a 1% rail fare increase starting January 1, 2012 and for each fiscal year thereafter through January 1, 2018. Given the state's investment in new rail equipment which is coming online, these minimal fare increases are reasonable and will be implemented as the new cars are placed in service.

### WEIGH STATIONS AND TRUCK SAFETY INSPECTIONS

Current statute requires that both the Commissioners of Public Safety and Motor Vehicles shall staff the weighing areas throughout the state. In addition to the extra costs associated with having both State Troopers and inspectors staff the stations, this split responsibility results in an inefficient use of state resources. The Governor is proposing statutory revisions to place all responsibility for the state's weigh stations under the auspices of the Department of Motor Vehicles (DMV). The DMV, which is currently the sole operator of the Union weigh station and shares the responsibility of the Greenwich weigh station with the Department of Public Safety (DPS), has the expertise to operate these two full-time stations, in addition to the part-time weigh stations in Danbury, Waterford, and Middletown.

The consolidation allows the weigh station program to maintain the same hours of current operation. In order to accomplish this initiative, seven Vehicle Weight and Safety Inspectors will be transferred from DPS to DMV to work with the Motor Vehicle Inspectors dedicated to weigh stations and truck safety. As a result of this proposal, costs of almost \$500,000 will be realigned from the General Fund to the Special Transportation Fund.

The Governor's proposal also entails stationing one trooper with each inspection group. A total of nine teams will operate within the new program, resulting in a need for nine troopers. The net reduction in the number of troopers needed for weigh station duty will allow ten of nineteen troopers currently assigned to weigh stations to be available to the Commissioner of the DPS to redeploy to other public safety missions. This redeployment is expected to save DPS over \$380,000.

### BOATING FUND

Governor Malloy's budget recommends eliminating the Boating Fund. Through this change, boating-related expenditures of the Department of Energy and Environmental Protection and Department of Motor Vehicles will be supported through General Fund appropriations, and the revenues collected as a result of boat registrations and certifications will be deposited in the General Fund.



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## MUNICIPAL AID

Taken as a whole, this budget provides municipalities with more revenue to support their operations without having to raise property taxes. With regard to grant funding:

- ECS, the school funding formula, is level-funded, as is the grant for special education excess costs.
- PILOT reimbursements for state-owned real property and for colleges and hospitals is level, as is the Mashantucket Pequot and Mohegan Fund and the Local Capital Improvement Program (LoCIP).
- Town Aid Road Grants are maintained at the \$30 million level, however funding has been moved back into the Special Transportation Fund after costs were bonded in FY 2010 and FY 2011.
- In an effort to incentivize the voluntary consolidation of planning regions, the budget establishes a \$300,000 bonus pool for regional planning agencies in each year of the biennium. Regional planning organizations that submit a formal request to the Office of Policy and Management to consolidate their planning regions may receive a bonus grant. The bonus grant is intended to assist the combined regions in the transition to a new local dues structure and other administrative requirements to effectuate the voluntary consolidation.
- The budget also provides for a study of the potential efficiencies that could be achieved by regional school transportation and common school calendars.

A cornerstone of the Governor's budget proposal is diversification of our local governments' tax base. Like state government, municipalities have also been severely impacted by the economy. Proposed within the Governor's budget are several additional sources of revenue for our towns including:

- An additional 0.10% sales tax will be placed on products and services sold through retail establishments; this is estimated to raise \$24.0 million in FY 2012 and \$25.1 million in FY 2013 and will be returned to the town of origin.
- An additional 1% tax on hotels (bringing the total rate to 15%). This is estimated to raise \$5.8 million in FY 2012 and \$6.1 in FY 2013 and will be returned to the town of origin.
- An additional 1% tax on car rentals (bringing the total rate to 9%). This is estimated to raise \$1.6 million and will be returned to the town of origin.
- Make permanent the 0.25% municipal real estate conveyance tax and expand the current optional conveyance tax to all municipalities (bringing the total municipal rate from 0.11% to 0.5%). This is estimated to raise \$52.9 million.
- Impose a new 3% cabaret tax. This is estimated to raise \$0.9 million and will be returned to the town of origin.
- Impose a personal property tax on boats in the state at a state-wide rate of 20 mills. This is estimated to raise \$38.7 million beginning in FY 2013.
- Impose a personal property tax on aircraft in the state at a state-wide rate of 20 mills. This is estimated to raise \$4.0 million beginning in FY 2013.

In total, these additional revenue sources for towns equate to an estimated \$85.2 million in FY 2012, rising to \$129.3 million in FY 2013.

<b>Municipal Revenue Increases</b>			
(in millions)			
<u>Tax</u>	FY 2012	FY 2013	
	Projected	Projected	
	<u>Revenue</u>	<u>Revenue</u>	
1. Sales Tax - @ 0.1%	\$ 24.0	\$ 25.1	
2. Hotel Occupancy Tax - @ 1%	5.8	6.1	
3. Rental Car - @ 1%	1.6	1.6	
4. Real Estate Conveyance Tax	52.9	52.9	
5. Cabaret Tax - @ 3%	0.9	0.9	
6. Boats - Property Tax - @20 mills	-	38.7	
7. Aircraft - Property Tax - @20 mills	-	4.0	
Total Increase in Municipal Revenue	\$ 85.2	\$ 129.3	

In light of the significant local tax options the Governor is proposing, elimination of reimbursement to towns under the PILOT Manufacturing Machinery and Equipment (MM&E) program is recommended. The MM&E proposal also repeals the tax exemption under CGS 12-81(74), thereby allowing towns to now tax commercial motor vehicles. The remaining tax exemptions under this program for manufacturing machinery and equipment under CGS 12-81(72) and 12-94(f) will continue in order to assist businesses and the state's economy.

### VESSEL PILOT PROGRAM

The Governor's proposal also calls for the repeal of the Vessel PILOT program. Towns will now be able to tax boats as personal property at a uniform, statewide rate of twenty mills. This additional source of municipal revenue will, once fully implemented, offset any reductions through the discontinuance of the Vessel PILOT program.

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## **ADJUSTMENTS TO LEGISLATIVE AND JUDICIAL BRANCHES**

### LEGISLATIVE BRANCH

Consistent with reductions recommended by the Governor across all agencies of the executive branch, it is proposed that the legislative branch achieve budgetary reductions totaling \$10,058,048 for FY 2012 and \$11,829,989 for FY 2013. These reductions can be met through cost cutting initiatives or by reducing, streamlining or eliminating staff or services, at the branch's discretion.

## JUDICIAL BRANCH

Although section 145(g) of PA 10-179 exempts the Judicial Branch agencies from having their budget requests adjusted by the Governor in his budget recommendations, it is imperative that all agencies and branches of state government do their part in solving our budget problems. Mindful of the recent statutory change regarding the Judicial Branch's budget, the administration consulted with each of the Judicial Branch agencies—the Judicial Department, Public Defender Services Commission, and the Commission on Child Protection— requesting their cooperation and agreement in voluntarily reducing their funding requests.

In addition, as part of the ongoing effort to improve the efficiency of state government, the Governor recommends transferring funding previously appropriated to the Court Support Services Division (CSSD) within the Judicial Department to the state agencies which negotiate and oversee various contracts providing services to CSSD clients. This has been done with the agreement of the Judicial Department. The total amount of funding recommended for transfer is \$12,856,416, consisting of the following: \$8,252,316 to the Department of Mental Health and Addiction Services; \$2,072,413 to the Department of Children and Families; \$1,827,687 to the Department of Correction; \$658,000 to the University of Connecticut Health Center; \$36,000 to the Connecticut State University System; and \$10,000 to the Department of Social Services.

