Budget Briefing of the Appropriations Committee

February 6, 2014

Governor's FY 2015 Midterm Budget Adjustments

Dannel P. Malloy, Governor

February 6, 2014

Governor Malloy's FY 2015 Midterm Budget

- Maintains his commitment to fiscal discipline
- Significant deposit to the Budget Reserve Fund
- Additional payment toward unfunded pension liability
- Tax cuts
- Targeted new investments:
  - Early Childhood Education
  - A new vision for Connecticut State Colleges and Universities
  - College affordability
  - Mental health services
  - Health care reform
  - Jobs and employment
  - Veterans' services
  - Affordable housing
- Continued infrastructure investment

Overview of Budget

Proposed Revisions to Enacted FY 2015 Budget

Appropriated Funds of the State
(in millions)

	Estimated FY 2014	Enacted FY 2015	Recommended Revised FY 2015
General Fund	$ 17,108.2	$ 17,497.6	$ 17,496.2
Special Transportation Fund	1,243.2	1,322.3	1,322.4
Mashantucket Pequot & Mohegan Fund	61.8	61.8	61.8
Soldiers, Sailors, and Marines Fund	3.1	-	-
Regional Market Operation Fund	0.9	0.9	1.0
Banking Fund	26.6	27.8	28.8
Insurance Fund	30.7	32.0	68.0
Consumer Counsel and Public Utility Fund	24.9	25.4	25.4
Workers' Compensation Fund	23.2	24.8	26.2
Criminal Injuries Compensation Fund	3.4	2.8	2.8
Grand Total	$ 18,526.0	$ 18,995.4	$ 19,032.6

Note: FY 2014 General Fund does not include additional proposed $100 million pension contribution

Proposed Revisions to Enacted FY 2015 Budget

SUMMARY OF APPROPRIATION CHANGES

(in millions)

	Enacted Appropriation FY 2015	Net Adjustments FY 2015	Recommended Appropriation FY 2015	% Growth Over Enacted
General Fund	$ 17,497.6	$ (1.3)	$ 17,496.2	0.0%
Special Transportation Fund	1,322.3	0.1	1,322.4	0.0%
Mashantucket Pequot & Mohegan Fund	61.8	-	61.8	0.0%
All Other Funds	113.7	38.5	152.2	33.8%
Total	$ 18,995.4	$ 37.2	$ 19,032.6	0.2%

SUMMARY OF EXPENDITURE GROWTH

(in millions)

	Estimated Expenditures FY 2014	Net Adjustments FY 2015	Recommended Appropriation FY 2015	% Growth Over FY 2014
General Fund	$ 17,108.2	$ 388.0	$ 17,496.2	2.3%
Special Transportation Fund	1,243.2	79.2	1,322.4	6.4%
Mashantucket Pequot & Mohegan Fund	61.8	-	61.8	0.0%
All Other Funds	112.8	39.3	152.2	34.9%
Total	$ 18,526.0	$ 506.5	$ 19,032.6	2.7%

Governor Malloy's Recommended Budget

(in millions)

General Fund	Estimated FY 2014	Appropriated FY 2015	Revised Recommended FY 2015
Revenues	$ 17,614.3	$ 17,500.7	$ 17,518.5
Appropriations	17,108.2	17,497.6	17,496.2
Balance	$ 506.1	$ 3.1	$ 22.3
Proposed Uses of Surplus:			
Additional Payment to SERS	100.0		
Tax Refund Program	155.0		
Carryforward Lapsing Funds into FY 2015	8.5		
Deposit to Budget Reserve Fund	242.6		
Projected Balance 6/30	$ -	$ 3.1	$ 22.3

A Sustainable Budget Plan

Budget Growth Rates

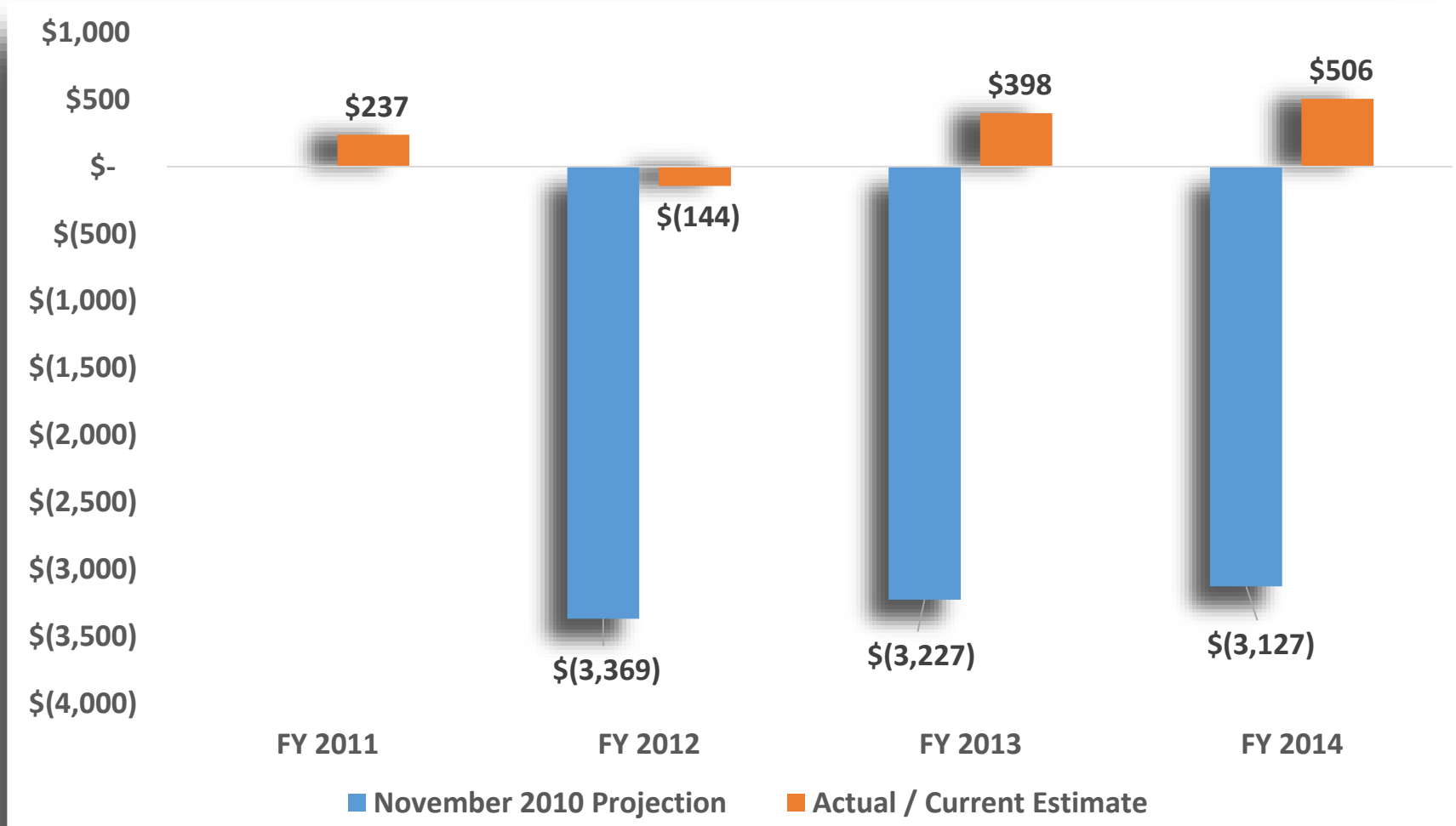
Annual Percentage Rate

Fiscal Years	Total All Funds
FY '96 - FY '05	4.7%
FY '06 - FY '11	4.2%
FY '12 - FY '15 (rec.)	2.8%

