

CONNECTICUT

FY 2017

MIDTERM BUDGET ADJUSTMENTS



DANNEL P. MALLOY, GOVERNOR

February 3, 2016

Introduction



The Governor's proposed revisions to the FY 2017 budget reflect our changing economic reality

This budget is balanced and reduces spending without raising taxes

The proposal reflects a new approach to budgeting, based on five principles

1. Live within our means and reform current services
2. Make pension funding sustainable
3. Fund core services and reform earmarks
4. Hold state agencies accountable for spending and outcomes
5. Increase transparency of the budgeting process

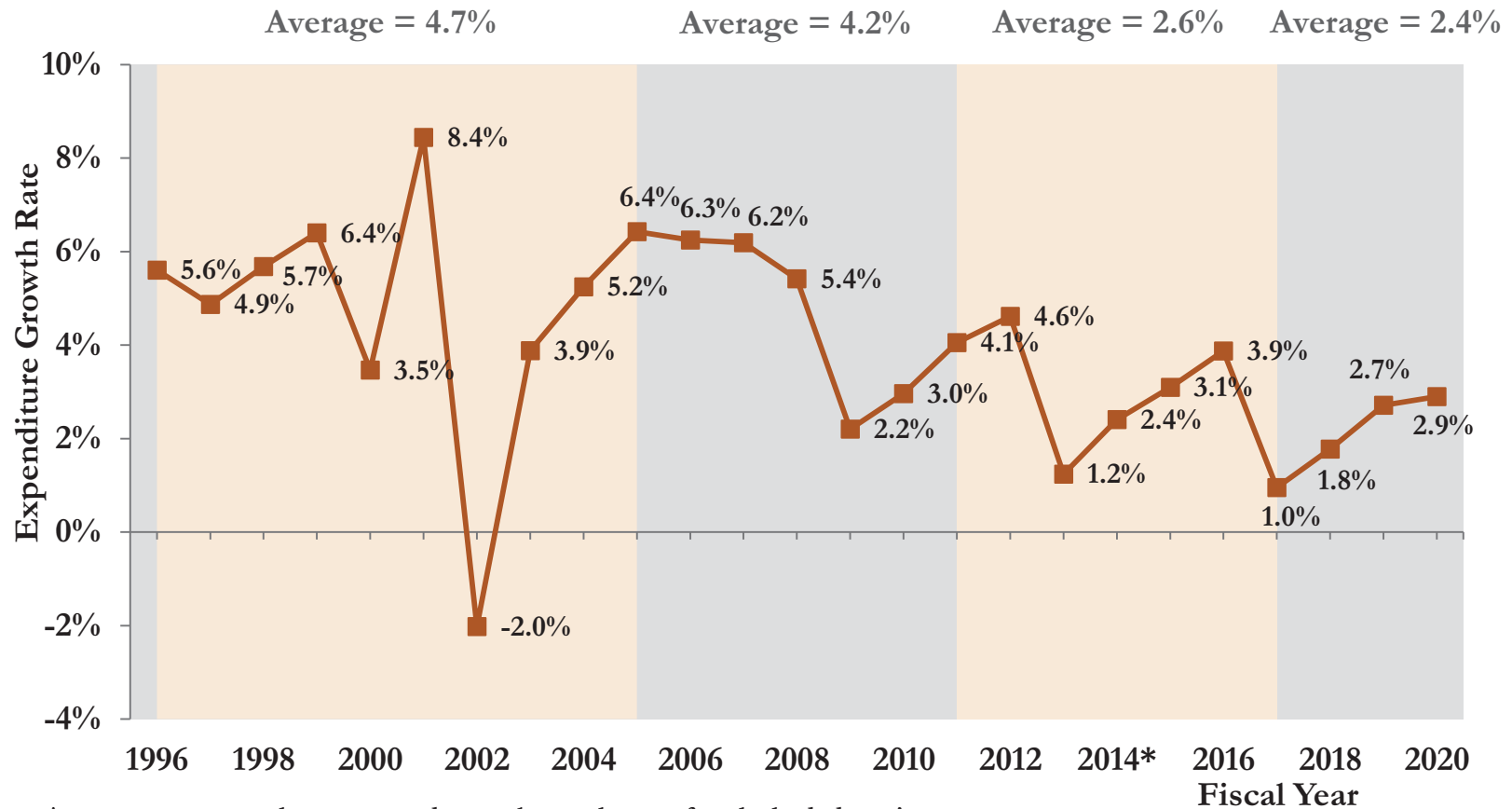
Proposed Appropriation Revisions

(In Millions)