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## **CONSOLIDATING STATE GOVERNMENT**

We cannot retool Connecticut for the 21<sup>st</sup> century without rethinking how we improve the delivery of state services. For too long, state government has been too top-heavy and too top-down. Restructuring and streamlining through the consolidation of state agencies will enable services to be more quickly and efficiently delivered, weed out duplicative and redundant administrative processes, better coordinate long-term strategic planning, and ultimately deliver higher-quality services at a lower cost.

The effort to modernize and rationalize delivery of state service won't happen overnight or in one budget. However, it starts here with the following recommended changes:

### CONSUMER PROTECTION

Many state offices offer critical advocacy and protection for Connecticut's consumers in addition to the Department of Consumer Protection (DCP). It is time to give them a home together to maximize their advocacy efforts and reduce duplicative back office expenses. By consolidating all of Connecticut's consumer protection efforts from health insurance advocacy to the licensing of accountants in DCP, citizen-consumers will now be able to access services more effectively through this consumer gateway. A simplified, user-friendly system will help citizens obtain the help they seek in a more effective manner.

- Consolidate the Division of Special Revenue and the Board of Accountancy into the DCP. This action will merge the regulatory and licensing functions that the agencies perform into the DCP, which is consistent with the agency's core function;
- Merge the Office of Healthcare Advocate into DCP. The staff will continue to assist health insurance consumers in selecting plans, understanding their rights and responsibilities and appealing denials;

- Merge the Office of Consumer Counsel into the DCP. The staff will continue to advocate for consumers in all matters involving utility related services. These mergers will provide consumer advocacy in one agency; and
- Transfer two staff members from the DPS Division of Fire, Emergency and Building Services responsible for conducting amusement park ride inspection and processing carnival and circus licensing and permits into DCP. This restructuring will provide a consolidation of licensing and inspections of non-construction related activities into DCP.

### ADMINISTRATIVE SERVICES

Investments in infrastructure are the key to our future, and modernizing the state’s infrastructure capabilities is critical to a citizen-centered government. Currently, our state is served by three back office agencies that provide the infrastructure support for all other state agencies: the Department of Administrative Services (DAS), the Department of Information Technology (DOIT), and the Department of Public Works (DPW). This merger will consolidate central services functions of the state into one agency. Under the proposal, DPW’s leasing and facilities management responsibilities (but not construction) will be moved to DAS, creating a nexus with DAS’ core functions.

DOIT will also be folded into DAS. No longer a specialty, our information technology infrastructure is critical to our daily lives and the delivery of state services. This proposal will enable the improvement of the state’s information technology systems through better integration of services within and among agencies. (Note: the capital budget allocates \$18 million for enhancing and upgrading the state’s computer systems and \$21 million for a new data center).

By merging and integrating the functions of DPW, DOIT and DAS into one agency, not only can duplicative overhead costs be eliminated, but frontline employees will receive better support and citizens will see improved service delivery.

- Consolidate centralized IT functions of DOIT within DAS (agency IT managers that were housed in DOIT will be transferred to the appropriate agencies while an IT policy unit will be housed in the Office of Policy and Management [OPM]).
- Merge leasing and facilities management functionality into DAS from DPW, while creating a separate construction agency to take on all other functionalities of DPW not being acquired by DAS.
- Streamline affirmative action duties and transfer them from the Commission on Human Rights and Opportunities (CHRO) to DAS.

### CONSTRUCTION SERVICES

Construction functions have long been dispersed across state government despite the importance to a well-run state and the unique skills construction management and inspection require. By merging these offices and functions into a new Department of Construction Services, Connecticut will see improved completion rates, more timely inspections, reduced costs, and better communication and collaboration.

The newly created Department of Construction Services will be comprised of:

- The facilities design and construction staff formerly within the DPW, who are responsible for planning and managing the construction of new state-owned facilities and major renovations of existing state facilities for state agencies;

- The school construction grant program within SDE; and
- Staff from within DPS Division of Fire, Emergency and Building Services (DFEBS) that are responsible for activities related to various aspects of building and fire safety inspections and training.

## EDUCATION

### **Higher Education**

Connecticut's economy depends upon an educated workforce – and a new higher education governance model is critically needed. More coordination, expanded transparency and streamlined administrative structures will provide the resources necessary to re-invigorate the academic missions of Connecticut State University System (CSUS), the Community-Technical Colleges (CTCs), Charter Oak State College (COSC), as well as the Department of Higher Education (DHE) itself. Connecting these institutions will facilitate improved student access and seamless articulation for all students, and enable the new, reinvigorated system to respond more effectively to workforce shortages and demands in an entrepreneurial manner. Students of all professional levels will benefit from greater opportunities and less overhead. This proposal:

- Creates one Board of Regents for Higher Education, eliminating existing boards for the Connecticut State University System, the community colleges, Charter Oak State College and the Board of Governors for Higher Education. The University of Connecticut will function separately from this governance; and
- Ensures that the Board of Regents will have budget, policy and long-range planning authority over CSU, CTCs and COSC; while improving coordination, expanding transparency and streamlining administrative structures.

### **Early Childhood Education**

In order to consolidate and rationalize services to our youngest citizens, this proposal transfers the Department of Social Services (DSS) child day care program to the Department of Education (SDE). DSS provides funds for approximately 4,400 child day care slots at licensed facilities. The allocation and type of slots are based on each facility's need. Funding comes from state grants of \$16.4 million and federal SSBG/TANF funds of \$15.7 million. Both the non-municipal and municipal child day care accounts and one position in DSS would be transferred to a new account within SDE.

### **Secondary Education**

Local and regional schools are the primary providers of secondary education in the state. In keeping with this fundamental approach, this proposal phases out the operation of the Connecticut Technical High School System by the state, and phases in their operation by resident districts or the Regional Educational Service Centers (RESCs). Funding will be provided through an operating grant.

### **Disability Services**

Integrating the Board of Education and Services for the Blind (BESB) and the Commission on the Deaf and Hearing Impaired (CDHI) with the Bureau of Rehabilitative Services (BRS) and DSS would streamline the services the state offers for persons with disabilities, improving service delivery. Instead of having

three state agencies offering services for persons with blindness and/or deafness, and creating three different administrative and service delivery systems, the state would have one agency providing comprehensive programming for all adults with blindness and/or deafness. Support services for children and schools would move to the State Department of Education. Savings from this integration would be approximately \$600,000 in each year of the biennium.

- Integrate BESB adult support services and CDHI into the Department of Social Services' Bureau of Rehabilitative Services.
- Integrate the BESB children's services within the State Department of Education.

## ECONOMIC DEVELOPMENT

Because Connecticut has lived with a no-growth economy for decades, there is no greater immediate imperative than growing our economy and creating jobs. A first step towards an innovation and growth economy is to re-position and re-align Connecticut's various economic development offices. These disparate offices lead to a diffuse system, with missed opportunities and frustrating confusion for entrepreneurs, small business owners, our home-grown corporate leaders and job creators of any size. The lack of coordination reduces efficiency and reinforces the idea that Connecticut is not friendly to business.

Those days are over. Our streamlined economic development system will be growth-focused, entrepreneurial, and most importantly, business-centered. A web-based one-stop shopping portal for economic development is another critical step to making our system business-friendly, easily accessed and effective. We must link workforce development and job training to marketplace demand and economic development efforts. By streamlining and re-aligning our economic development system, we can begin to put Connecticut back on a path towards prosperity.

- Link Department of Economic and Community Development (DECD) with the Commission on Culture and Tourism (CCT) and the Office of Workforce Competitiveness (OWC).
- Expand Connecticut Employment and Training Commission to include economic development with its current workforce education and training focus.
- Recalibrate state job training, economic development, and culture/tourism/arts grants to be more competitive and responsive to state needs. Savings are estimated at \$4.1 million in each year of the biennium.
- Increase economic development ties for Connecticut Innovations, Inc. (CII) and the Connecticut Development Authority (CDA), with the appointment of the DECD commissioner as chairperson of both boards.
- Create a comprehensive economic development, workforce, tourism, culture and arts website that links DECD programming with CII and CDA.