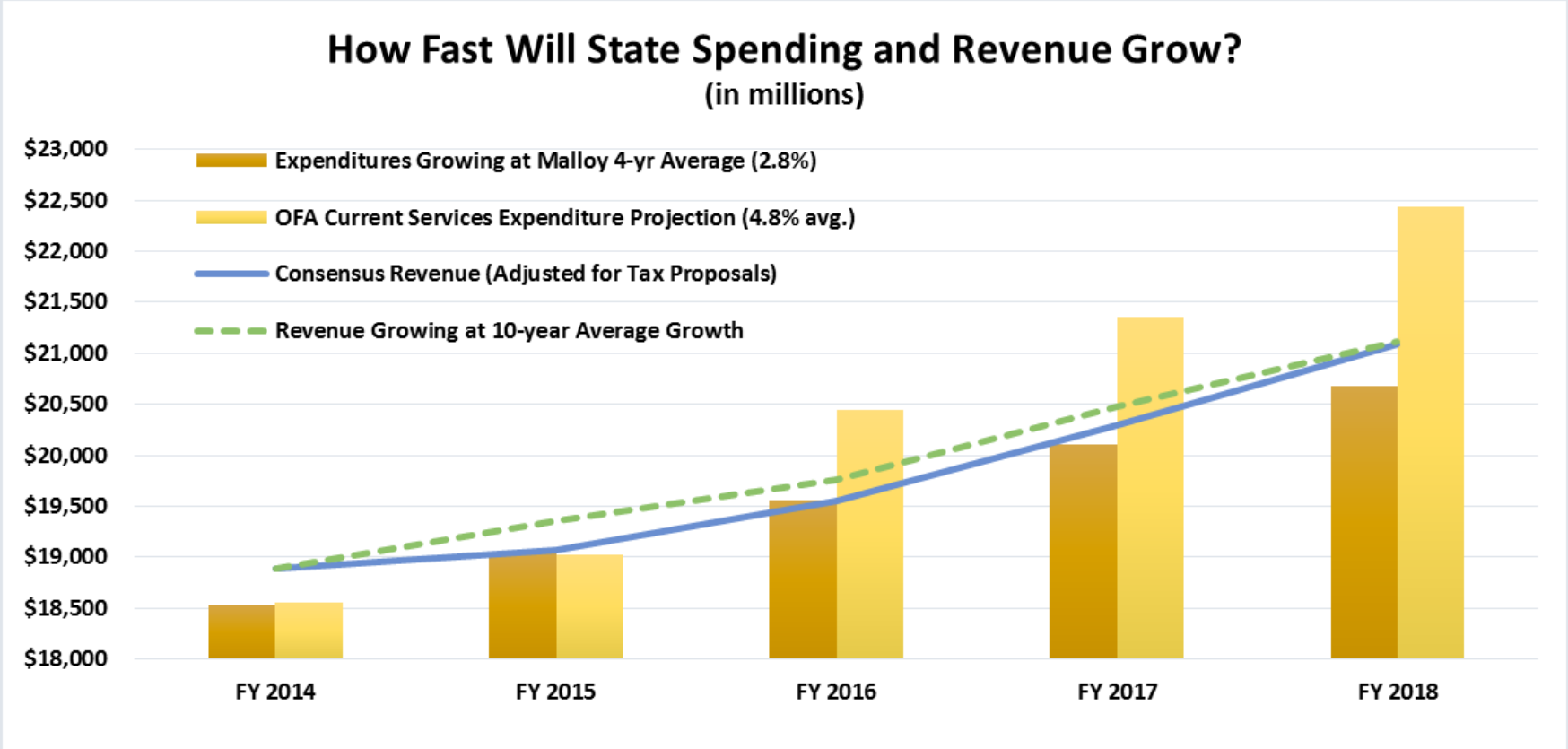
Note: Totals were adjusted to reflect net budgeting of Medicaid

Budget Balance: Projected and Actual 2011-2014

(in millions)