	Enacted Appropriation FY 2017	Net Adjustments FY 2017	Recommended Appropriation FY 2017	% Growth Over Enacted
General Fund	\$ 18,711.2	\$ (569.5)	\$ 18,141.7	-3.0%
Special Transportation Fund	1,496.1	2.8	1,499.0	0.2%
Mashantucket Pequot & Mohegan Fund	61.8	(3.6)	58.2	-5.8%
All Other Funds	169.2	(0.8)	168.4	-0.5%
Total	\$ 20,438.3	\$ (571.0)	\$ 19,867.3	-2.8%

FY 2017 enacted appropriation per Public Act 15-244 as amended by Public Act 15-5 (June Spec. Sess.)

Expenditure Growth – All Funds



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.

Note: For Fiscal Years 2018 through 2020 expenditures were assumed to meet January 15, 2016 consensus revenue estimates for the General Fund and the Special Transportation Fund. All other funds remained at Fiscal Year 2017 levels.

The Governor's Budget Plan is Balanced

General Fund (In Millions)

	Original Adopted FY 2017	Revised Recommended FY 2017
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Revenues	\$ 18,713.6	\$ 18,152.3
Appropriations	18,711.2	18,141.7
Surplus/(Deficit)	\$ 2.5	\$ 10.6

Proposed FY 2017 Appropriation (General Fund)

(In Millions)

Rollout December 2015 Deficit Mitigation Plan	\$ (90.5)
Specific Budget Reductions	(118.2)
Across-the-Board* Reductions (5.75%)	<u>(360.8)</u>
Total	\$ (569.5)

*Not applied to ECS, entitlements, debt service and fringe benefits

A New Approach to Budgeting

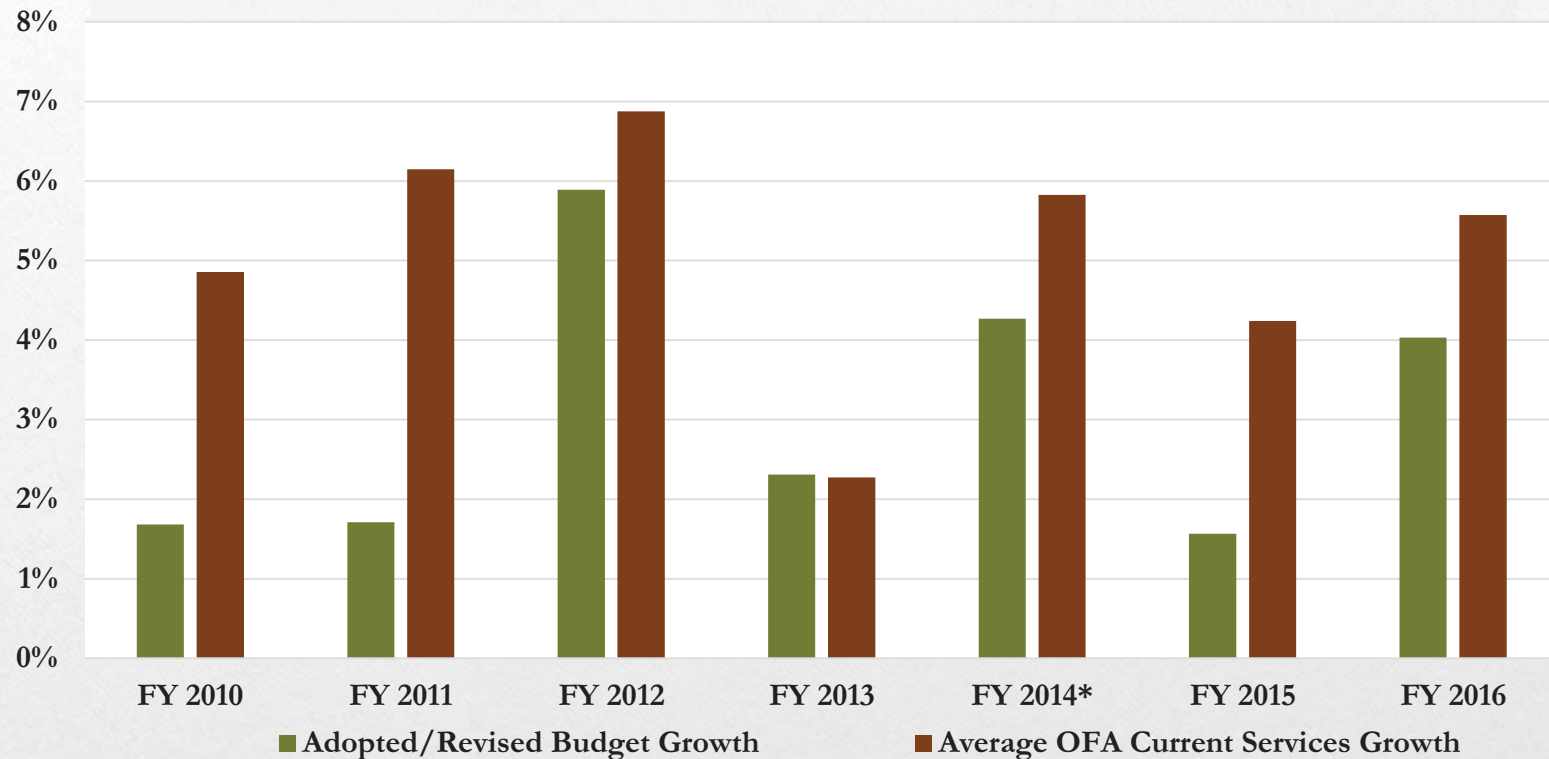
- Start with consensus revenue projections and reduce spending to that level
- Savings from the December deficit mitigation plan are continued into FY 2017
- A limited number of specific policy changes are proposed
- Most appropriations are consolidated into a single account in each agency called Agency Operations
- Funding for certain services, including ECS, Medicaid and entitlements, is protected from deep cuts
- A 5.75% reduction is applied to General Fund agency operating accounts and to non-ECS municipal aid