Together, these changes will strengthen Connecticut's economic development message, consolidate important state programs, streamline redundancies and coordinate all of the web-based economic development information in one helpful portal.

## ENERGY AND ENVIRONMENTAL PROTECTION

Energy policy, environmental protection, and conservation efforts of Connecticut have a natural nexus. Creating the new Department of Energy and Environmental Protection (DEEP) will enable the state to continue its environmental conservation and regulation functions and couple them closely with energy policy and pricing. Organizationally, the state's energy policy will become centralized in the agency through the creation of two new bureaus: the Bureau of Energy Policy and Efficiency and the Bureau of Utilities Control. After years without a clear energy policy office, this new joint agency will usher in a new era of forward-thinking and planning with a focus on energy efficiency – critical to protecting our environment and reducing costs.

- The proposed consolidation will centralize the coordination of energy policy within the newly formed Department of Energy and Environmental Protection (DEEP) – formerly the Department of Environmental Protection – through the creation of two new bureaus.
  - The Bureau of Energy Policy and Efficiency will be created through the transfer of the Office of Policy and Management's Energy Unit existing staff along with addition of new energy policy staff. It will be responsible for the development and analysis of energy policy options and strategies.
  - The Department of Public Utility Control will become a bureau in DEEP. The Bureau of Utilities Control will continue to be responsible for conducting management audits of the public service companies; scheduling, coordinating, and issuing legal notices, and conducting public hearings and adjudicating all contested cases; conducting investigations into generic issues and conducting or sponsoring management audits of specific utility functions.
- The Connecticut Siting Council is also transferred and will be a part of the Bureau of Utilities Control.

## GOVERNMENTAL ACCOUNTABILITY

To be effective and maintain the public's trust it is imperative that Connecticut state government be open, transparent and accessible. Our "watch-dog agencies" do an excellent job, but that doesn't mean they can't be more cost effective. Protecting the public's interest also means eliminating redundancies. Through the creation of the Office of Governmental Accountability, we will enhance the watch-dogs' efforts by merging back office functions, while preserving their separate missions.

- Establish the Office of Governmental Accountability (OGA) in order to streamline state government and strengthen enforcement and compliance practices through information and knowledge sharing.
- Consolidate those agencies and programs whose primary mission is to enforce honesty, integrity, and accountability within OGA:
  - The State Elections Enforcement Commission, which monitors the state's electoral process, inspects campaign finance records, and administers a grant program for candidates running in statewide elections;
  - The Office of State Ethics, which enforces the State of Connecticut's Code of Ethics;
  - The Freedom of Information Commission, which ensures citizen's access to public records and enforces the provisions of the Freedom of Information Act (FOIA);

- The Judicial Review Council, which specifically investigates misconduct of judges, family support magistrates, and workers' compensation commissioners, is also included in this consolidation;
- The Contracting Standards Board that investigates contracting and procurement procedures.

## EMERGENCY MANAGEMENT AND RESPONSE

- Establish the Department of Emergency Responder Training.
  - The Department of Emergency Responder Training (DERT) combines the Commission on Fire Prevention and Control and the Police Officer Standards and Training Council.
  - DERT will train and certify fire service personnel and provide information and technical assistance to the fire protection community and citizens of the state with the goal of reducing death, injury and property damage due to hostile fire and other emergencies.
  - DERT will be responsible for providing basic and in-service law enforcement training for municipal, state agency and state university police officers in the areas of police law enforcement, police science and professional development. DERT will develop and revise a comprehensive police training and education plan which includes approving the operations of police training schools. Additionally the agency will offer professional, advanced, specialized and continuing education to veteran police officers.
  - The department will also be responsible for the certification of all police officers, law enforcement instructors and police training programs requiring certification throughout the State of Connecticut.
  - An Executive Director will serve as the head of the new agency, while each board will continue to meet separately. Efficiencies to be achieved will be determined by the Executive Director.
  
- Consolidate the Department of Emergency Management and Homeland Security (DEMHS) and the Board of Firearm Permit Examiners into the DPS.
  - The Board of Firearm Permit Examiners has been established to provide a means of appeal for citizens whose pistol permit has been denied or revoked. The DPS will take over the administrative function for the board.
  - The Department of Emergency Management and Homeland Security (DEMHS) is being recommended for consolidation into the DPS as well. The mission of DEMHS fits well with DPS as it directs and coordinates all available resources to protect the life and property of the citizens of Connecticut in the event of a disaster or crisis, through a collaborative program of prevention, planning, preparedness, response, recovery, and public education.



**SUMMARY OF PROPOSED AGENCY CONSOLIDATION**

<p><b>27 Restructured Agencies</b></p> <p>Bd of Educ &amp; Services for the Blind          Board of Accountancy          Board of Firearms Permit Examiners          Charter Oak State College          Comm on Fire Prevention &amp; Control          Comm on the Deaf &amp; Hearing Impaired          Commission on Culture and Tourism          Connecticut State University          Contracting Standards Board          Council on Environmental Quality          Department of Information Technology          Department of Public Utility Control          Department of Public Works          Division of Special Revenue          Elections Enforcement Commission          Emergency Mgmt/Homeland Security          Freedom of Information Commission          Judicial Review Council          Judicial Selection Commission          Office of Consumer Counsel          Office of State Ethics          Office of the Healthcare Advocate          Office of Workforce Competitiveness          Police Standards &amp; Training Council          Regional Community-Technical Colleges          Regional Vocational-Technical School System          State Department on Aging</p> <p><b>3 New Agencies</b></p> <p>Department of Construction Services          Department of Emergency Responder Training          Office of Governmental Accountability</p>	<p>Split between CSDE and DSS          Merged into DCP          Merged into DPS          Merged into Board of Regents          Merged into Department of Emergency Responder Training          Merged into DSS          Merged into DECD          Merged into Board of Regents          Merged into Office of Governmental Accountability          Merged into Department of Energy and Environmental Protection          Merged into DAS line agencies, some function to OPM          Merged into Department of Energy and Environmental Protection          Split between DAS and Department of Construction Services          Merged into DCP          Merged into Office of Governmental Accountability          Merged into DPS          Merged into Office of Governmental Accountability          Merged into Office of Governmental Accountability          Merged into DAS          Merged into DCP          Merged into Office of Governmental Accountability          Merged into DCP          Merged into DECD          Merged into Department of Emergency Responder Training          Merged into Board of Regents          Merged into CSDE. Schools to go to Districts/RESCs          Delayed establishment for 2 years</p> <p>Includes components from DPW and DPS (construction inspection)          Includes POST-C and CFP&amp;C          Includes FOIC, EEC, JRC, OSE, CSB</p>
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Current Number of Agencies:	81
Less Restructured	(27)
<u>Plus New Agencies</u>	<u>3</u>
Adjusted Total Number of Agencies	57
% Reduction in Number of Agencies	30%

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## REVENUE

### ECONOMIC AND REVENUE BACKDROP

Revenue projections contained in this report represent the consensus forecast reached between the Office of Policy and Management and Office of Fiscal Analysis on January 14, 2011 pursuant to the process required by CGS 2-36c. Underlying these revenue projections are recent collection trends in conjunction with economic forecast data. Recent collection trends have shown improvement compared with the previous two fiscal years, with the state's principal revenue sources registering positive growth, albeit in the low single digits. This is an improvement when compared to the significant declines registered over the past two fiscal years.