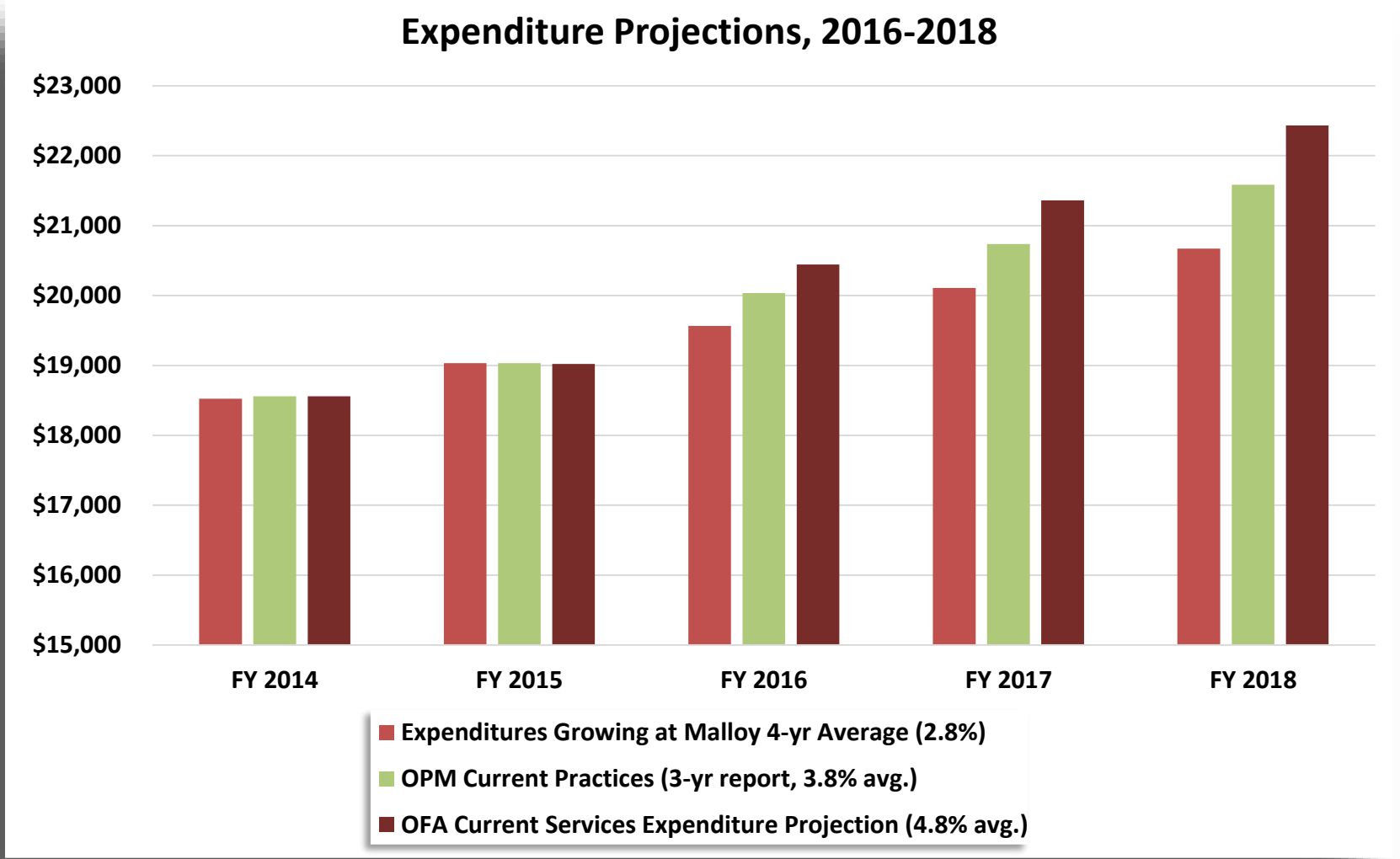


Sustainable in the Future



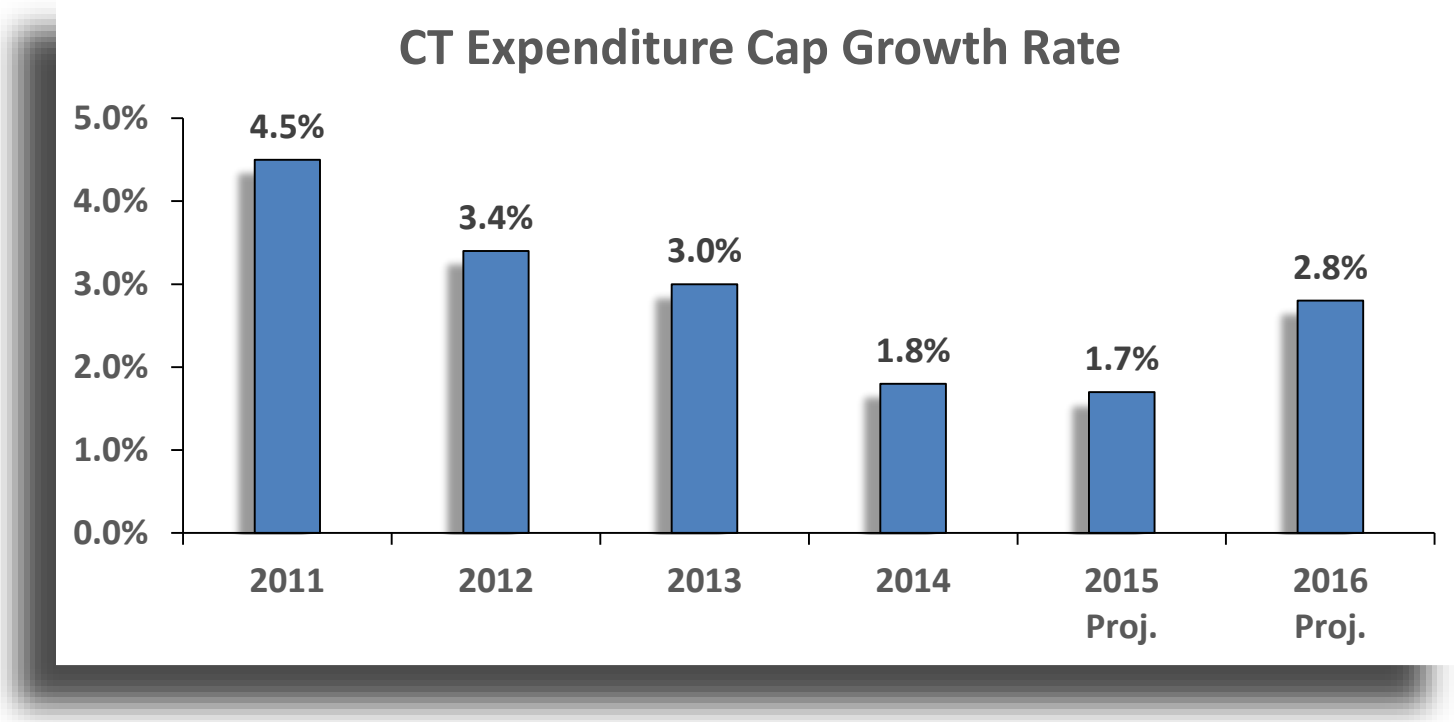
Controlling Expenditure Growth

(in millions)



Below the Spending Cap

The Governor's Budget Proposal is $8.1 million below the spending cap in FY 2015.



The spending cap provides for the following exemptions:

- Debt service or other evidences of indebtedness:
  - The Governor is proposing that payments above the annually required contribution to the TRS and SERS be defined as evidences of indebtedness
- Grants to distressed municipalities
- Deposits in the rainy day fund
- Federal mandates or court orders in their first year

Governor Malloy's Proposal for Responsible Use of Budget Surplus

- The FY 2014 projected budget surplus is over $500 million

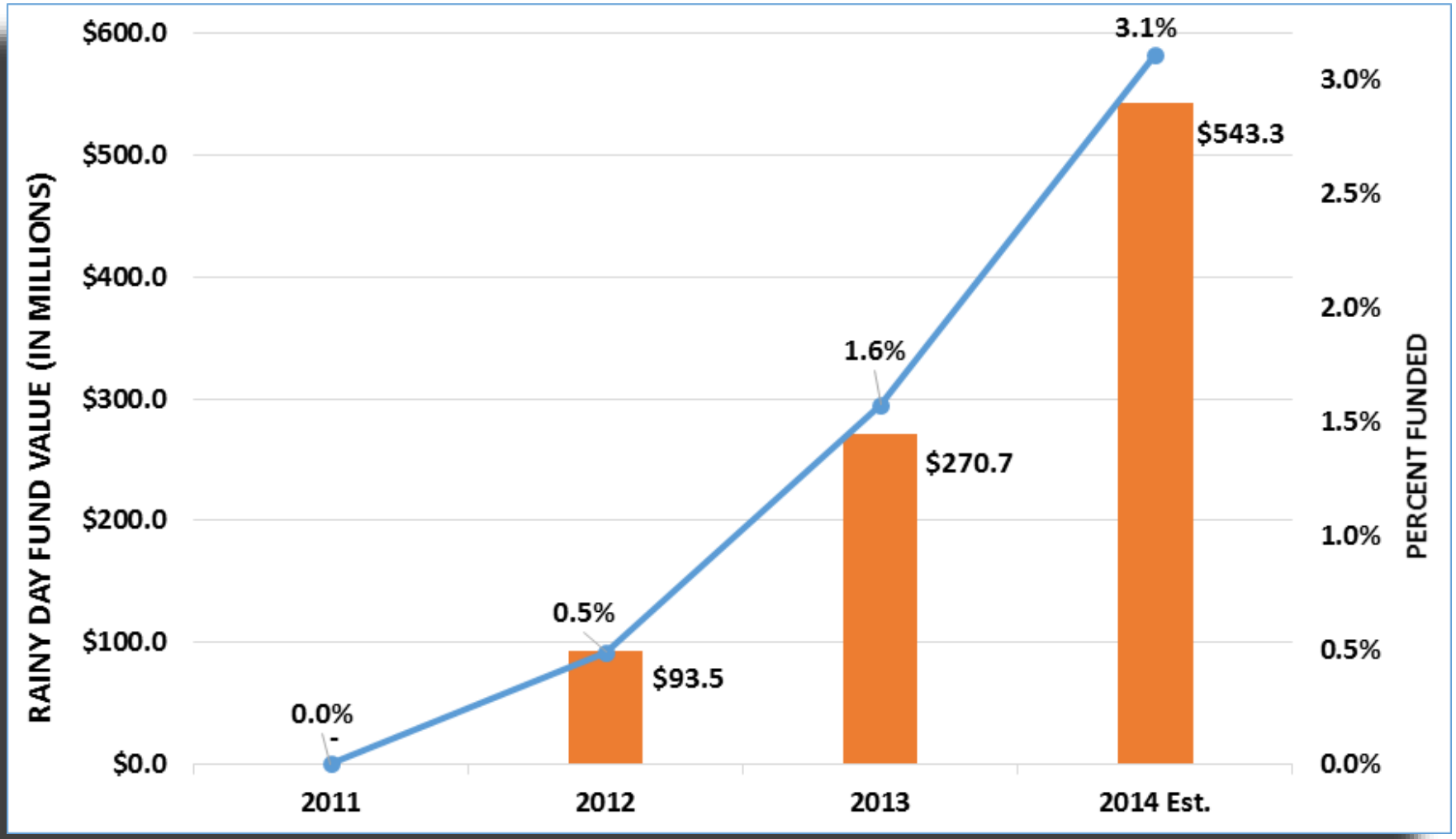
- Budget surpluses, now and in the future, should be used for:
  - Rainy Day Fund
  - Debt Reduction
  - Tax Relief

- In order to accomplish now and in the future, Governor Malloy is proposing three changes to state law:
  - Raise the cap on deposits to the Rainy Day Fund from 10% to 15%
  - Exempt extra pension payments from the spending cap
  - Require that future budget surpluses be dedicated to Rainy Day Fund, debt reduction and tax relief

Use of FY 2014 surplus
(in millions)

RAINY DAY FUND	**($250)**
Balance of FY 2014 surplus	
DEBT REDUCTION	**($100)**
Extra Pension payment over 20 years = $430 million	
TAX RELIEF	**($155)**
Sales and Gas Tax Refund: $55 for individuals and $110 for joint filers	

