

CONNECTICUT

RECOMMENDED REVISIONS TO THE FY 2019 BUDGET

DANNEL P. MALLOY, GOVERNOR

February 7, 2018

Introduction



The Governor's budget proposal for the biennium:

- Makes minor revisions to bipartisan budget to achieve balance
- Recommends revenues to avoid project deferrals, fare hikes, and service cuts in transportation
- Reduces out-year budget gaps by half

Budget Overview



FY 2019 General Fund Budget Challenge

(in millions)

	Adopted Budget	Consensus Adjustments	Revised Total
Revenues	\$ 18,908.2	\$ (282.8)	\$ 18,625.4
Appropriations	<u>18,790.6</u>	<u>-</u>	<u>18,790.6</u>
Balance	\$ 117.6	\$ (282.8)	\$ (165.2)

Other Adopted Budget Challenges

Revenue - Unspecified elimination of tax expenditures			(10.0)
Required technical budget adjustments			
Annualize funding for FY 2018 deficiencies			(10.4)
Fund programming for Juan F. compliance			(16.3)
Revise funding due to cost and caseload adjustments			(10.5)
Adjust for overly aggressive savings estimates			(7.5)
All other adjustments (net)			4.9
Unachievable lapses			<u>(51.2)</u>
Total (including consensus revisions)			(266.3)

Distribution of Budgeted Lapses

(in millions)

	Adopted Budget FY 2019	Recommended FY 2019
<u>LAPSES</u>		
Unallocated Lapse	\$ (51.8)	\$ (9.5)
Unallocated Lapse - Legislative	(1.0)	-
Unallocated Lapse - Judicial	(8.0)	(5.0)
Targeted Savings	(150.9)	-
Statewide Hiring Reduction	(7.0)	-
Municipal Contribution to Renters Rebate	(8.5)	-
Achieve Labor Concessions	(867.6)	-
<u>CHANGES TO AGENCY APPROPRIATIONS</u>		
Annualization of FY 2018 Holdbacks		(175.9)
Reflect changes to TRS employee contributions		(40.1)
Allocate General Fund SEBAC Savings		(813.0)
TOTAL ADJUSTMENTS	\$ (1,094.7)	\$ (1,043.5)
SEBAC Savings Attributable to Other Funds		(54.6)
Other Adjustments		3.4
TOTAL		\$ (1,094.7)

Governor Malloy's Recommended Budget Revisions

(in millions)

	Enacted ³ Appropriation FY 2019	Net Adjustments FY 2019	Recommended Appropriation FY 2019	% Growth Over Enacted
General Fund	\$ 18,790.6	\$ 65.4	\$ 18,856.0	0.3%
Special Transportation Fund	1,628.1	(8.3)	1,619.8	-0.5%
Banking Fund	27.4	0.4	27.8	1.4%
Insurance Fund	95.0	(3.5)	91.6	-3.7%
Consumer Counsel and Public Utility Fund	25.6	0.1	25.7	0.4%
Workers' Compensation Fund	24.9	1.2	26.1	4.7%
Mashantucket Pequot & Mohegan Fund	49.9	(0.3)	49.7	-0.5%
Regional Market Operating Fund	1.1	-	1.1	0.0%
Criminal Injuries Compensation Fund	2.9	-	2.9	0.0%
Passport to the Parks Fund ¹	-	11.8	11.8	N/A
Tourism Fund ²	12.6	3.6	16.3	28.8%
Total	\$ 20,658.2	\$ 70.5	\$ 20,728.7	0.3%

Notes:

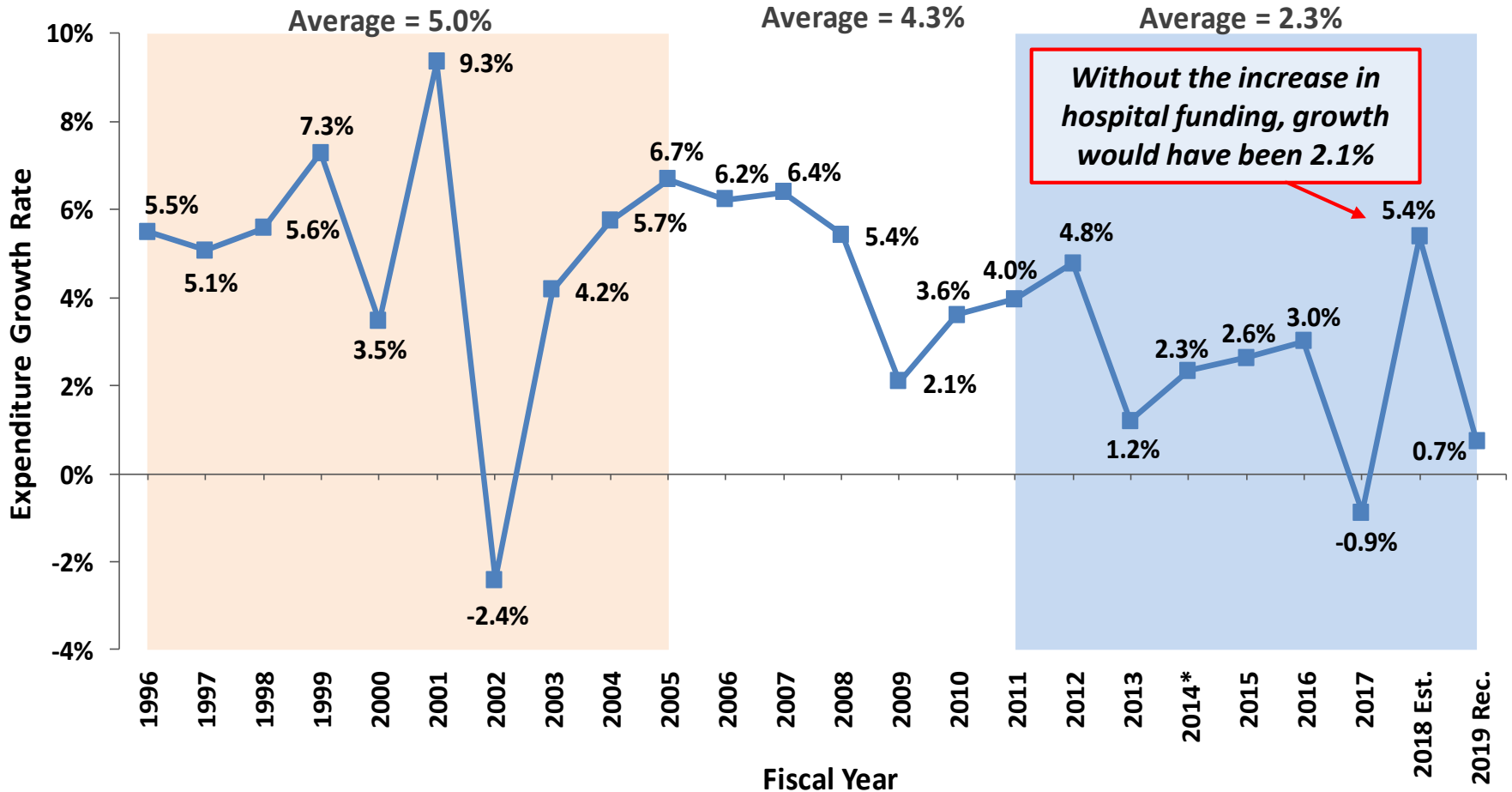
¹ Passport to the Parks Fund is not appropriated in FY 2018 or FY 2019. The Governor recommends appropriating this fund.