A New Approach to Budgeting

Reforming current services

- The current services method of budgeting consistently overstates future spending
- Under the current services model
 - Projected expenditures have outpaced revenue by 3% -- 4.9% to 1.9% -- per year since 2007
 - The average projected outyear deficit has been over \$1 billion per year since 2011
- And yet, the Rainy Day fund has grown by \$406 million since 2011

Growth Rates for Current Services Compared to Adopted Budgets



Current Services projections reflect average of relevant year projections included in Fiscal Accountability Reports from 2007 through 2015

* FY 2014 adopted adjusted to reflect net budgeting of Medicaid

A New Approach to Budgeting

Other changes

- Fringe benefits
 - Variable fringe costs reallocated from the central accounts administered by the Comptroller into Agency Operations accounts and Higher Education block grants
 - Funding for unfunded pension liability and retiree health care costs remain budgeted within the Comptroller's fringe benefit accounts
- Higher education funding is converted into true block grants
- Certain line-item grants such as arts, tourism and other community services are consolidated under the State Comptroller



OFFICE OF THE CHIEF MEDICAL EXAMINER

<http://www.ct.gov/ocme/>

AGENCY PURPOSE

- To Investigate Fatalities
 - Deaths due to any form of injury, whether resulting from accident, suicide or homicide or under suspicious circumstances.
- To Protect the Public Health
 - By diagnosing previously unsuspected contagious disease.
 - By identifying hazardous environmental conditions in the community.

RECOMMENDED ADJUSTMENTS

- Annualize FY 2016 Deficit Mitigation Savings -2,695
To align budget growth with available resources, funding is reduced to reflect the anticipated annualized savings resulting from the FY 2016 deficit mitigation plan passed by the legislature in December 2015.
- Annualize FY 2016 Budgeted Lapses -135,995
To align budget growth with available resources, funding is reduced to reflect the continuation of allocated bottom-line lapses contained in Public Act 15-244 and Public Act 15-5 (June Spec. Sess.).
- Annualize Anticipated FY 2016 Other Expenses Deficiency 107,507
To provide funding for deficiencies due to increased autopsy volume and resulting increased costs in toxicology and body transport.
- Consolidate Agency Operating Funds 0
To provide increased flexibility and efficiency, funding in support of the agency's general programs and operations is consolidated. Agencies will be accountable for using available funds in the most cost-effective ways to accomplish their missions. *The following appropriations are consolidated: Personal Services, Other Expenses, Equipment and Medicolegal Investigations.*
- Reduce Agency Operating Funds -357,202
In order to ensure budget growth is aligned with available resources, across-the board reductions of 5.75 percent are applied to Agency Operations accounts. Agencies will focus their limited resources on core services.
- Reallocate Certain Fringe Benefits Costs to Agency Operating Funds 1,777,179
To more accurately reflect the full cost of agency operations, the variable costs of certain fringe benefits are transferred from the Comptroller's Fringe Benefits accounts to Agency Operations accounts. Agency budgets will reflect the estimated cost of Social Security taxes, pension costs, and healthcare costs for active agency employees.