Rainy Day Fund

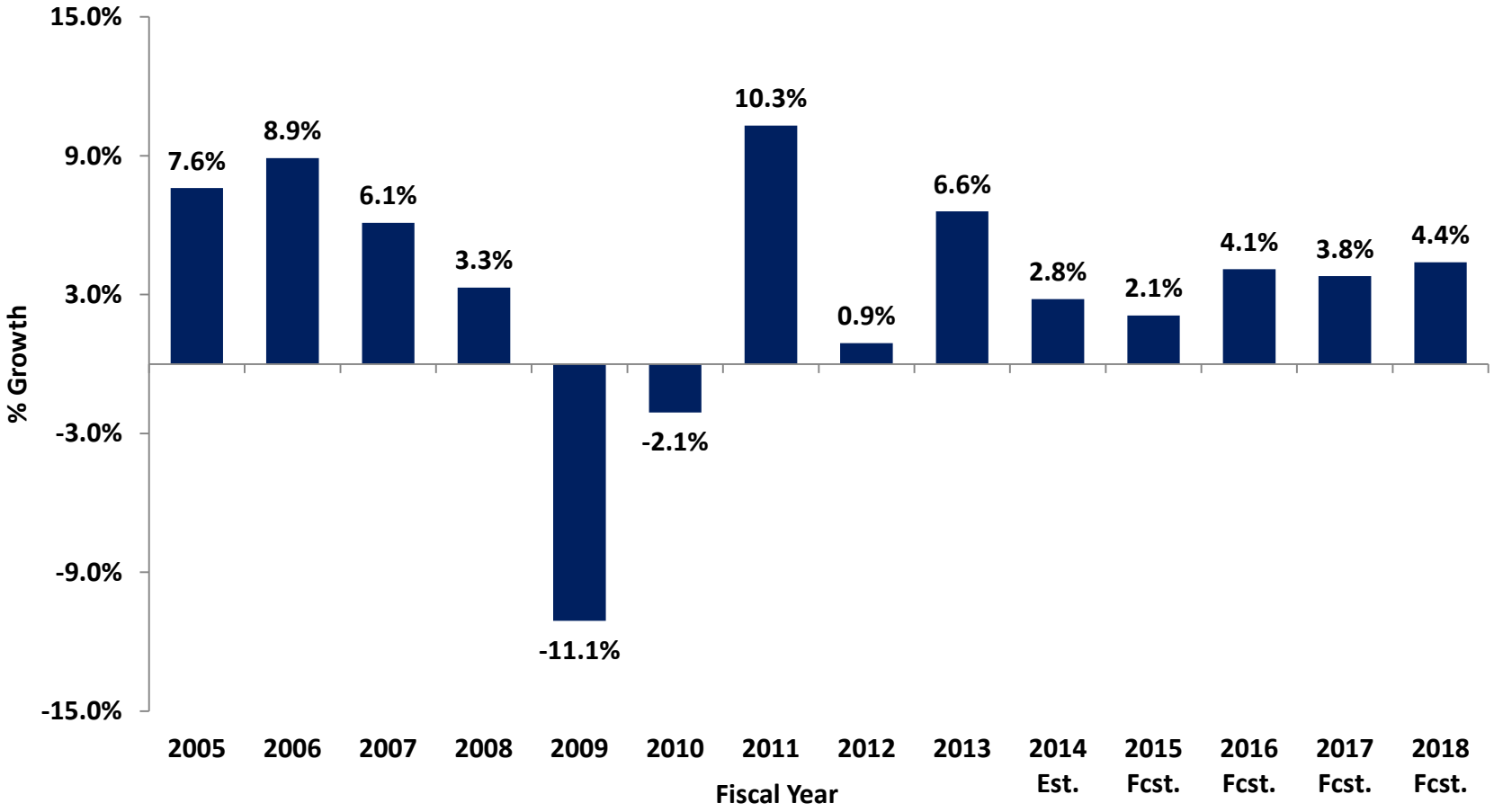


Revenue

General Fund Revenue

Economic Growth Rates

(underlying growth prior to tax changes/transfers)



Tax Relief

(in millions)

	Fiscal 2015	Fiscal 2016
Tax Refund		
Gas and Sales Tax Refund	$ (155.0)	$ -
New Tax Cuts and Fee Reductions		
Phase in Exemption of Teachers' Pensions From Income Tax (25%- 50%)	$ (23.1)	$ (23.7)
Extend Angel Investor Tax Credit	(3.0)	(3.0)
Exempt Non-Prescription Drugs from Sales Tax	(16.5)	(17.2)
Municipal Exemption for Health Care Plans from Insurance Premiums Tax	(8.7)	(9.0)
Two-Day State Park Fee Holiday	(0.2)	-
Existing Tax Cuts Scheduled to Take Effect		
Restore EITC to 30%	(10.1)	(11.0)
Exempt Clothing Less Than $50 From Sales Tax	(11.5)	(148.5)
TOTAL TAX RELIEF:	$ (228.1)	$ (212.4)

Education

Education

- Universal Access to Pre-Kindergarten
- $14 million is recommended to begin to meet the forecasted unmet need for an additional 1,020 slots in FY 2015 for 3 and 4 year old children
- $40 million increase to ECS aid (per enacted FY 2015 budget)
- $10 million for additional school security infrastructure grants

CHET Baby Scholars (Connecticut Higher Education Trust)

- CHET Baby Scholars will provide every child born or adopted in Connecticut with a $100 investment in a tax-free college savings account in the CT Higher Education Trust, the state's 529 plan
- If parents save another $150 during the first four years the account is open, the state will match the investment with an additional $150
- Make it easier for families to save for children of any age with CHET accounts by:
  - Allowing families to direct their income tax refunds to individual CHET accounts
  - Disregarding the assets in CHET accounts from eligibility for most public assistance programs
  - Ensuring that assets in CHET accounts do not reduce students' eligibility for financial aid at our state colleges and universities
- This investment could grow to $1,350 by the time the child reaches age 18
- Capitalized with $12 million from the assets of the defunct CT Student Loan Foundation

Early Childhood Initiatives

- $5.8 million to increase Early Care and Education Quality by establishing a Quality Rating and Improvement System (QRIS) and increasing frequency of licensing inspections

- $3 million to increase Care 4 Kids funding based on re-estimated caseload projections

Universal Access to Pre-Kindergarten

Phasing in Access to Low Income Families

- Estimated unmet pre-K needs for 3 and 4 year olds = 4,010
- $13.8 million is provided in FY 2015 to begin the phase in:
  - 1,020 new slots are added
  - Pre-K slot rate payments increase by 3%
  - $2.3 million for start up costs and planning for universal access to pre-K
- $5.8 million to increase Early Care and Education Quality by establishing a Quality Rating and Improvement System (QRIS) and increasing frequency of licensing inspections
- $3 million to increase Care 4 Kids funding based on re-estimated caseload projections