² Tourism Fund is effective beginning FY 2019

³ Enacted FY 2019 appropriation per Public Act 17-2 (June Spec. Sess.) as amended by Public Act 17-4 (June Spec. Sess.)

Expenditure Growth

Lowest Average General Fund Growth in Decades



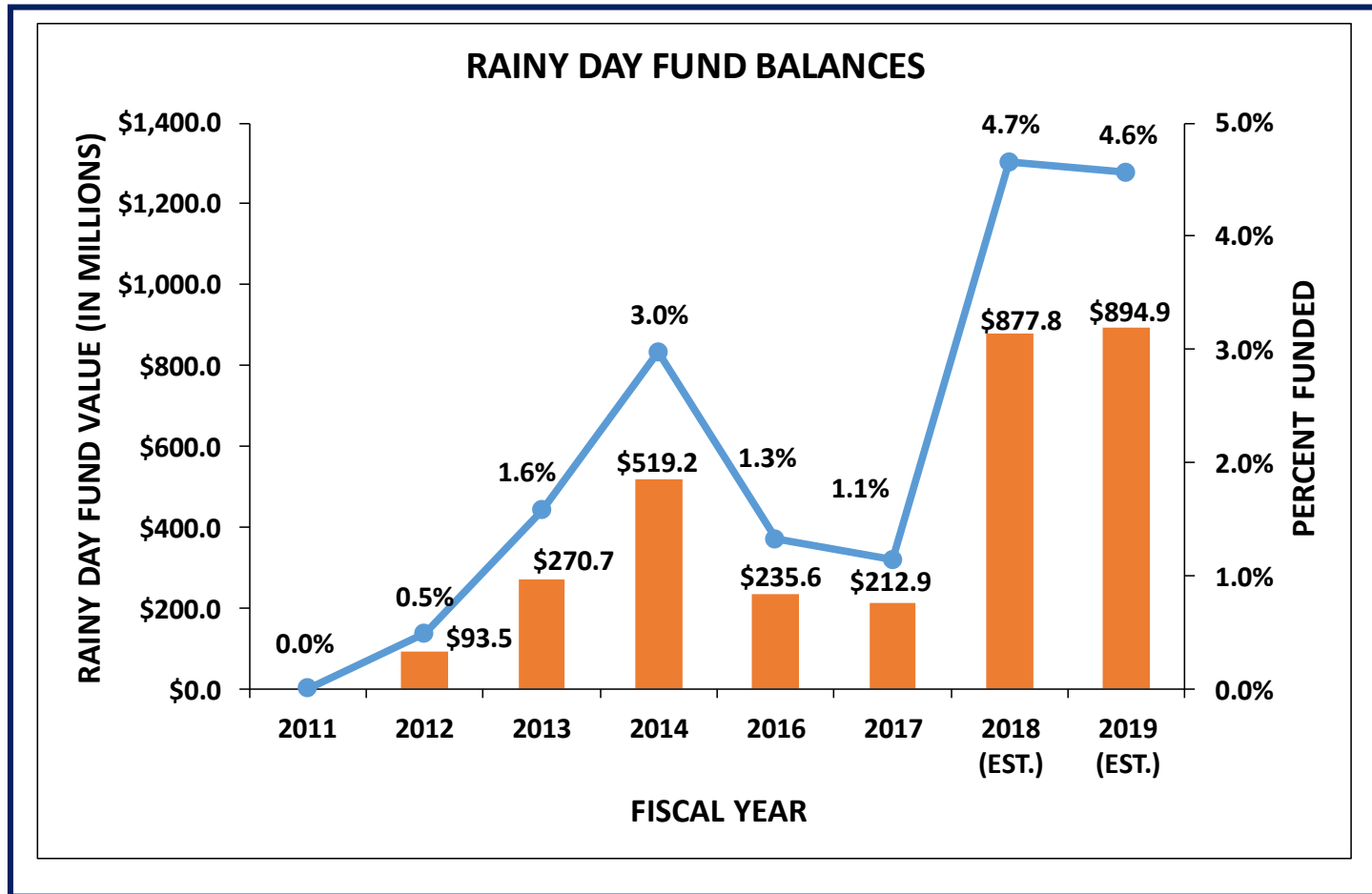
Average represents the compound annual growth rate of each shaded section
 *2013 to 2014 growth has been adjusted to reflect the net budgeting of Medicaid

Out-year Budget Gaps Reduced

(\$ in millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
<u>Bipartisan Budget (PA 17-2, JSS)</u>			
Revenue (January 2018 consensus)	17,510.1	17,612.9	17,753.5
Appropriations (per OFA fiscal note)	<u>19,708.5</u>	<u>20,548.0</u>	<u>21,187.9</u>
Projected Deficit	(2,198.4)	(2,935.1)	(3,434.4)
<u>Governor's Recommended Revisions</u>			
Revenue	18,708.6	18,870.3	19,045.4
Appropriations	<u>19,552.7</u>	<u>20,375.2</u>	<u>20,988.7</u>
Projected Deficit	(844.1)	(1,504.9)	(1,943.3)
Out-year Balance Improvement	1,354.3	1,430.2	1,491.1