Connecticut's economic fortunes are tied to the health of the national economy. In that regard, the economic forecast for both the nation and the state is still being affected by the financial crisis that began in 2007. Economic projections call for a slow emergence from the most recent recession with Connecticut employment growing at 0.4% in FY 2011 and 1.5% in FY 2012. By historical standards, the unemployment rate in the state is projected to remain high, averaging 8.4% in FY 2012 and falling to 7.2% in FY 2013. Connecticut is not projected to regain all the jobs lost in the most recent recession until 2014. Inflation is projected to gradually rise to 3.0% by FY 2013 and national output is projected to continue to expand over the upcoming biennium in the 4% range, with no double-dip recession anticipated. Connecticut personal income is projected to expand by 4.8% in FY 2012 and 6.4% in FY 2013. This outlook will be significantly influenced by several important trends/factors including:

- The continued trend on the part of American households of reducing their indebtedness and increasing their savings;
- National tax and spending policies in light of the dramatic increase in indebtedness of the U.S. government;
- Federal Reserve policy in regards to both interest rates and quantitative easing (i.e., purchasing assets such as U.S. treasuries/mortgages with newly created reserves); and
- Continued large imbalances between the world's debtor and creditor nations.

Baseline General Fund revenues (prior to tax changes) are projected to grow by 4.9% or \$766 million in FY 2012 and 5.7% or \$944 million in FY 2013. Even with this improvement in revenue trends, FY 2012 will be the first year that General Fund revenues attain their pre-recessionary peak reached in FY 2008 (and this is after having raised taxes and other fees by over \$750 million during the 2009 legislative session). Moreover, the growth in revenues in FY 2012 is insufficient to compensate for the loss of over \$2 billion in one-time revenues that were included in the FY 2011 budget including federal stimulus funding of \$740 million, securitization proceeds of \$647 million, FY 2010 surplus funds of \$450 million, and the last vestiges of the budget reserve fund of \$103 million.

## TAX CHANGES

The Governor's proposed budget includes General Fund tax changes totaling \$1.514 billion in FY 2012 and \$1.345 billion in FY 2013, which are explained more fully below. The budget does include other General Fund revenue measures, the largest of which are initiatives related to garnering additional federal revenue. When all measures are included, total revenue initiatives equal \$1.949 billion in FY 2012 and \$1.771 billion in FY 2013.

### PERSONAL INCOME TAX

The Governor's proposed budget calls for the introduction of five new tax brackets to enhance the progressivity of the tax while generating additional revenue for the state. Currently, Connecticut's income tax structure contains three tax rates: 3.0%, 5.0% and 6.5%. Under the Governor's proposal the upper tax rate would be increased a modest two-tenths of a percentage point and five

PERSONAL INCOME TAX							
Proposed Tax Rates							
Single Filers				Joint Filers			
Taxable Income		Current	Proposed	Taxable Income		Current	Proposed
From	To	Rate	Rate	From	To	Rate	Rate
\$ -	\$10,000	3.00%	3.00%	\$ -	\$ 20,000	3.00%	3.00%
10,000	50,000	5.00%	5.00%	20,000	100,000	5.00%	5.00%
50,000	100,000	5.00%	5.50%	100,000	200,000	5.00%	5.50%
100,000	200,000	5.00%	5.75%	200,000	400,000	5.00%	5.75%
200,000	300,000	5.00%	6.00%	400,000	600,000	5.00%	6.00%
300,000	400,000	5.00%	6.25%	600,000	800,000	5.00%	6.25%
400,000	500,000	5.00%	6.50%	800,000	1,000,000	5.00%	6.50%
500,000	& Over	6.50%	6.70%	1,000,000	& Over	6.50%	6.70%

new brackets are inserted between the existing 5.0% rate and the new 6.7% rate. These rates -- 5.5%, 5.75%, 6.0%, 6.25%, and 6.5% -- are detailed in the table below and are expected to yield \$495 million in FY 2012 and \$350 million in FY 2013. Because this and other changes are retroactive to January 1, 2011, essentially eighteen months of revenue occur in FY 2012, hence the higher revenue gain in that fiscal year.

The Governor's proposal also calls for the elimination of the \$500 property tax credit. This credit was not an original feature of the income tax when it was passed in 1991, but became effective with the 1996 income year, initially at a level of \$100. Over time, it has risen, been scaled back, and risen again. Given the state's financial situation, eliminating the credit will yield \$365 million for the General Fund.

Another proposed change to the income tax is the phase-out of the lowest tax rate of 3% at higher income levels. Currently all taxpayers receive the benefit of this lower rate regardless their income level. This proposal would recapture this lower rate beginning at \$56,500 for single filers and \$100,500 for joint filers and is expected to yield \$126.0 million in FY 2012 and \$90.0 million in FY 2013.

The following table provides the impact of these income tax changes on selected levels of adjusted gross income for single and joint filers.

<b>PERSONAL INCOME TAX PROPOSAL</b>			
Sample Income Tax Payments By Selected Income Levels			
February 2011			
<b>Single Filer</b>			
CT Adjusted Gross <u>Income</u>	2010 Income Year <u>Tax Due</u>	Proposed 2011 <u>Tax Due</u>	Proposed Change Relative <u>To 2010</u>
\$ 10,000 *	\$ -	\$ -	\$ -
\$ 20,000 *	\$ -	\$ 137	\$ 137
\$ 30,000 *	\$ 265	\$ 765	\$ 500
\$ 40,000 *	\$ 1,120	\$ 1,620	\$ 500
\$ 50,000	\$ 1,570	\$ 2,070	\$ 500
\$ 60,000	\$ 2,350	\$ 2,870	\$ 520
\$ 70,000	\$ 2,900	\$ 3,440	\$ 540
\$ 80,000	\$ 3,450	\$ 4,010	\$ 560
\$ 90,000	\$ 4,000	\$ 4,580	\$ 580
\$ 100,000	\$ 4,550	\$ 5,150	\$ 600
\$ 125,000	\$ 5,900	\$ 6,628	\$ 728
\$ 150,000	\$ 7,300	\$ 8,125	\$ 825
\$ 200,000	\$ 9,800	\$ 11,000	\$ 1,200
\$ 250,000	\$ 12,300	\$ 14,000	\$ 1,700
\$ 500,000	\$ 24,800	\$ 29,750	\$ 4,950
\$ 1,000,000	\$ 57,300	\$ 63,250	\$ 5,950
\$ 2,000,000	\$ 122,300	\$ 130,250	\$ 7,950
<b>Joint Filer</b>			
CT Adjusted Gross <u>Income</u>	2010 Income Year <u>Tax Due</u>	Proposed 2011 <u>Tax Due</u>	Proposed Change Relative <u>To 2010</u>
\$ 10,000 *	\$ -	\$ -	\$ -
\$ 20,000 *	\$ -	\$ -	\$ -
\$ 30,000 *	\$ -	\$ 45	\$ 45
\$ 40,000 *	\$ -	\$ 312	\$ 312
\$ 50,000	\$ 350	\$ 850	\$ 500
\$ 60,000	\$ 1,300	\$ 1,800	\$ 500
\$ 70,000	\$ 2,200	\$ 2,700	\$ 500
\$ 80,000	\$ 2,740	\$ 3,240	\$ 500
\$ 90,000	\$ 3,190	\$ 3,690	\$ 500
\$ 100,000	\$ 4,008	\$ 4,508	\$ 500
\$ 125,000	\$ 5,500	\$ 6,095	\$ 595
\$ 150,000	\$ 6,850	\$ 7,550	\$ 700
\$ 200,000	\$ 9,600	\$ 10,500	\$ 900
\$ 250,000	\$ 12,100	\$ 13,375	\$ 1,275
\$ 500,000	\$ 24,600	\$ 28,000	\$ 3,400
\$ 1,000,000	\$ 49,600	\$ 59,500	\$ 9,900
\$ 2,000,000	\$ 114,600	\$ 126,500	\$ 11,900

\* Filers at these income levels may be eligible for the Earned Income Tax credit.