Universal Access to Pre-Kindergarten

Phase-In Plan

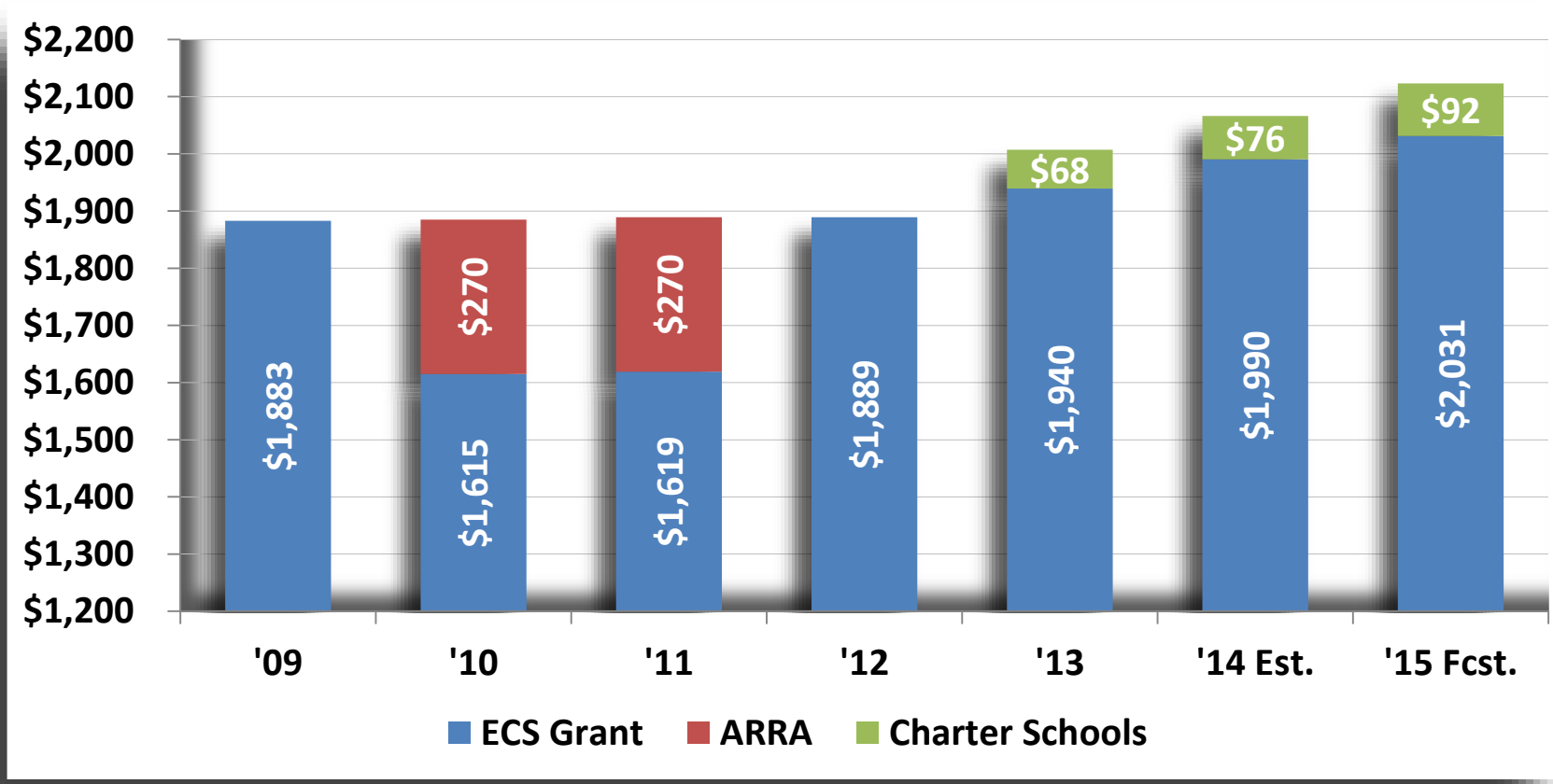
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Priority School Districts (PSD) School Readiness by 2019	475	950	1,425	1,900	2,374
Alliance Districts by 2017	438	876	1,314	1,314	1,314
Competitive Districts (Non-Alliance) by 2017	107	214	322	322	322
Total Slots	**1,020**	**2,040**	**3,061**	**3,536**	**4,010**
Total Cumulative Costs	**$11,511,904**	**$24,521,171**	**$36,613,944**	**$43,329,535**	**$51,144,742**

Funded with Carryforward from FY 2014	**FY 2015**
Start Up Costs @ $22,500 per Classroom (est. 18 kids per class)	$1,275,000
Planning Grants	$1,050,000
Total Carryforward Funds	**$2,325,000**

Total Available for FY 2015	**$13,836,904**

Continuing Increases for K-12

(in millions)



Connecticut State Colleges and Universities Transform CSCU 2020

The goal of this initiative is to strengthen Connecticut's Board of Regents system, including state universities, community and technical colleges, and Charter Oak State College. It aims to do this by:

- Investing in the information technology infrastructure to modernize/harmonize student and financial systems, bringing greater productivity to students, faculty and administrators
- Ensuring a seamless student transfer and credit process across institutions to reduce students' time and cost to achieve degrees
- Creating a system-wide operating fund as a step towards the unification of the financial management and coordination of the formerly separate 17 colleges and universities
- Increasing enrollment and keeping tuition low

Transform CSCU 2020

A transfer of $60 million from the FY 2015 General Fund revenues to the new system-wide operating fund will:

- **Keep tuition low**
- **Go Back to Get Ahead** – identify and contact students who have not completed degrees and provide students with a customized roadmap for completion
- **Degree Completion Incentive Program** – offers students returning to CSCU institutions up to three free classes if they pay for three classes
- Expand the **early college experience** for at-risk students to earn community college credits while still in high school
- Enhance **support services for veterans** returning from service and pursing higher education
- Ensure seamless **transfer and articulation** across BOR institutions
- Provide support for **developmental education**

Transform CSCU 2020 Capital Program

- Increases capital funding by $60 million in FY 2015
- System-wide capital investments:
  - Begin to upgrade and consolidate student and financial information systems for unified and simplified services and reporting
  - Improve the student learning environment with smart classroom technology
  - Develop a system-wide master plan
  - Implement deferred maintenance projects at all campuses
  - Construct an Advanced Manufacturing Center at Asnuntuck Community College
- Transfers $20 million of previously authorized capital funding for the Community College System for equipment, technology and deferred maintenance into this capital investment program to allow the Board of Regents to more swiftly implement the improvements outlined above

Health Care and Human Services

Governor's Mental Health Initiative

- $4.25 million in FY 2015, annualized at $7.25 million in FY 2016
- 110 dedicated units of scattered site Supportive Housing for people with mental illness:
    - $1.1 million in DOH for Rental Assistance Program certificates (RAPs)
    - $1.1 million for supportive services in DMHAS
- $250,000 for anti-stigma campaign
- $1.75 million for residential and transitional services for high risk populations, including young adults
- Legislation requiring all new state and local law enforcement candidates to receive specialized crisis intervention training. Training will also be required for active law enforcement personnel as part of re-certification requirements. $50,000 to support this training.

State Innovation Model (SIM)

Connecticut's Health Care Payment Reform Initiative

- Will align all payers around value-based payments
- Triple aim:
  - Better health while eliminating health disparities
  - Improved health care quality and experience
  - Reduction of growth in health care costs
- State to apply for federal 5-year implementation grant of $40 - $60 million
- Budget includes resources to move forward regardless of receipt of federal funding:
  - Almost $3.3 million in the Office of the Healthcare Advocate and the Office of the State Comptroller
  - $1.9 million in capital funding for health information technology

Maintain Primary Care Physician Increases

Ensure Adequate Access to Primary Care Services

- Affordable Care Act requires states to increase Medicaid reimbursement to Medicare levels for calendar years 2013 and 2014:
  - Increase doubled the rates from prior levels
  - Additional costs 100% federally reimbursed
- Substantial increase in the number of primary care doctors participating in Medicaid
- Governor's budget maintains these higher reimbursement levels:
  - Additional costs federally reimbursed at 50% or more
  - $30.2 million ($15.1 million after federal reimbursement) in FY 2015
  - $72.4 million ($36.2 million after federal reimbursement) when fully annualized
  - Without action, primary care physician rates would be cut in half on January 1, 2015

Expanding Long-Term Services and Supports

- Implement **Community First Choice Option**, authorized under the Affordable Care Act:
  - Furthers the state's rebalancing efforts
  - Self-directed personal care assistance (PCA) services to be available as a state plan option for people at institutional level of care
  - Beneficiaries will have access to the highest level of self-direction and the broadest range of duties that can be assigned
  - 6% increase in federal match rate for self-directed PCA services
  - Savings of $940,000 ($470,000 after federal reimbursement) in FY 2015, and $2.6 million ($1.3 million after federal reimbursement) when fully annualized

Expanding Long-Term Services and Supports

- Expand **Katie Beckett Waiver:**
  - Provides Medicaid services to children with significant physical disabilities
  - Currently capped at just over 200 slots with significant waiting list
  - Governor's budget funds 100 additional slots
  - Allows more medically fragile children to access services in a more timely manner
  - Helps prevent the institutionalization of medically fragile children in costly alternative settings
  - $1.5 million in new funding ($750,000 after federal reimbursement) in FY 2015, and $3.0 million ($1.5 million after federal reimbursement) when fully annualized

Expanding Long-Term Services and Supports

- Expand **CT Home Care Program for Adults with Disabilities** pilot:
  - Provides home care services to adults with degenerative, neurological conditions, such as multiple sclerosis and Parkinson's disease
  - Established in 2007 as a state-funded pilot and remains capped at 50 persons
  - Governor's budget supports 50 additional slots
  - Will prevent nursing home placement for individuals who would quickly access Medicaid as a payment source for their nursing home stay
  - $1.2 million in new funding ($600,000 after federal reimbursement) in FY 2015, and $1.6 million ($800,000 after federal reimbursement) when fully annualized