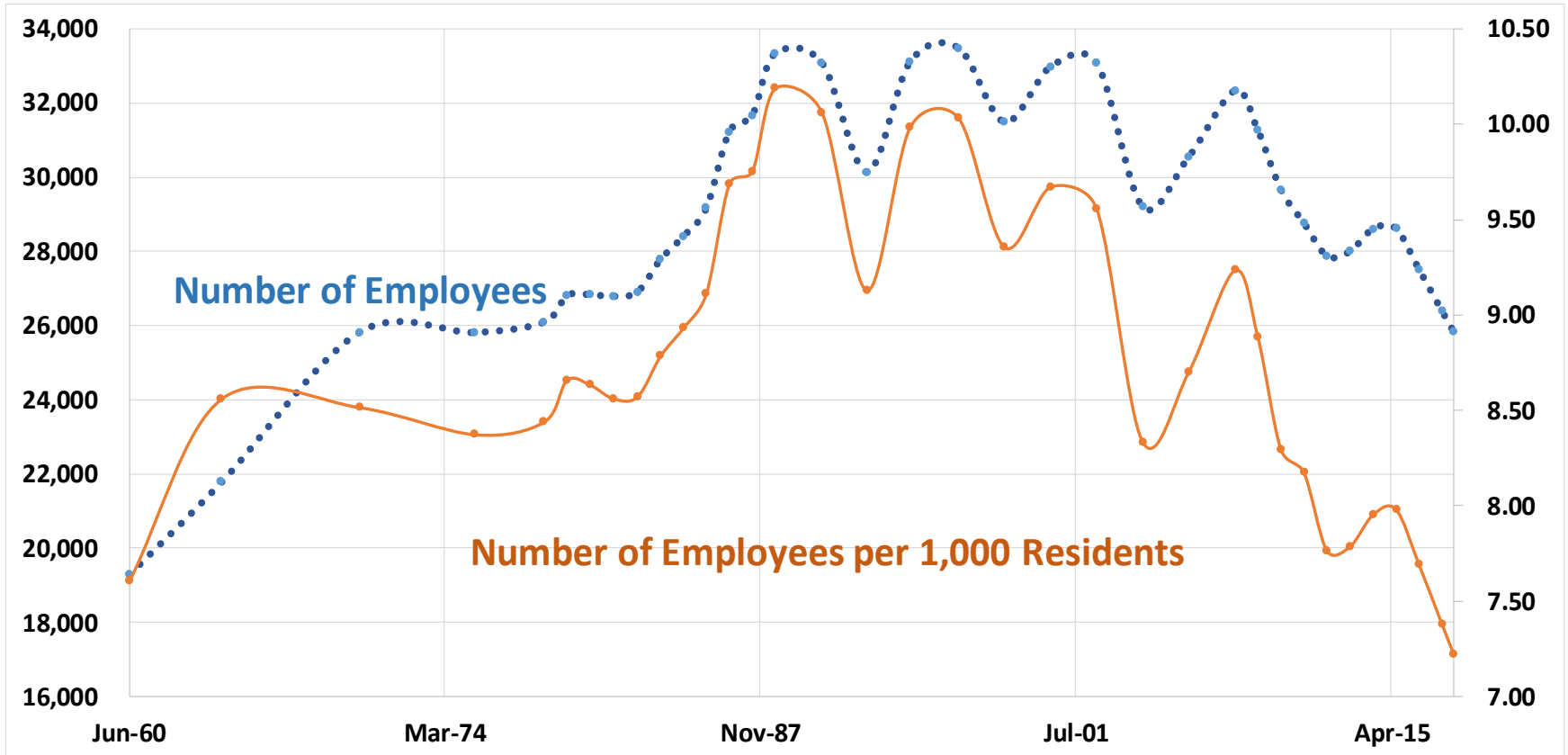
Rebuilding the Budget Reserve Fund



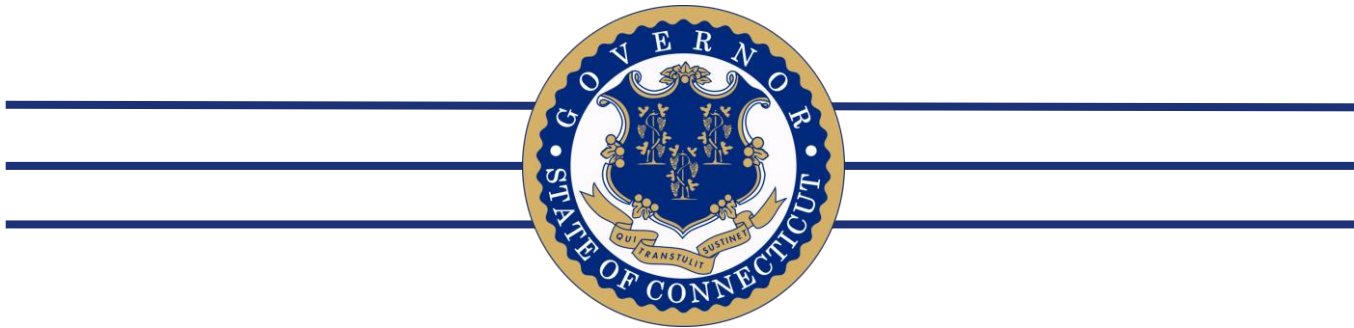
- Public Act 17-2, June Special Session, requires payments from the estimated and final portion of the personal income tax in excess of \$3.15 billion be deposited to the Budget Reserve Fund
- If the legislature acts to close the projected FY 2018 deficit, the Rainy Day Fund will grow to \$894.9 million, or an estimated 4.6 percent, by the end of FY 2019 based on current consensus revenue forecasts

Staffing At Lowest Levels Since 1950s

(Executive Branch excluding Higher Education)