Finally, the Governor’s proposed budget includes the implementation of an Earned Income Tax credit. Connecticut will join the 24 other states plus the District of Columbia with such a credit, which is currently proposed at 30% of the federal amount. This fully refundable credit is estimated at a cost of approximately \$110 million annually and will provide a benefit to roughly 190,000 of our lower income citizens.

States with an Earned Income Tax Credit		
Tax Year 2010		
No.	State	Percent of Federal EIC Refundable
1.	Colorado	10% Yes
2.	Delaware	20% No
3.	Illinois	5% Yes
4.	Indiana	9% Yes
5.	Iowa	7% Yes
6.	Kansas	17% Yes
7.	Louisiana	3.5% Yes
8.	Maine	5% Partial
9.	Maryland	25% Yes
10.	Massachusetts	15% Yes
11.	Michigan	20% Yes
12.	Minnesota	State Formula Yes
13.	Nebraska	10% Yes
14.	New Jersey	25% Yes
15.	New Mexico	10% Yes
16.	New York	30% Yes
17.	North Carolina	5% Yes
18.	Oklahoma	5% Yes
19.	Oregon	6% Yes
20.	Rhode Island	25% Partial
21.	Vermont	32% Yes
22.	Virginia	20% No
23.	Washington	5% Yes
24.	Wisconsin	4% to 43% Yes
25.	District of Columbia	40% Yes

Federal Earned Income Credit for Tax Year 2010			
Qualifying Children	Filing Status	Both Earned Income Limit and AGI Limit	Maximum Federal Credit
0	Single, H of H, Widow(er)	\$13,460	\$457
	Joint	\$18,470	\$457
1	Single, H of H, Widow(er)	\$35,535	\$3,050
	Joint	\$40,545	\$3,050
2	Single, H of H, Widow(er)	\$40,363	\$5,036
	Joint	\$45,373	\$5,036
3+	Single, H of H, Widow(er)	\$43,352	\$5,666
	Joint	\$48,362	\$5,666

Note: Filers receive the maximum Earned Income Tax credit of \$5,666 at an AGI level ranging from: \$12,550 to \$16,450 for single filers, and \$12,550 to \$21,500 for joint filers.

## SALES AND USE TAX CHANGES

Over the years, Connecticut’s tax code has become riddled with special exemptions and carve-outs from taxation for products or services which at the time may have seemed reasonable and affordable. As a state, Connecticut no longer has that luxury. Most of these items lay buried deep within the state’s sales tax code. The Governor undertook an exhaustive review of such exemptions, with an eye toward eliminating those that would not place Connecticut at a competitive disadvantage relative to our neighboring states. By eliminating some of these tax expenditures the Governor was able to minimize the tax rate increase, which is scheduled to rise from 6.0% to 6.35% effective July 1, 2011, with 0.10% of that increase reserved for municipalities. In total, sales tax changes net to a general fund impact of \$466.3 million in FY 2012 and \$489.0 million in FY 2013, of which approximately \$155 million annually is due to the increase in the sales tax rate.

## BUSINESS TAXES

The Governor's tax package for businesses is relatively modest compared with other components of his plan. His rationale is simple – it's all about jobs. This recession has cost Connecticut over 100,000 jobs and the unemployment rate remains stubbornly high at 9.0%. Moreover, under current federal law, businesses will be assessed a new charge over the next several years in order to repay the federal government for the loan extended to the state's unemployment trust fund. This is expected to cost employers approximately \$73 million in FY 2012, climbing to \$92 million in FY 2013. Finally, many of the sales tax changes will be borne by business, too. Therefore, the modest proposals include extending the existing 10% surtax on business income for another two income years, revise the provisions regarding the transferability of film tax credits to encourage businesses with a corporate presence in the state, and establish a throwback rule under the corporation tax in order to better assure that all business income is accounted for on our state tax returns.

<b>History of CT's Corporate Tax Surchage</b>	
<u>Income Year</u>	<u>Tax Rate</u>
2003	20%
2004	25%
2006	20%
2009	10%
2010	10%
2011	10%
<u>Proposed</u>	
2012	10%
2013	10%

In addition, the insurance premiums tax will rise from 1.75% to 1.95%. Offsetting these increases, the Governor is proposing an innovative way for companies to unlock their existing unused tax credits while encouraging job creation in the state. Under current law companies can only access their tax credits up to 70% of their liability. The Governor's proposal would allow them to receive the full value of their credits, up to 100% of their liability, at a rate of \$6,000 for every net new job created. The corporation and insurance tax changes are expected to yield \$75.4 million in FY 2012 and \$89 million in FY 2013, not including the amounts businesses will be assessed for repaying the federal unemployment insurance loan.

## CIGARETTES AND ALCOHOL

The Governor's proposed budget would increase the cigarette tax from \$3.00 per pack to \$3.40 per pack while also raising the rates on other tobacco products. Rates on alcoholic beverages, which were last raised in 1989, would also increase. The tax on beer would rise by 4 cents per gallon, wine by 12 cents per gallon and distilled spirits would rise by 90 cents per gallon. In total, these changes would increase

<b>Alcoholic Beverage Tax Rates</b> (Dollars per Gallon)				
<u>State</u>	<u>Distilled Spirits</u>	<u>Wines 14% or Less</u>	<u>Wines 14% to 21%</u>	<u>Beer</u>
Connecticut (proposed)	\$5.40	\$0.72	\$0.72	\$0.24
Massachusetts	\$4.05	\$0.55	\$0.55	\$0.10
New York	\$3.04	\$0.30	\$0.30	\$0.11
Rhode Island	\$3.75	\$0.60	\$0.75	\$0.10
Connecticut (current)	\$4.50	\$0.60	\$0.60	\$0.20

Note: Wine percentages refer to alcohol content

<b>Proposed Tobacco Tax Rates</b> Compared to Neighboring States			
<u>State</u>	<u>Cigarette Tax Per Pack</u>	<u>Snuff Tax Per Ounce</u>	<u>Tax on Wholesale Price of Other Tobacco Products</u>
Connecticut (proposed)	\$3.40	\$1.00	50%
Massachusetts	\$2.51	90%*	30%
New York	\$4.35	\$2.00	75%
Rhode Island	\$3.46	\$1.00	80%
Connecticut (current)	\$3.00	\$0.40	20%

\*As a percentage of the wholesale price.

General Fund revenue by \$66.8 million in FY 2012 and \$52.4 million in FY 2013 (inclusive of the sales tax impact).

## MAXIMIZING FEDERAL REVENUE

The Governor's main initiative to maximize federal revenue is the imposition of provider taxes on both hospitals and intermediate care facilities for the mentally retarded (ICF/MRs). This program will be structured similar to the existing provider tax on nursing homes, which will also be enhanced. The revenue gained from the nursing home and ICF/MR user fee assessment will be returned in the form of increased Medicaid rates as well as any federal dollars

gained from that initial federal claiming. As part of this effort, the Governor also proposes to reinstate a hospital user fee. In total, this will permit Connecticut to claim additional federal funding, up to certain limits and will result in a net benefit to the General Fund of approximately \$150 million annually.