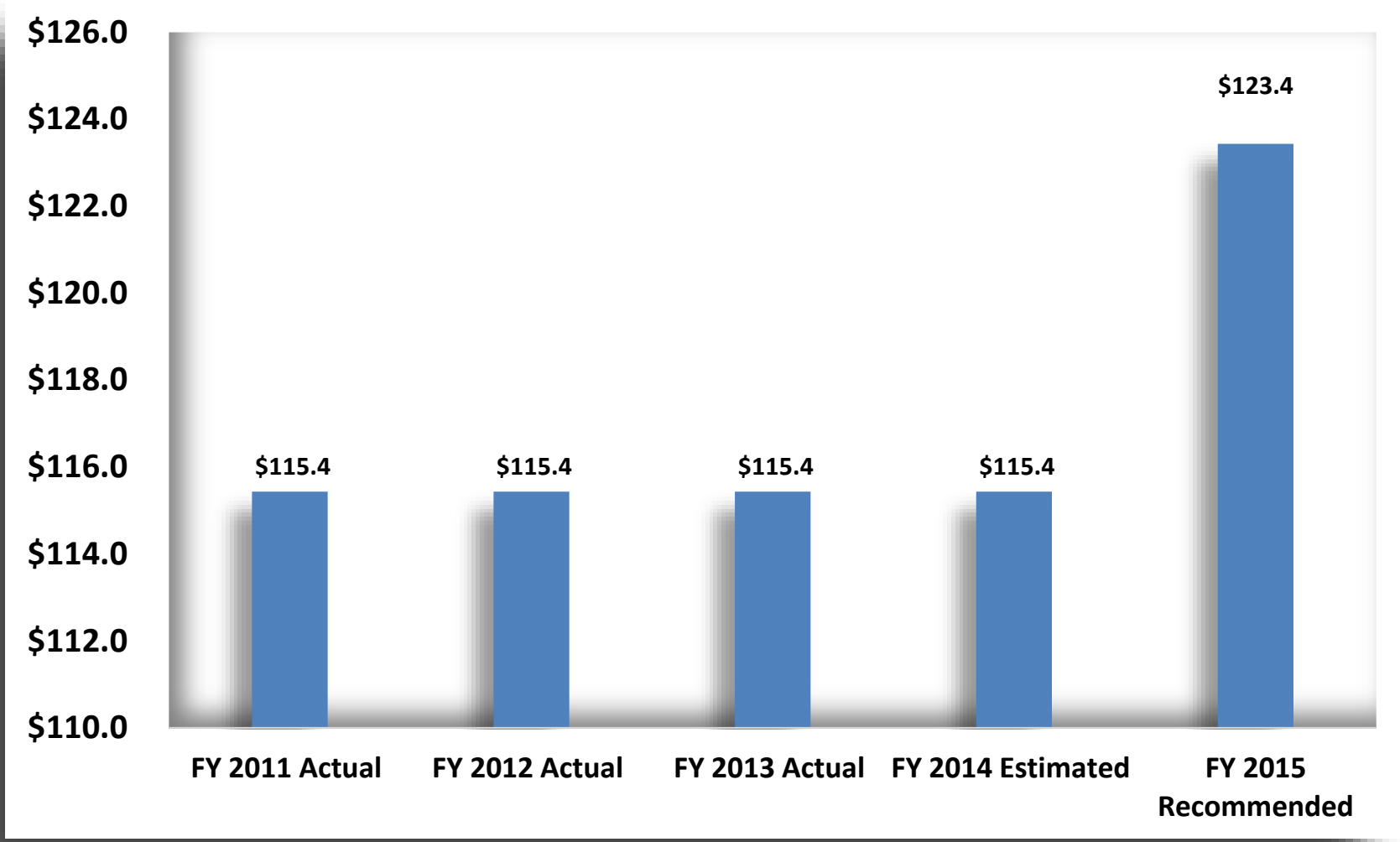
Helping Towns and Cities

Helping Cities and Towns

- Eliminate the Health Insurance Premium Tax on Municipalities - $8.7 million savings
- Allow up to a two year delay on implementation of revaluation (local option)
- $8 million increase in PILOT for Private Colleges and Hospitals
- End the state charge to municipalities for DMV's program to block registration of motor vehicles by people with delinquent taxes
- $10 million for additional school security infrastructure grants
- $10 million additional funding for Local Bridge Program, $50 million for Urban Act
- New Advanced Manufacturing Fund provides assistance to companies locating in towns with traditional dependence on manufacturing
- 1,020 new pre-K slots
- $40 million increase to ECS aid (per enacted budget)

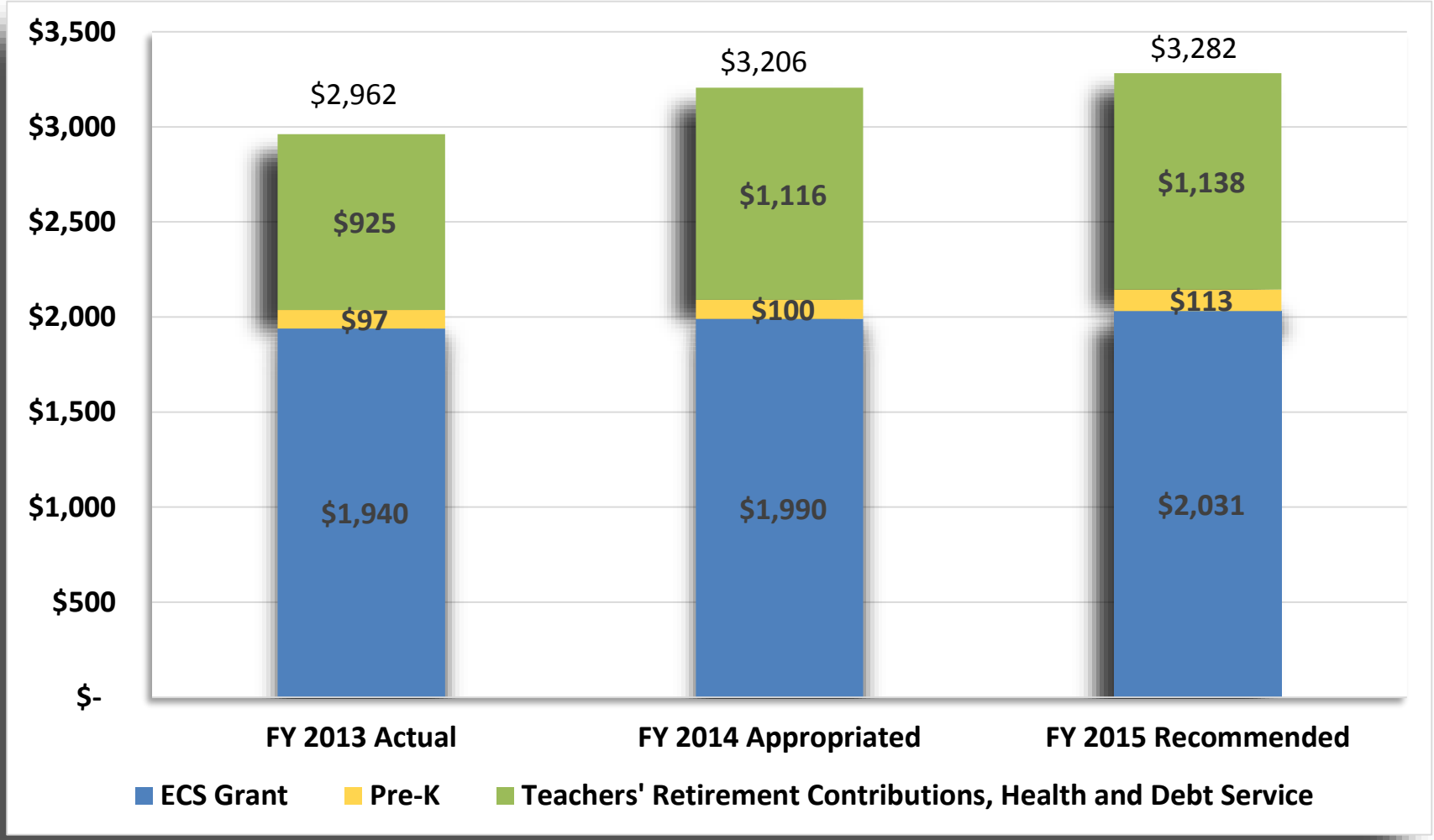
Private Colleges & Hospitals PILOT

(in millions)