Transportation



Special Transportation Fund

- Insufficient revenue collections in the STF will trigger service cuts, fare increases, and deferral of important infrastructure projects
- The Governor recommends adding revenue to the STF in order to:
 - Restore capital spending to adequately address the state's infrastructure needs
 - Avoid service reductions, rail and bus fare increases and cuts to transit district subsidies

Special Transportation Fund

Cuts Needed Without New Revenue

	<u>FY 2019 Adjustments</u>
Reduce Rail Subsidy by Raising Fares by 10% on New Haven Line	\$ (19,000,000)
Eliminate Weekend and Some Off-Peak Service: Danbury, Waterbury, New Canaan Lines	(15,000,000)
Reduce Transit District Subsidy by 15%	(4,500,000)
Reduce Bus Subsidy by Raising Fares by \$0.25	<u>(3,900,000)</u>
Total Cuts	\$ (42,400,000)

Special Transportation Fund

Recommended Restorations Supported by Proposed Revenue

	<u>FY 2019 Adjustments</u>
Fully Fund Bus Operations Without fare increases	\$ 23,266,111
Fully Fund Rail Operations Without fare increases	13,447,293
Comply with General Permit for the Discharge of Stormwater	3,105,136
Annualize ADA Para-Transit Expenditures	2,756,775
Other Adjustments: Delayed Hiring, Reduction to PAYGO Program, Non-Service Metro North Reductions, UConn CTfastrak Annualization	<u>(9,642,306)</u>
Total Restorations	\$ 32,933,009

Special Transportation Fund Revenue Proposals

- Statewide Tolling – Will provide the funding necessary to address some of the state’s largest infrastructure projects and provide essential traffic mitigation
- Gasoline Tax – Add 7 cents to the gasoline tax by FY 2022, raising gasoline taxes from 25 cents to 32 cents to sustain the fund until tolls are implemented
- Accelerate transfer of sales tax on cars by two years

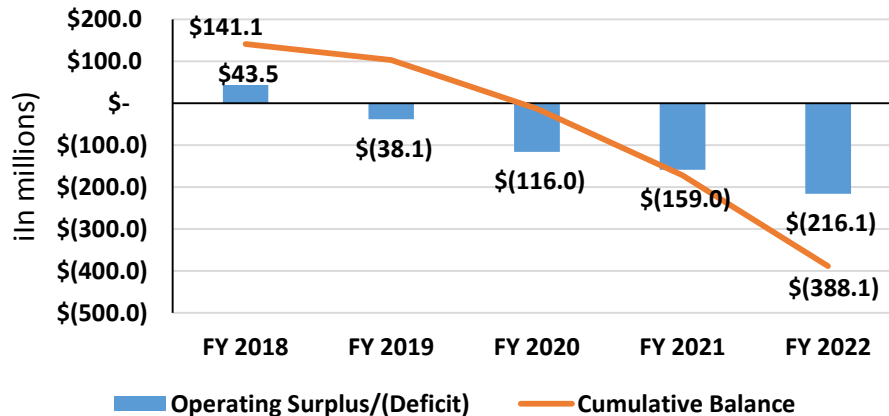
Special Transportation Fund Revenue Proposals

(in millions)

	<u>Eff. Date</u>	<u>Fiscal 2019</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>	<u>Fiscal 2022</u>
Increase Gasoline Tax by 7 Cents (2, 1, 2, 2)	7/1/2018	\$ 30.0	\$ 45.0	\$ 75.0	\$ 105.0
Accelerate Transfer of Car Sales Tax by 2 Years	7/1/2018	9.1	66.9	78.7	74.9
Impose a Tire Fee (\$3 per tire)	7/1/2018	8.0	8.0	8.0	8.0
Retain Suspended License Restoration Fees in STF	7/1/2019	-	2.0	2.0	2.0
Institute Statewide Tolling (Begins in FY 2023)	7/1/2018	-	-	-	-
		<u>\$ 47.1</u>	<u>\$ 121.9</u>	<u>\$ 163.7</u>	<u>\$ 189.9</u>

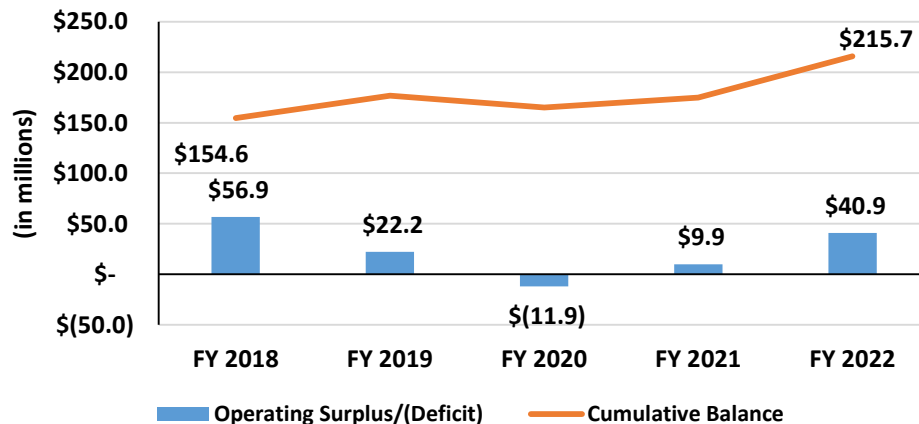
Special Transportation Fund

**Adopted Bipartisan Budget
with November 13, 2017 Consensus Revenue**



- The November Consensus Revenue projection identified a drop-off in revenue due to continued low oil prices/slow growing revenue
- As a result, the fund would have gone into deficit and run out of money in FY 2020