<b>Health Provider Tax Rates</b>			
Effective Tax Rates			
	Existing	Proposed	
		7/1/2011	10/1/2011
Nursing Homes	4.60%	5.50%	6.00%
Hospitals	N/A	5.50%	5.71%
ICF/MR's	N/A	5.50%	6.00%

<b>Health Related Provider Taxes</b>								
(in millions)								
	Fiscal 2012				Fiscal 2013			
	Nursing Homes	Hospitals	ICF/MRs	Total	Nursing Homes	Hospitals	ICF/MRs	Total
<b>Revenue</b>								
User Fee/Assessment	\$ 31.1	\$ 266.6	\$ 16.9	\$ 314.6	\$ 34.3	\$ 269.0	\$ 17.2	\$ 320.5
Federal Revenue	21.3	133.3	8.0	162.6	25.7	134.5	9.6	169.8
Total Revenue	\$ 52.4	\$ 399.9	\$ 24.9	\$ 477.2	\$ 60.0	\$ 403.5	\$ 26.8	\$ 490.3
<b>Expenditures</b>								
Expenditures	\$ 42.7	\$ 266.6	\$ 17.2	\$ 326.5	\$ 51.5	\$ 269.0	\$ 19.2	\$ 339.7
Net State Benefit/(Cost)	\$ 9.7	\$ 133.3	\$ 7.7	\$ 150.7	\$ 8.5	\$ 134.5	\$ 7.6	\$ 150.6

Notes: ICF/MRs: Intermediate Care Facilities for the Mentally Retarded.  
Above figures do not include revenue or expenditures from existing nursing home user fee.

## OTHER REVENUE CHANGES

The Governor's budget would impose a luxury tax on the sale of certain items at a rate of 3%. Automobiles over \$50,000, boats over \$100,000, jewelry over \$5,000 and clothing over \$1,000 would be subject to this new levy only on the increment above those thresholds.

<b>Luxury Tax Thresholds</b>	
<b>Product</b>	<b>Threshold</b>
Cars	\$50,000
Boats	\$100,000
Jewelry	\$5,000
Clothing	\$1,000

Note: The 3% Luxury Tax applies to product amounts over the stated thresholds

Numerous exemptions from the admissions and dues tax were reviewed as part of the Governor's overall examination of existing tax expenditures. Under this budget, such exemptions are recommended for elimination.

During the 2009 legislative session the exemption level under the unified gift and estate tax was raised from \$2.0 million to \$3.5 million. The Governor's budget proposes to reduce the exemption level back to \$2.0 million, but does not change tax rates, nor does it reintroduce the tax cliff that was seen as so problematic for that tax. Finally, a tax of two-tenths of one cent per kilowatt would be imposed on generators of electricity in the

state. In order to encourage the generation of “green” electricity, wind, hydro, solar, biomass, and fuel cell derived electricity in the state will be exempted from this new tax.

### SPECIAL TRANSPORTATION FUND

The Governor’s initiatives for revenue in the Transportation Fund seek to maintain long-term structural balance. Transportation infrastructure is one of the main arteries of our economy and neglecting investments in this area is perilous to our long-term prosperity. Overall, revenue changes to the Transportation Fund total \$109.0 million in FY 2012 and \$112.2 million in FY 2013. The few changes to the revenue structure of the fund include increasing the gas tax by 3 cents from 25 cents per gallon to 28 cents per gallon, and increasing the base diesel fuel tax rate by 2 cents per gallon from 26 cents to 28 cents. In addition, the fee for passenger vehicle registrations would be increased, rising from \$75 to \$80 biennially, and driver’s licenses would rise by \$6 from \$66 every 6 years to \$72 every 6 years—an increase of one dollar per year. Finally, the Governor is proposing that all gasoline related receipts under the Oil Companies tax be deposited into the Transportation Fund where they belong.

### MUNICIPAL REVENUE DIVERSIFICATION

A cornerstone of the Governor’s budget proposal is diversification of our local government’s tax base. Like state government, municipalities have also been severely impacted by the Great Recession. Proposed within the Governor’s budget are several additional sources of revenues for our towns including:

- The state sales tax rate will rise from 6% to 6.25%. An additional 0.10% sales tax will be placed on products and services sold through retail establishments; this is estimated to raise \$24.0 million in FY 2012 and \$25.1 million in FY 2013 and will be returned to the town of origin.
- An additional 1% tax on hotels (bringing the total rate to 15%). This is estimated to raise \$5.8 million in FY 2012 and \$6.1 million in FY 2013 and will be returned to the town of origin.
- An additional 1% tax on car rentals (bringing the total rate to 9%). This is estimated to raise \$1.6 million and will be returned to the town of origin.
- Make permanent the 0.25% municipal real estate conveyance tax and expand the current optional conveyance tax to all municipalities (bringing the total municipal rate from 0.11% to 0.5%). This is estimated to raise \$52.9 million.
- Impose a new 3% cabaret tax. This is estimated to raise \$0.9 million and will be returned to the town of origin.
- Impose a personal property tax on boats in the state at a state-wide rate of 20 mills. This is estimated to raise \$38.7 million beginning in FY 2013.
- Impose a personal property tax on aircraft in the state at a state-wide rate of 20 mills. This is estimated to raise \$4.0 million beginning in FY 2013.

In total, these additional revenue sources for towns equate to \$85.2 million in FY 2012, rising to \$129.3 million in FY 2013.

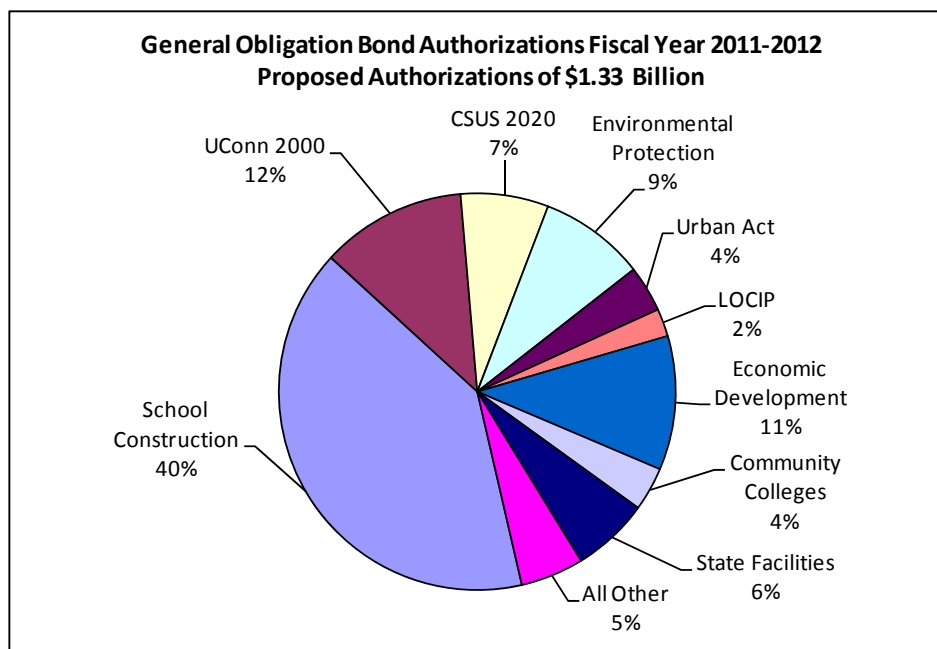


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## CAPITAL INVESTMENTS

Governor Malloy is proposing a capital budget focused on funding projects and programs that create and retain jobs in the state. The proposal emphasizes significant investments in the state's transportation infrastructure, the environment, housing and economic development.

Proposed new general obligation (GO) bond authorizations total \$1.075 billion in FY 2012 and \$1.116 billion in FY 2013. These proposed bond authorizations are in addition to those that were previously authorized by the General Assembly and would become effective during the biennium, which includes \$95 million each year for the CSUS 2020 program, \$157.2 million in FY 2012 and \$143 million in FY 2013 for UConn 2000.