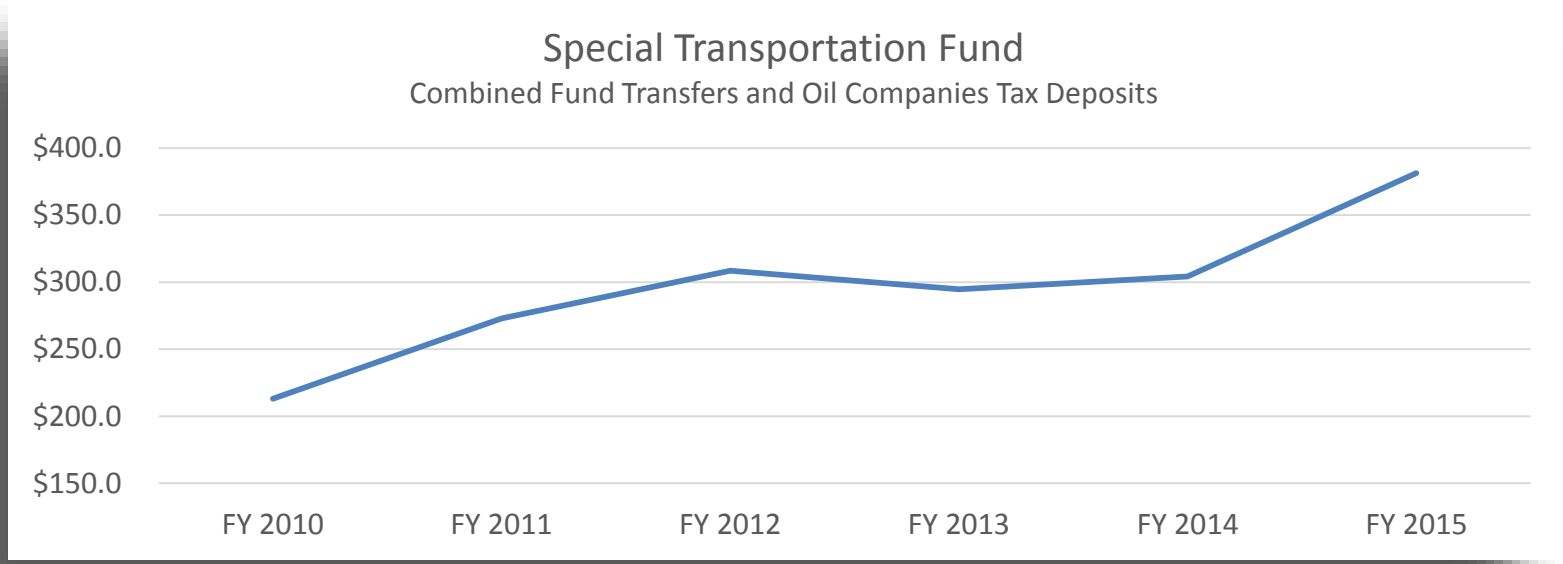
Education Spending

(in millions)



Transportation

Growing Transfers from General Fund to Transportation Fund



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Oil Companies Tax	$141.9	$165.3	$226.9	$199.4	$380.7	$379.1
Transfers From/(To) General Fund	71.2	107.6	81.6	95.2	(76.5)	2.1
Total	$213.1	$272.9	$308.5	$294.6	$304.2	$381.2

Department of Transportation (DOT)

Project-Related Resources

- Allows DOT to complete additional shovel-ready projects
- Reduces the dependence on outside engineering consultants
- Utilizes more efficient project delivery methods
- Increases the support for Transit Oriented Development projects
- Increases staffing by over 100 engineers and project support positions to accomplish these goals

Other Initiatives

Employment

Assistance for the Long-Term Unemployed:

- $3.6 million for a state-wide program to assist 500 individuals:
  - Offers comprehensive services including financial advice, counseling services and job training
  - Subsidized employment opportunities that promote workforce re-entry while minimizing employer risk
- An additional $10 million to continue the STEP-UP job creation subsidy and training program
- $450,000 in the Department of Rehabilitation Services to maintain the program that provides individualized information about the impact of employment on state and federal benefits.

Veterans' Initiatives

- **Enhance Residential Options for Veterans at Department of Veterans' Affairs in Rocky Hill:**
  - Provides $1.4 million to match a federal grant to finance code improvements
  - $500,000 to begin work on additional housing for veterans on the campus
- **Veterans' Opportunity Pilot:**
  - Statewide coordinator in Department of Labor (DOL) to manage the complex network of employment services for veterans
  - $600,000 for grants to area housing agencies for employment specialists and job developers to actively seek opportunities for veterans to reenter the workforce
- **Security Deposit Guarantees for Veterans:**
  - Prioritizes veterans for security deposit guarantees
  - $50,000 to increase availability of security deposit assistance for homeless veterans
- **Victory Gardens:**
  - $289,109 for supportive services for 74 units of housing dedicated to veterans in Newington

Housing

- Tax Relief for Elderly Renters Program (Renters' Rebate Program):
  - $6.5 million to reopen intake

- Housing Authority Capacity Building:
  - Two positions in the Department of Housing (DOH) to deliver technical assistance to housing authorities

- 110 new units of scattered site supportive housing for the Governor's Mental Health Initiative:
  - $1.1 million for 110 additional RAP certificates
  - $1.1 million for supportive services in DMHAS

- Additional $1 million for RAPs and $650,000 for rapid rehousing through carryforward in DOH

Combatting Fraud

Expand False Claims Act

- Aggressive savings target in enacted budget ($104 million in FY 2015) requires enhanced state resources and laws to deter fraud and maximize savings:
  - Vendor secured to implement state-of-the-art fraud detection system to identify patterns of fraud, waste and abuse and provide leads for investigative follow-up
  - Expanding False Claims Act from Medicaid to all health and human services programs, state payments made for state employee and retiree health and state-paid Workers' Compensation medical claims
  - Additional investigators and attorneys to assist with fraud recovery efforts:
    - 6 staff in the Department of Social Services
    - 5 positions in the Office of the Chief State's Attorney
    - 5 positions in the Office of the Attorney General as well as $200,000 to support additional litigation costs

Celebrating State Park Centennial
Free Park Admission Weekend

- Connecticut residents will receive free admission to state parks for one weekend this summer
- Complimentary entrance to a state park will result in a savings of up to $13 per day per vehicle
- Admission fees for buildings such as Gillette Castle and Dinosaur State Park are also waived

Connecticut
still revolutionary

Capital Investment

Capital Investments

- $145 million to grow jobs, support advanced manufacturing, and finance port improvements
- $25 million for the Shoreline Resiliency Fund -- low-interest loans for property vulnerable to coastal flooding
- Additional $30 million for nonprofit human service providers for a total of $50 million in FY 2015
- $10 million for additional school security infrastructure grants – all public schools including Regional Education Service Centers and the technical high school system
- $25 million for information technology to improve efficiency and effectiveness of state agencies and programs