**Indefinitely Postpone Projects, Service Cuts and
Fare Hikes**

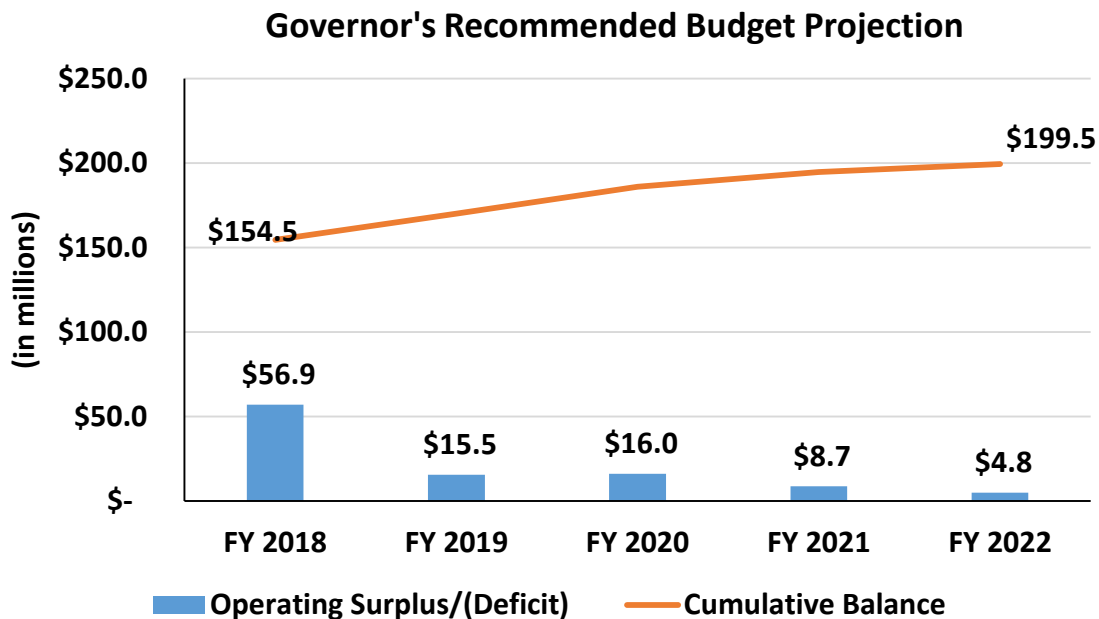


- To address the revenue drop, the state identified actions to balance the fund with no new revenues:
 - 20% rail fare hike and a \$0.25 bus fare hike
 - Major service cuts to Shore Line East and Branch Lines
 - Deferral of over \$4.3 billion in infrastructure projects
- All together, these actions will produce a balanced Special Transportation Fund

Special Transportation Fund

Governor's Recommendation:

No Service Cuts, No Fare Hikes, and No Project Deferrals



- No service cuts, no fare hikes, and no project deferrals
- Annual gas tax increase of 2¢, 1¢, 2¢, 2¢ in FY 2019 through FY 2022
- Authorization of tolls to produce revenue in FY 2023
- Advance diversion of sales tax on motor vehicles into FY 2019

Municipal Aid



Changes in Municipal Aid

After annualizing FY 2018 holdbacks, the FY 2019 budget reduces municipal aid by \$32.0 million:

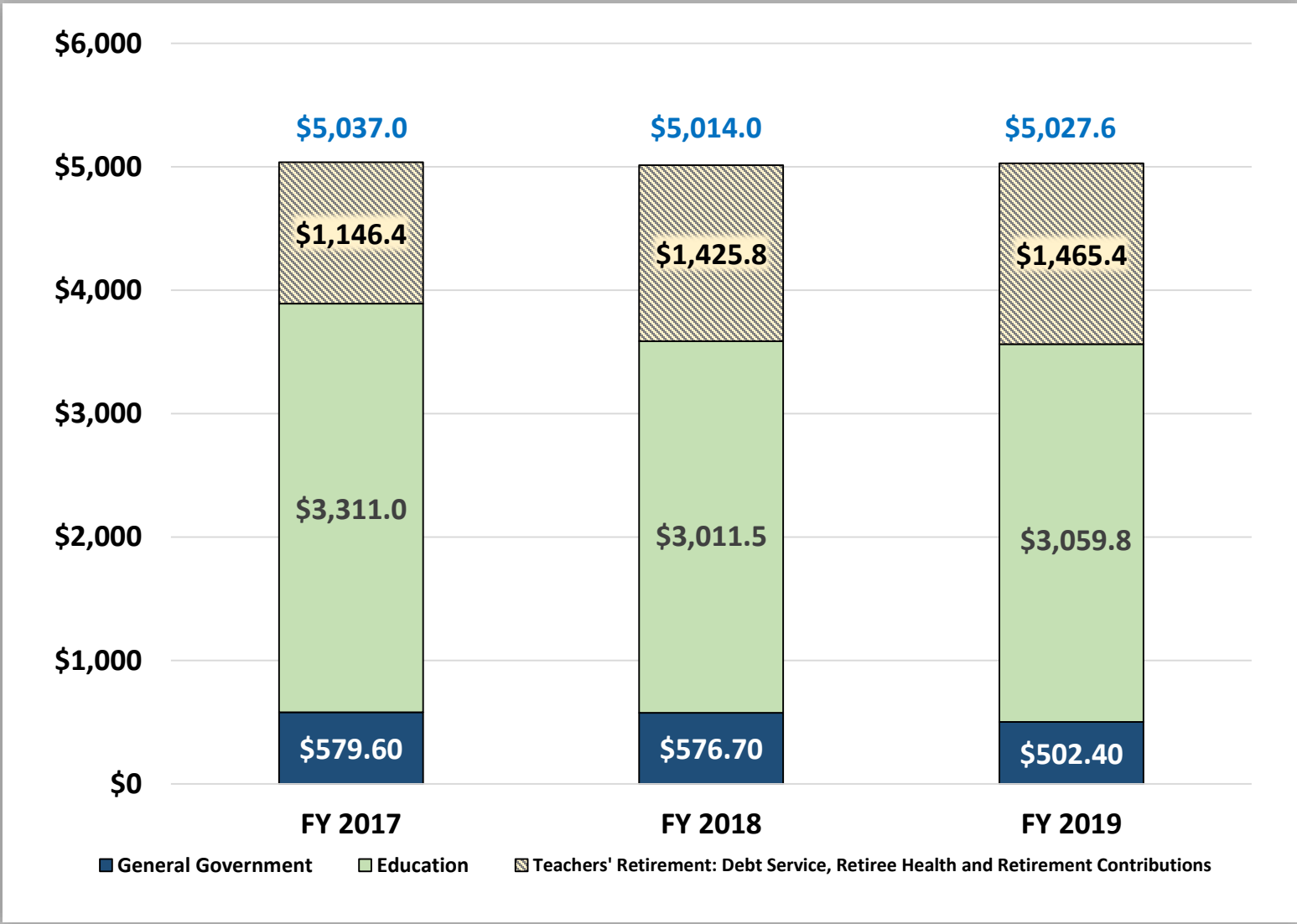
- Caps all appropriated non-education municipal aid payments at a maximum of their FY 2018 amounts
- Eliminates appropriated grants, including education, to municipalities with an Equalized Net Grand List Per Capita above \$200,000, with the exception of Alliance Districts which are held harmless from this reduction