The proposed GO bond authorizations include:

- The largest infusion of funds in the 25 year history of the Clean Water Fund which will begin to address a project backlog created by years of underfunding. Over the biennium, the program will receive \$186.6 million for grants and \$471.8 million for subsidized low interest loans to fund critical infrastructure projects that will benefit the environment and create jobs;
- \$536.4 million in FY 2012 and \$592.3 million in FY 2013 to meet the commitments of the school construction program;
- \$80 million over the biennium for the Urban Act Program;
- \$30 million in each year of the biennium in ongoing funding for the LoCIP;
- \$12.4 million over the biennium to continue implementation of the Criminal Justice Information System;
- \$10 million in each year of the biennium for farmland preservation;

- \$15 million in each year of the biennium for improvements to state parks and recreation areas;
- \$114 million over the biennium for Community College System building projects;
- \$18 million over the biennium to finance enhancements and upgrades to the state's financial information systems to improve transparency and accountability through the implementation of Generally Accepted Accounting Principles and by including financial and human resource information for agencies like the constituent units of higher education which do not currently use CORE-CT for all of their financial transactions and reporting;
- \$50 million in each year of the biennium for housing development and rehabilitation projects to increase the availability of affordable housing options for workers, young professionals and low income families;
- \$30 million in FY 2012 to continue development of units under the successful supportive housing program;
- \$25 million in each year of the biennium to finance loans for redevelopment of brownfields;
- \$40 million in each year of the biennium for the Department of Economic and Community Development to continue to provide low interest loans to attract and retain businesses and jobs in the state; and
- \$32 million over the biennium for capital investments in facilities of the state's nonprofit providers.

The capital plan also seeks to repurpose \$23 million of prior GO bond authorizations to provide funds for energy efficiency improvements at state facilities.

Proposed Special Tax Obligation bond authorizations for transportation projects total \$572.3 million in FY 2012 and \$515.2 million in FY 2013. Additionally, \$25 million of GO bonds are proposed each year for transportation purposes.

The proposed transportation bond authorizations include:

- New authorizations of \$50 million over the biennium for improvements, including dredging, at the state's economically vital deep water ports. Improving the ports in Bridgeport, New Haven and New London will foster economic growth, increase trade, reduce the overreliance on trucks to transport goods, and create jobs;
- \$227 million over the biennium to fully fund DOT's priority projects under the Fix-it-First initiatives to repair the state's roads and bridges;
- \$196 million over the biennium, above and beyond base program funding, to address deferred maintenance in the bus and rail infrastructure;
- Significantly enhanced funding for environmental remediation at DOT facilities and sites;
- Enhanced funding for DOT support facility construction which will increase efficiencies and reduce long term costs; and
- An adjustment to road resurfacing bond authorizations to coordinate financing with construction seasons. Previously, funds would have to be authorized by the General Assembly on a fast track basis in order to be available for the limited months in which paving can be accomplished. This adjustment will eliminate the need to fast track resurfacing bond authorizations by authorizing funds one year in advance of the construction season, allowing the State Bond Commission to allocate the funds on time to maximize paving seasons.

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## BUDGET REFORM

Economic conditions have a major impact on the state budget process. As a result, the state has instituted budgeting rules intended to allow Connecticut to adjust to both a thriving and weak economy. These include a cap on state spending, a balanced budget provision, a Budget Reserve Fund, a statutory debt limit, and gubernatorial rescission authority.

These practices have been adjusted over time. The target funding level of the Budget Reserve Fund has been increased from five percent to seven-and-a-half percent to ten percent of General Fund appropriations in the last decade, providing \$1,381.7 million for use during the most recent recession. In fiscal year 2010, concerns about debt levels approaching the statutory limit led to the cancellation of nearly \$467 million in bond authorizations, while the governor's rescission authority permitted \$59.2 million in allotment reductions.

The most recent recession has taught us that while these principles are valuable, they do not do enough to prepare for the most severe recessions. Accordingly, the Governor recommends the following changes to prepare Connecticut for success in the future:

- Increasing the funding target for the Budget Reserve Fund from ten percent to fifteen percent of General Fund appropriations. One-time surpluses in previous years generated substantial new spending, in large measure for ongoing programs. Setting aside surpluses for a rainy day is a prudent measure that will help the state deal with economic downturns in the future. In order to rebuild that reserve, the Governor proposes setting aside half of any surplus that is identified in the cumulative monthly financial statement concerning the state's General Fund issued by the Comptroller in the month of January be immediately transferred to the state's rainy day fund.
- Dedicating one-time revenues such as recoveries or settlements negotiated through the Office of the Attorney General to reducing unfunded liabilities for pensions and health care. Because receipt of these settlements, some of which can run into the millions of dollars, is unplanned, the Governor proposes dedicating them to reducing these unfunded liabilities.
- Reforming the reimbursement process for school construction in recognition of the need to reduce the state's high level of indebtedness. The Governor proposes a number of measures in this regard:
  - Reducing the reimbursement rate for new construction from a range of 20 to 80 percent to a new range of 15 to 65 percent, with magnet school reimbursement rates reduced from 95 percent to 80 percent. Reimbursement rates for renovations would not change.
  - Requiring the commissioner of the new Department of Construction Services to adopt regulations that would encourage preventive maintenance expenses (such as roof and heating, ventilation and air conditioning repairs) rather than waiting until buildings were in such significant disrepair that entire systems require replacing.
  - Prohibiting reimbursement for school districts that cannot justify projects based on enrollment.
  - Excluding reimbursement for project management and construction management fees for projects and legal fees for litigation on projects.
  - Establishing a metric for reimbursing towns based on industry standards for costs per square foot.

- Modifying the timeline for submitting school construction projects for inclusion on the priority list.
- Cancellation of any grant commitments for which construction has not begun by April 1, 2012
- Removing the Connecticut Science Center from eligibility.

In order to enhance the Governor's ability to flexibly and responsively address the state's fiscal condition, several additional reforms regarding budgetary authority are proposed. These include:

- Clarifying the Governor's budget authority. A number of changes are proposed that will enable the Governor to exercise his responsibility to offer and execute a responsible fiscal program for the state.
  - Restore the Executive Branch's ability to recommend a budget for all of state government. Statutory changes are proposed to allow the Governor to recommend changes to requested funding for the Legislative branch, Judicial branch agencies other than the Judicial Department, and watchdog agencies (the State Elections Enforcement Commission, Office of State Ethics and the Freedom of Information Commission, which are proposed to be combined into a new Office of Governmental Accountability). The requests from these agencies will still be presented in the Governor's recommended budget, but the Governor will be able to offer changes for consideration by the legislature during the appropriations process. As a separate and co-equal branch of government, this reform will allow the Executive branch to exercise its prerogatives under the constitution in order to offer a balanced budget that reflects the Governor's recommended policies and priorities.
  - Provide expanded rescission authority. The current limits of five percent of any appropriation and three percent of any fund are inadequate to deal with the scope of a severe financial crisis. The Governor proposes increasing those thresholds to ten percent of any appropriation and five percent of any fund. Further, the Governor proposes removing the restriction on rescissions of aid to municipalities. Broadening the Governor's ability to deal with fiscal exigencies will give the Governor the tools necessary to ensure that the budget remains in balance.
  - Provide expanded transfer authority. Currently, Finance Advisory Committee (FAC) approval is required for any transfers between accounts within an agency's budget that exceed \$50,000 or ten percent of any specific appropriation, whichever is less. The Governor proposes increasing these thresholds, which have been in place since 1982, to \$250,000 or fifteen percent of any specific appropriation, whichever is less. As with the current thresholds, notification of any non-FAC transfer would still apply. This flexibility will enable the Governor to deal with any budgetary exigencies while still maintaining transparency and accountability.
- Modifying the legislative process for approving state employee contracts. Currently, collective bargaining agreements or awards for state employees can go into effect without an affirmative vote of the General Assembly. The Governor proposes that all collective bargaining agreements and awards require explicit approval or rejection by the legislature.
- Enhancing transparency, accountability and financial management of the state by bringing limited- or out-of-scope agencies into Core-CT, the state's financial and human resources system. This change will benefit the Executive and Legislative branches and, ultimately, the

public by ensuring that all of the information necessary to manage the state is available in one place. Through this change, the constituent units of higher education, the Judicial branch and the Legislative branch will, at minimum, provide regular updates of information (including information about financial transactions, payroll, and human resources) from their systems to Core-CT. Additionally, review and approval of non-faculty hiring within the higher education system and positions within the Division of Criminal Justice will follow the same process as other executive branch agencies. Funding is provided in the capital budget for development of changes to Core-CT to extend the system to limited- or out-of-scope agencies, as well as to upgrade Core-CT for any changes required to conform to Generally Accepted Accounting Principles and to ensure continued vendor support of the software.