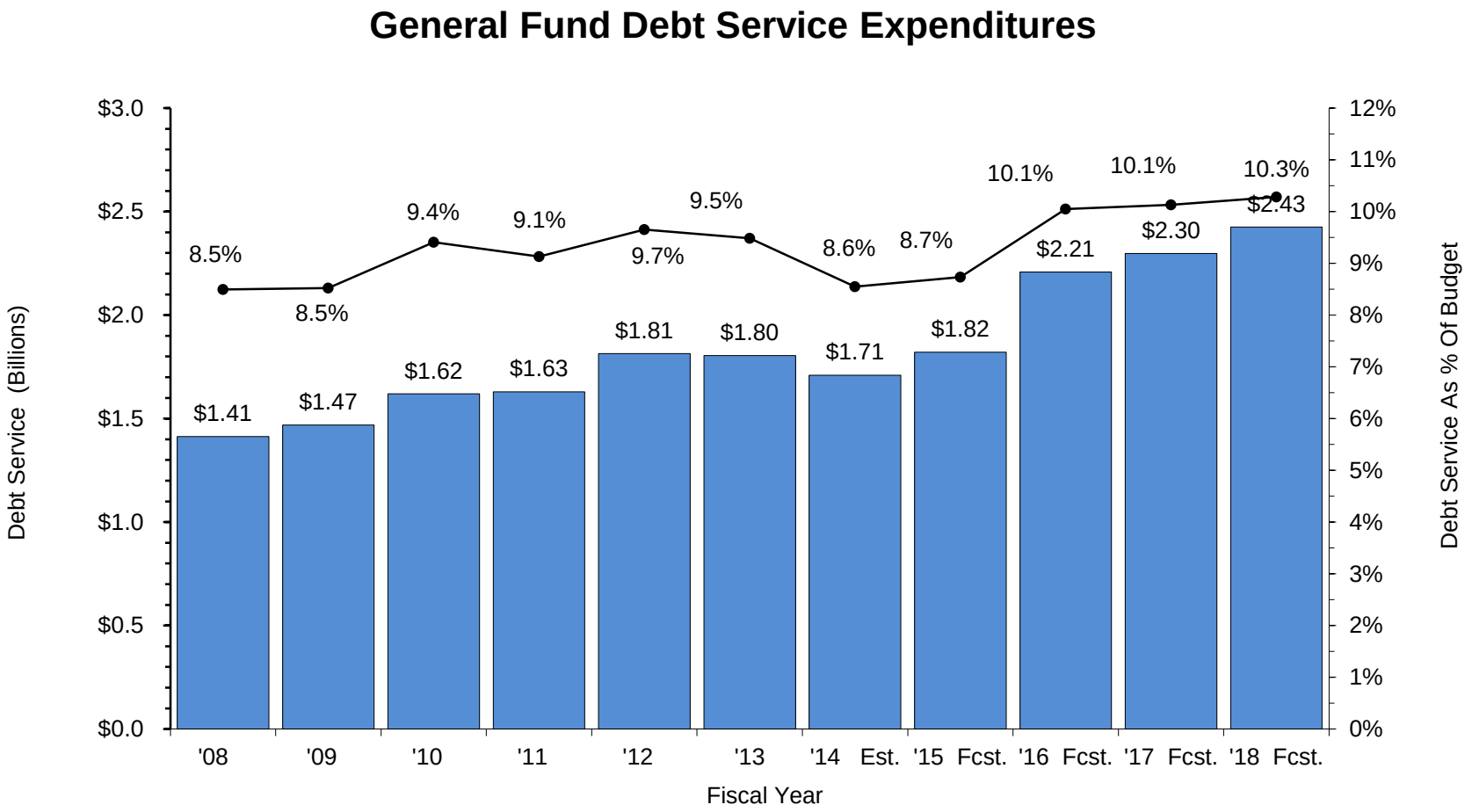
CAPITAL BUDGET

Proposed New/Increased Bond Authorizations

(in millions)

Program	Amount
Business Expansion/Retention/Jobs Programs	$ 110.0
Advanced Manufacturing Fund	25.0
Pre-K through 12 School Technology	10.0
Sheff Magnet Schools	9.9
School Security	10.0
Transform CSCU 2020 - Capital Improvents	60.0
Shoreline Resiliency Fund	25.0
Port Improvements and Dredging	20.0
Local Bridge Program	10.0
Transit Oriented Development	7.0
Transportation Infrastructure Projects and Programs	39.8
Private Provider Capital Improvement Grants	30.0
Information Technology Modernization	25.0
Urban Act Program	50.0
All Other	13.8
Total	$ 445.5

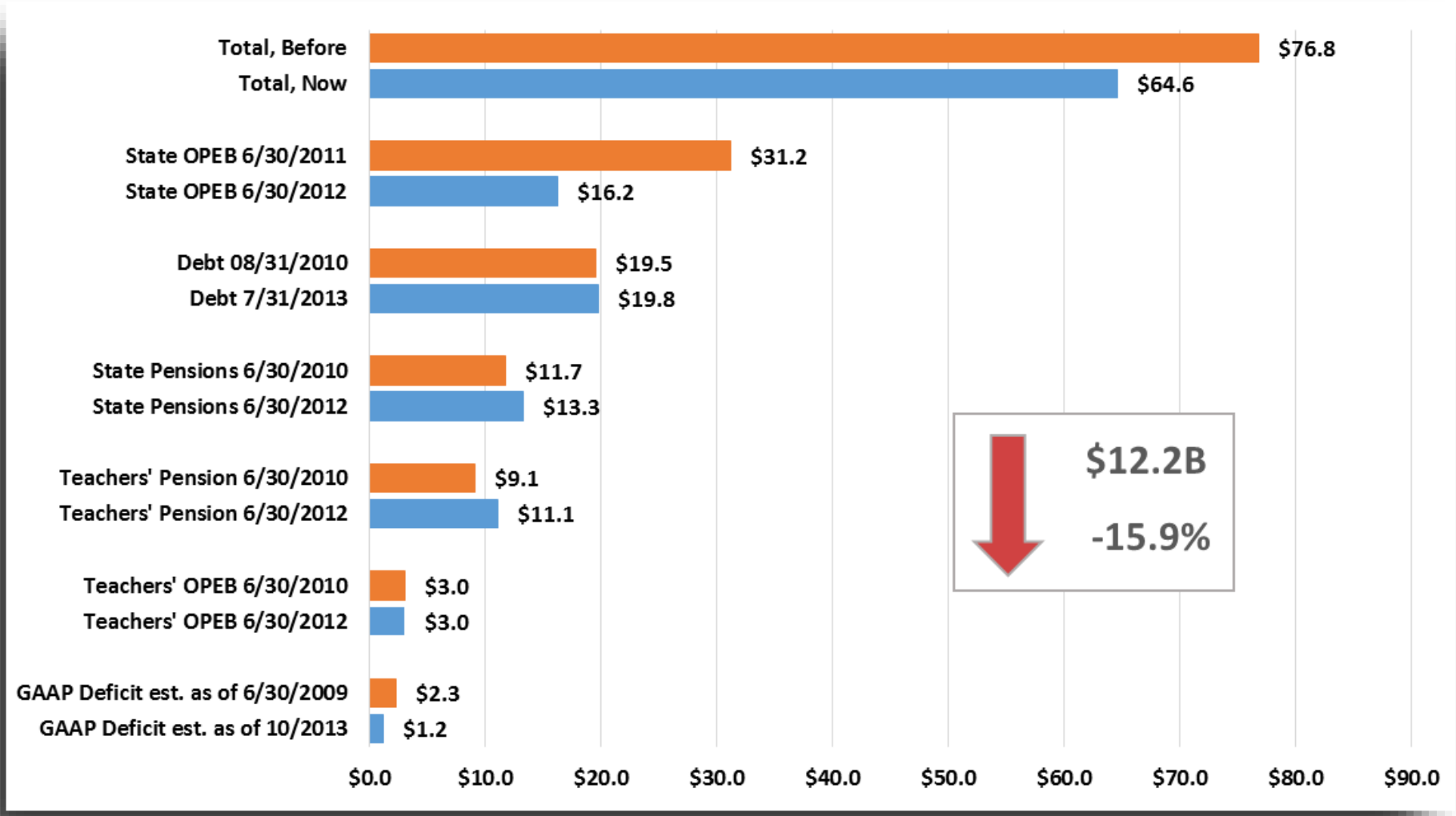
Debt Service Remains Affordable



Note: FY 2014-18 adjusted for net budgeting of medicaid for comparison to prior years

Long Term Obligations

(in billions)



Conclusion

Conclusion

The Governor's FY 2015 budget totals $19.0 billion, is balanced on a GAAP basis, is $8.1 million under the spending cap

This budget:

- **Maintains fiscal discipline**
- **Invests in education, healthcare and housing**
- **Provides relief to taxpayers**
- **Creates a sustainable framework for balanced budgets in coming years**