Education Cost Sharing

- Retains formula passed in bipartisan budget including increases to underfunded communities
- Two factors that affect the phase-in are adjusted:
 - Base grant amount is changed to reflect FY 2018 estimated grants rather than FY 2017 grants
 - Phase-in percentage for towns whose fully funded grant is greater than its base grant is changed to 8% in FY 2019 and 6.76% in FY 2020
- Eliminates grants to the wealthiest communities based on Equalized Net Grand List Per Capita (ENGLPC)

State Aid to or on Behalf of Local Governments

(in millions)



Other Program Changes



Significant General Fund Spending Reductions

(in millions)

- **Reduce Growth in Municipal Aid** **\$(18.6)**
- **Eliminate Municipal Aid Grants to the Wealthiest Communities** **(14.2)**
- **DCF - Reflect Savings from Closure of CJTS** **(11.4)**
- **DSS - Eliminate Medicaid Subsidy for Graduate Medical Education** **(10.6)**
- **DSS – Reduce Enhanced Reimbursement for Primary Care Providers** **(3.5)**
- **DMHAS – Recognize Savings from Increased FFS Billings** **(3.0)**
- **DMHAS – Restructure State Operated Services** **(2.1)**
- **OPM - Fund Councils of Government at FY 2018 Level** **(2.3)**
- **DCF - Reduce Juvenile Justice Staffing** **(1.2)**

Significant General Fund Spending Increases

(in millions)

New Initiatives

- **DDS – Add Funding for Emergency Placements** **\$5.0**
- **DOC – Enhance Inmate Nutrition** **1.5**
- **DOL – Maintain Funding for UI and other Federal Programs** **0.5**
- **DOH – Provide Funding for Persons Displaced by Hurricane Maria** **0.4**

Technical and Caseload Adjustments

- **Adjust Budget to Reflect GF Portion of 2017 Labor Agreement** **\$54.6**
- **Fringe Benefits – Accounting Change for Higher Ed Alt. Retirement Plan** **27.3**
- **DCF – Fund Juan F. Compliance Costs** **16.3**
- **DOC – Annualize Funding for FY 2018 Deficiency** **9.8**
- **DSS – Adjust Funding for TFA and State Supplement** **8.2**
- **CSCU – Partially Restore Funding for Community Colleges** **6.3**
- **DPH – Transfer Children's Health Initiatives from the Insurance Fund** **2.9**
- **DCF – Re-estimate Caseload-Driven Expenditures** **2.3**
- **DDS / DSS – Fund Money Follows the Person Placements** **2.0**

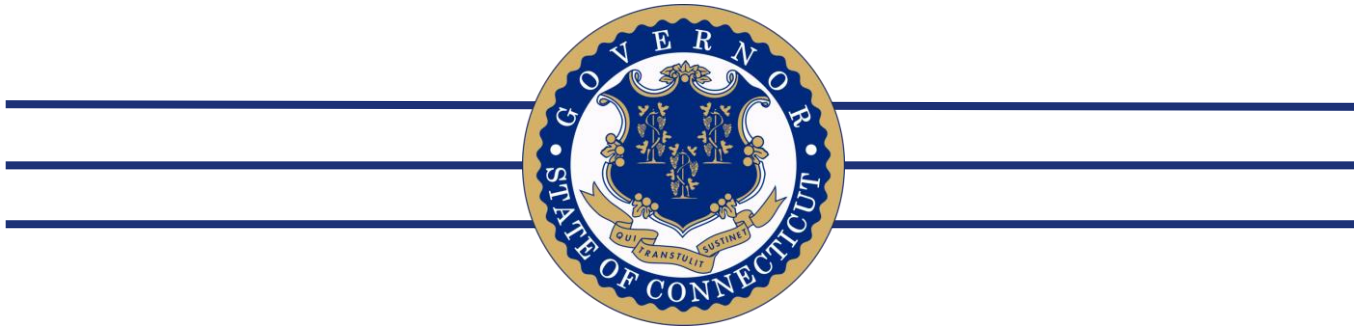
Other Budget Changes

- Reduces assessments on the insurance industry by almost 3.7% (approximately \$3.5 million)
 - DPH - Children's Health Initiatives account moved from the Insurance Fund to the General Fund
- This budget completes two agency reorganizations included in the bipartisan budget:
 - State Unit on Aging and Office of the Long Term Care Ombudsman are consolidated in the Department of Rehabilitation Services following federal model
 - Office of Health Strategy
- Office of Higher Education is consolidated into the State Department of Education as the Division of Post-Secondary Education, saving \$300,000
- Budgeted agencies reduced from 81 in FY 2011 to 56 in FY 2019
- Establishes a .05% administrative assessment on the first \$15,000 in wages paid to shore up the Department of Labor's program operations. One-time funding of \$500,000 is recommended for DOL until the assessment commences on January 1, 2019

Passport to the Parks and Tourism

- Passport to the Parks Fund
 - The enacted budget included language making expenditures subject to appropriations, but no appropriation was included in the adopted budget
 - The Governor proposes appropriating this fund
 - No other changes are proposed
- Tourism Fund
 - Hotel Occupancy Tax increased from 15% to 17%
 - This raises \$16.7 million, enabling the elimination of the \$12.7 million transfer from the General Fund in the enacted budget
 - Spending adjustments include:
 - Increasing the investment in statewide tourism promotion and marketing by \$3.8 million
 - Shifting support for the Connecticut Open from the General Fund to the Tourism Fund, and increasing support by \$400,000
 - Providing DECD with resources for administering arts and tourism grants - \$368,000
 - Arts and tourism grants maintained at the levels in the enacted budget