- Modifying the disposition of surpluses. The Governor also proposes revising current statutory language requiring that any surpluses be first used to retire the Economic Recovery Notes used to finance the fiscal year 2009 deficit, then to defease the Economic Recovery Revenue Bonds anticipated to be issued for fiscal year 2011. Under this proposal, the Secretary of the Office of Policy and Management, in consultation with the Treasurer, would have the discretion to address whichever need he feels is in the best interest of the state.

In addition to the process reforms outlined above, the Governor proposes modifying the requirements for producing a recommended budget. Current law requires information to be presented in the Governor's budget that is not widely utilized by lawmakers and which imposes a significant workload while adding little value to the document. This information includes budgeting on a "program" basis as well as presenting a "prevention" budget. The Governor firmly believes that data-driven assessment of program effectiveness is important and is more meaningful than the program measures and informational categories currently required by statute in the budget document, and that the current requirements are obsolete given the legislature's interest in results-based accountability. As a result, the Governor recommends eliminating the requirement to present the budget at a program level of detail as well as the requirement to produce a prevention budget.

Finally, the Governor is recommending that the state implement Generally Accepted Accounting Principles (GAAP). Use of GAAP in state accounting and financial reporting will improve the state's accountability for the use of public funds, and will bring greater clarity and consistency to the budgeting process. Executive Order No. 1, issued on January 5, 2011, directs the Secretary of the Office of Policy and Management to present a plan for implementing GAAP to the legislature in April, 2011. This budget also ensures that state operations will be balanced on a GAAP basis in both years of the biennium. An exhibit portraying the budget on both a budgetary and GAAP basis is included in this budget document.

Taken together, these measures will send a signal to the public and to our bond rating agencies that we are serious about putting our fiscal house in order.

## SUMMARY

Governor Malloy is proposing a biennial budget that will result in an all funds budget of \$19,738.2 million for FY 2012, a 2.4% increase over the estimated FY 2011 level, and \$20,206.3 million for FY 2013, 2.4% higher than FY 2012. The recommended budget is \$406.4 million below the spending cap for FY 2012, and \$57.4 million below the cap for FY 2013.

Appropriated Funds Of The State (In Millions)		
	Recommended FY 2012	Recommended FY 2013
General Fund	\$ 18,268.1	\$ 18,709.6
Special Transportation Fund	1,303.8	1,335.5
Mashantucket Pequot & Mohegan Fund	61.8	61.8
Soldiers, Sailors & Marines Fund	3.1	3.1
Regional Market Operating Fund	1.0	0.9
Banking Fund	25.9	21.8
Insurance Fund	26.3	25.8
Consumer Counsel and Public Utility Fund	26.0	25.6
Workers Compensation Fund	18.8	18.6
Criminal Injuries Compensation Fund	3.5	3.6
Grand Total	<u>\$ 19,738.2</u>	<u>\$ 20,206.3</u>

### GENERAL FUND

The recommended General Fund expenditure base for FY 2012 is \$17,941.6 million, excluding the impact of proposed health provider taxes. This is \$3.4 million less than estimated FY 2011 expenditures, more than fulfilling the Governor's goal of holding spending at the FY 2011 level. To achieve this goal, the Governor has recommended \$1,757.6 million in reductions to the spending level that would be necessary to maintain current services in FY 2012 over FY 2011, an 8.9% decrease. In order to leverage additional federal funding, the Governor's provider tax proposal will generate \$477.2 million in increased revenue (tax revenue as well as newly-generated federal reimbursement), and require \$326.5 million in increased expenditures, with a net benefit to the state of over \$150 million. At a total level, including the expenditure increase related to provider taxes, the FY 2012 General Fund budget increases \$323.1 million, or 1.8%, over estimated expenditures for FY 2011. Because of the net gain to the state, this spending increase is good fiscal policy as well as an indicator of the Governor's emphasis on strengthened financial stewardship and improved federal revenue maximization.

The January consensus revenue forecast by the Office of Policy and Management and the Office of Fiscal Analysis forms the current services baseline for revenues in this budget. Estimated current services revenues in the General Fund for FY 2012 are \$16,511.4 million, \$1,550.8 million or 8.6% below estimated revenues in FY 2011. This reduction reflects the structural problems with the budget for the 2010-2011 biennium that will affect the 2012-2013 biennium: one-time revenue sources that must either be replaced or accommodated through spending reductions. These one-time revenue sources that are not available in the upcoming biennium include surplus funds from FY 2010, the Budget Reserve Fund, federal stimulus funding, planned securitization (borrowing), and transfer of balances from other appropriated and off-budget funds to the General Fund.

In order to resolve this structural imbalance, Governor Malloy has proposed General Fund tax changes totaling \$1,514.0 million in FY 2012 and \$1,344.9 million in FY 2013. When coupled with revenue resulting from other policy recommendations, such as the provider tax proposal, revenue changes total \$1,948.7 million in FY 2012 over current services, and \$373.7 million, or 2.1%, greater than FY 2011.

Current Services versus Proposed Budget									
(in millions)									
	Fiscal Year 2011		Fiscal Year 2012				Fiscal Year 2013		
	Adopted Budget	Estimated Year End	Updates	Current Services	Policy Changes	Proposed Budget	Current Services	Policy Changes	Proposed Budget
<u>General Fund</u>									
Revenues	\$ 17,667.4	\$ 18,062.2	\$ (1,550.8)	\$ 16,511.4	\$ 1,948.7	\$ 18,460.1	\$ 17,399.9	\$ 1,770.8	\$ 19,170.7
Expenditures	17,667.2	17,945.0	1,754.2	19,699.2	(1,431.1)	18,268.1	20,353.1	(1,643.5)	18,709.6
Misc. Adjustments	-	60.0	-	-	-	-	-	-	-
Surplus/(Deficit)	\$ 0.2	\$ 57.2	\$ (3,305.0)	\$ (3,187.8)	\$ 3,379.8	\$ 192.0	\$ (2,953.2)	\$ 3,414.3	\$ 461.1

### SPECIAL TRANSPORTATION FUND

In the Special Transportation Fund, the proposed FY 2012 budget is \$1,303.8 million, 11.1% higher than the estimated FY 2011 level, and the recommended FY 2013 funding level is \$1,335.5 million, 2.4% over FY 2012. This reflects the Governor's commitment to transportation as a significant driver of and contributor to a vibrant economy.

### EXPENDITURE CAP

On a current services basis, the FY 2011-13 biennial budget was above the cap by \$977.5 million in fiscal year 2012 and over \$1.1 billion above the cap in fiscal year 2013. At a minimum, Governor Malloy had to cut nearly \$1 billion of expenses just to remain below the spending cap. Governor Malloy's proposed FY 2011-13 biennial budget is \$406.4 million below the cap in FY 2012 and \$57.4 million below in FY 2013.