Revenue



Restoring Balance to FY 2019

Major revenue changes in FY 2019 include: (in millions)

	FY 2019 <u>Amount</u>
Eliminate the \$200 property tax credit*	\$ 49.7
Accounting change for Higher Ed Alt. Retirement	35.5
Repeal exemption for nonprescription drugs*	30.0
Limit \$2.5 million cap on unitary to manufacturers	25.0
Increases to real estate conveyance tax rates*	22.9
Increase cigarette tax rate to \$4.60/pack*	20.0
Corporate surcharge of 8% beginning in IY 2019	18.0
Expand bottle bill to wine & liquor at 25 cents*	13.0
Net impact of hotel occupancy tax changes*	12.7
Restore energy fund sweeps in FY 2019 (RGGI/Green Bank)	(24.0)
All Other Changes - Net	<u>31.8</u>
	\$ 234.6

*Tax types modified or considered for adjustment in 2017

Reducing Out-year Budget Gaps

Changes which will significantly reduce out-year budget deficits include:

(in millions)	FY 2022 <u>Amount</u>
Maintain hospital tax at FY18/FY19 levels	\$ 516.0
Eliminate restoration of the MRSA account	356.0
Eliminate the \$200 property tax credit	105.0
Eliminate new exemption for pension income	57.5
Repeal 7/7 brownfield tax credit program	40.0
Eliminate new exemption for social security income	18.4
Eliminate \$500 credit for STEM graduates	11.8
Eliminate restoration of the RPIA account	11.5
Eliminate transfer to the early childhood ed. program	10.0
Maintain teachers' pension exemption at 25%	8.0
Eliminate transfer to Tobacco & Health Trust Fund	6.0
All Other Changes - Net	<u>151.7</u>
	\$ 1,291.9

Protecting Connecticut From Federal Tax Changes

The Governor's proposed budget introduces changes to ensure Connecticut remains competitive under the new federal tax regime:

- A revenue neutral tax on pass-through entities offset by a personal income tax credit will provide Connecticut's small business owners with favorable federal tax treatment
- Allowing municipalities to create charitable organizations supporting town services, in conjunction with a local property tax credit, will allow our cities and towns to continue to provide services while reducing individuals' federal taxes

In addition, to avoid a General Fund revenue loss:

- Connecticut will not adopt federal tax changes related to accelerated depreciation and asset expensing
- Federal estate tax exemption levels phase in by 2023

Proposed Capital Budget



Capital Budget Revisions

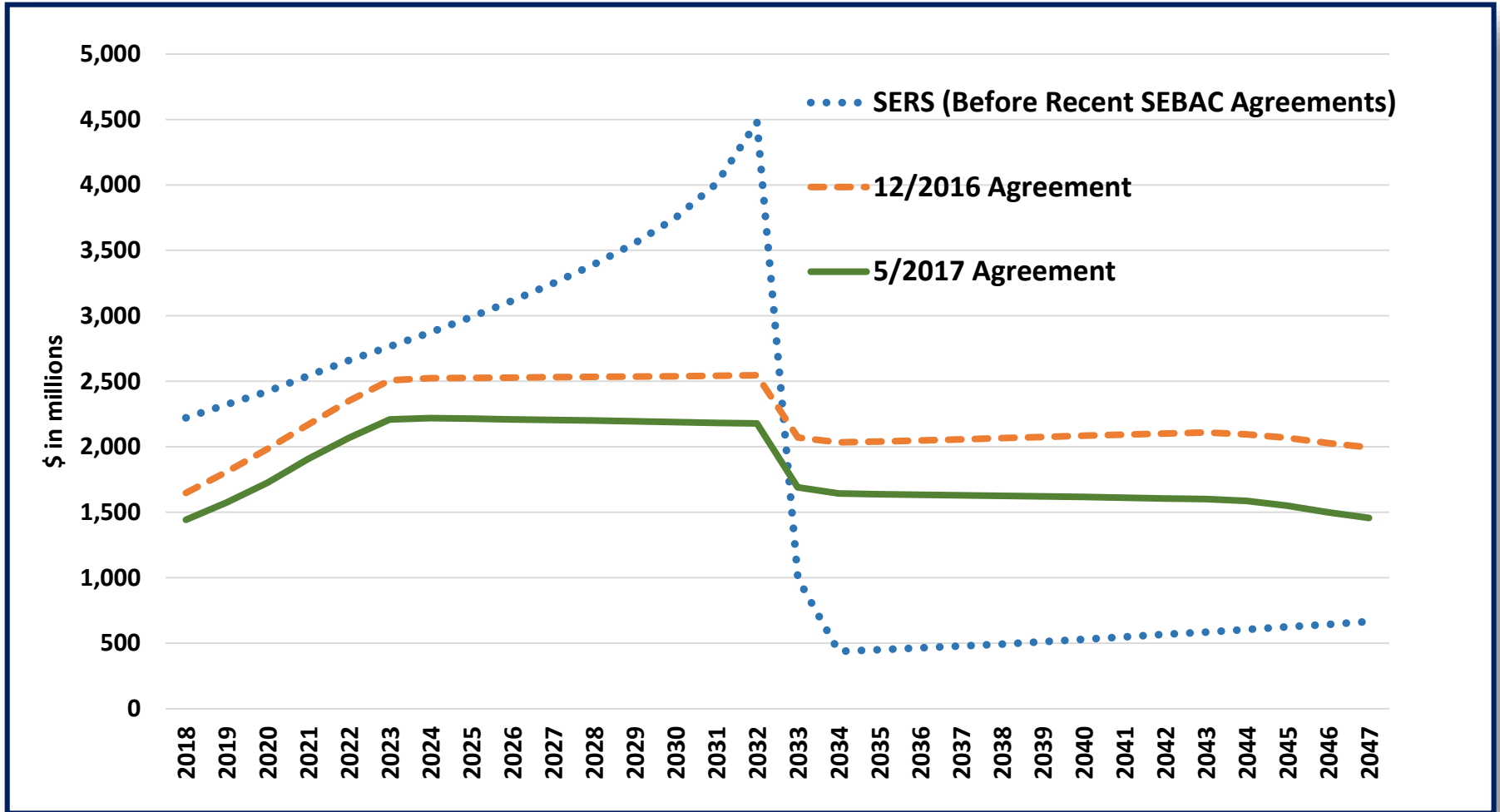
- \$141 million in additional general obligation (GO) bond authorizations in FY 2019:
 - \$100 million - continue rehabilitation of the XL Center in Hartford
 - \$25 million - continue information technology improvements in state agencies
 - \$16 million - construct parking to support Bushnell area redevelopment
- These are in addition to previous authorizations by the General Assembly, which include:
 - \$1.295 billion - various projects and programs
 - \$200 million - Next Generation Connecticut/UConn 2000 program
 - \$95 million - CSCU 2020 program
 - \$12.525 million - Bioscience Collaboration Program
 - \$15 million - Bioscience Innovation Fund
- These authorizations are offset by the cancellation of \$40 million in existing GO bond authorizations

Addressing Long-Term Liabilities



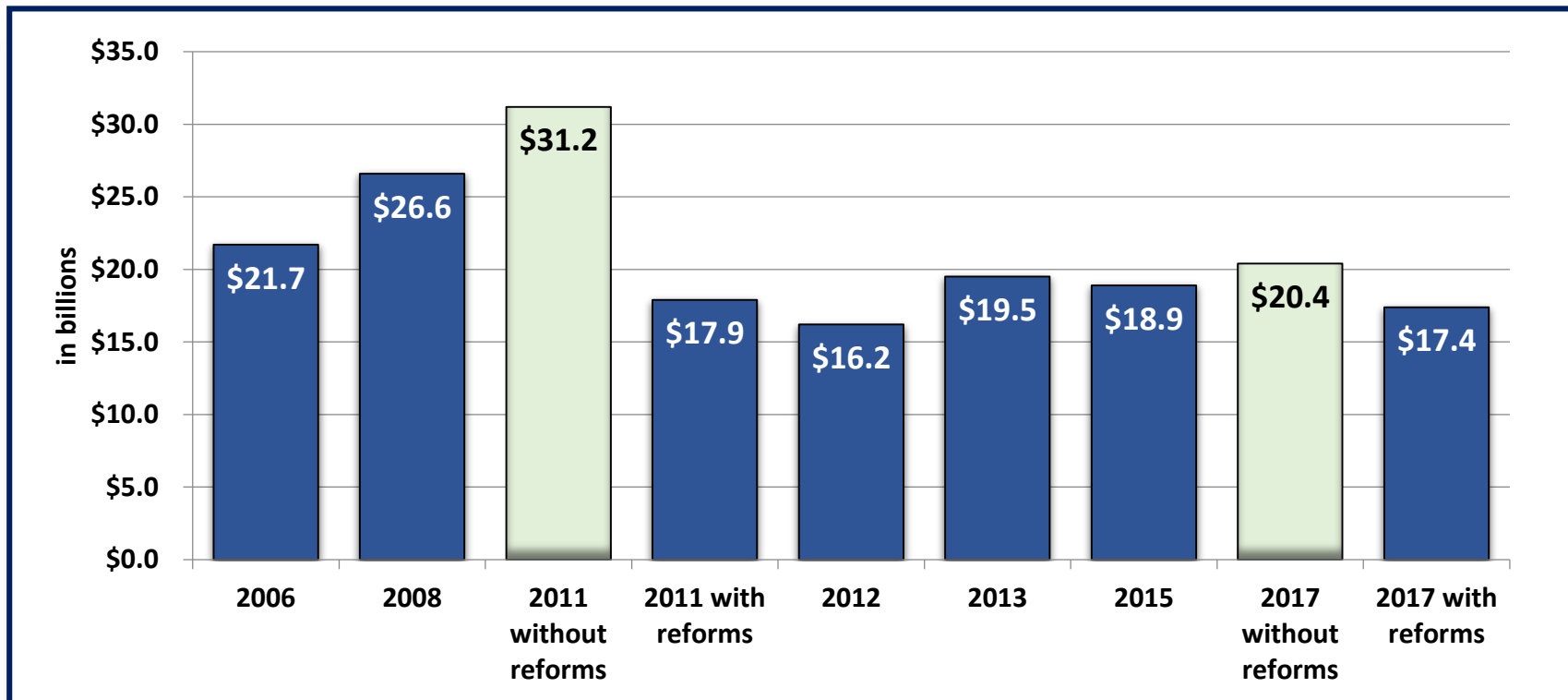
State Employees' Retirement System

Recent benefit changes have reduced pension costs



Note: The December 2016 agreement made changes to actuarial methods and assumptions, including a reduction in the assumed rate of investment return and revisions to the amortization period for portions of unfunded liability. The May 2017 agreement restructured wages and pension and healthcare benefits.

Other Post Employment Benefits Net Liability



- The Net OPEB Liability has decreased for the second valuation in a row. It would have increased if not for the reforms negotiated in the 2017 SEBAC agreement which include:
 - The implementation of a Medicare Advantage plan for existing Medicare-eligible retirees
 - Premium cost sharing and health care design changes for new retirees after October 1, 2017
 - Additional premium cost sharing for new retirees after June 30, 2022
- In addition, SEBAC 2011 required all employees to contribute 3% of salary to the OPEB Trust Fund for 10 years. SEBAC 2017 increased that to 15 years for new employees.

Teachers' Retirement System

- The current funding methodology results in increasingly volatile changes in required contributions as we approach end of the fixed amortization period in 2032
- Covenants included in the pension obligation bonds issued in 2008 require full funding of the state contribution
- Mirroring the funding approach utilized for SERS last year will help minimize risk in future years
- As in 2017, proposed changes include:
 - Reduced rate of return assumption
 - Extended amortization period
 - Transitioning to level dollar amortization
 - Laddered amortization of future gains or losses
- TRS Viability Commission report expected during 2018 session

Conclusion



Conclusion

The Governor's budget proposal:

- Builds on framework of bipartisan budget
- Preserves structural changes
- Recommends revenues to avoid project deferrals, fare hikes, and service cuts to transportation
- Reduces out-year budget gaps by half