AGENCY SUMMARY

Personnel Summary	FY 2015 Authorized	FY 2016 Estimated	FY 2017 Appropriated	FY 2017 Net Adjustments	FY 2017 Revised Recommended
General Fund	50	50	50	0	50

Financial Summary	FY 2015 Actual	FY 2016 Estimated	FY 2017 Appropriated	FY 2017 Net Adjustments	FY 2017 Revised Recommended
Personal Services	4,319,977	4,515,259	4,857,946	-4,857,946	0
Other Expenses	1,227,514	1,200,167	1,340,167	-1,340,167	0
Capital Outlay					
Equipment	18,272	19,226	19,226	-19,226	0
Other Current Expenses					
Medicolegal Investigations	23,700	25,704	26,047	-26,047	0
Agency Operations	0	0	0	7,632,180	7,632,180
TOTAL - Other Current Expenses	23,700	25,704	26,047	7,606,133	7,632,180
Other					
Nonfunctional - Change to Accruals	114,910	0	0	0	0
TOTAL - General Fund	5,704,375	5,760,356	6,243,386	1,388,794	7,632,180
TOTAL - ALL FUNDS	5,704,375	5,760,356	6,243,386	1,388,794	7,632,180

Interpreting the Budget Book

Budget changes include

Rolling out DMP and lapses

Other budget changes

Consolidating funding into Agency Operations, with detail about what is consolidated

5.75% reductions

Reflecting fringe benefits within agency budgets

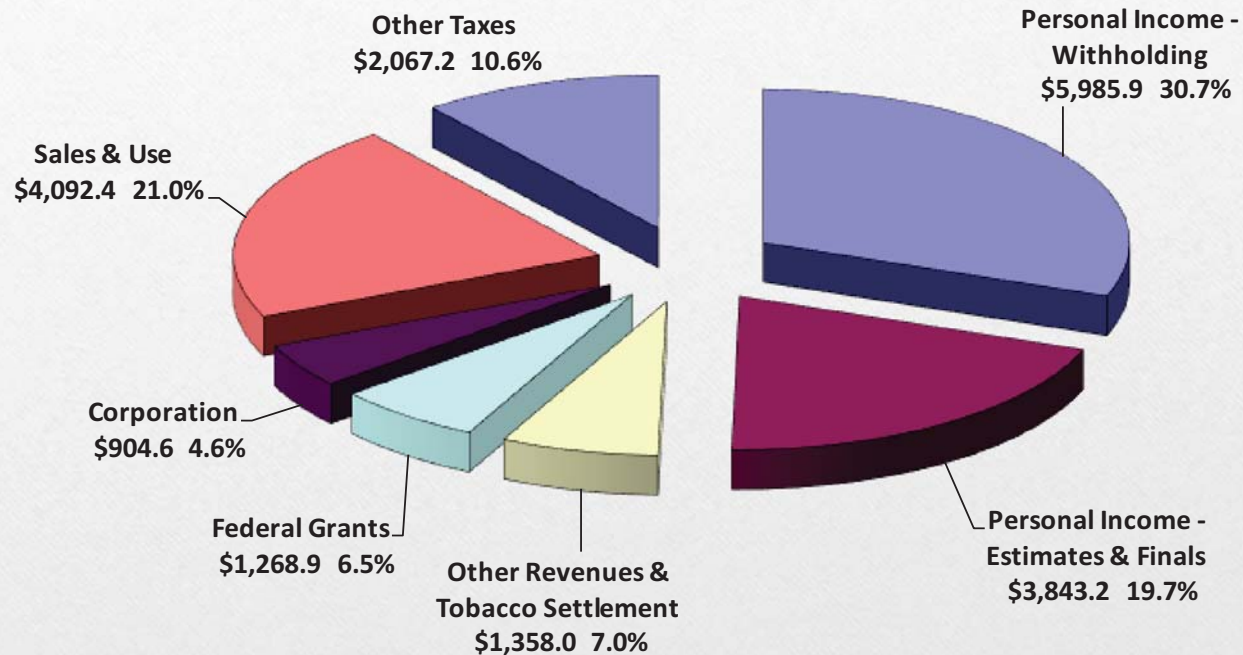
Revenue and the Economy



Sources of General Fund Revenues

FY 2017

Total \$ 18,152.3 Million*



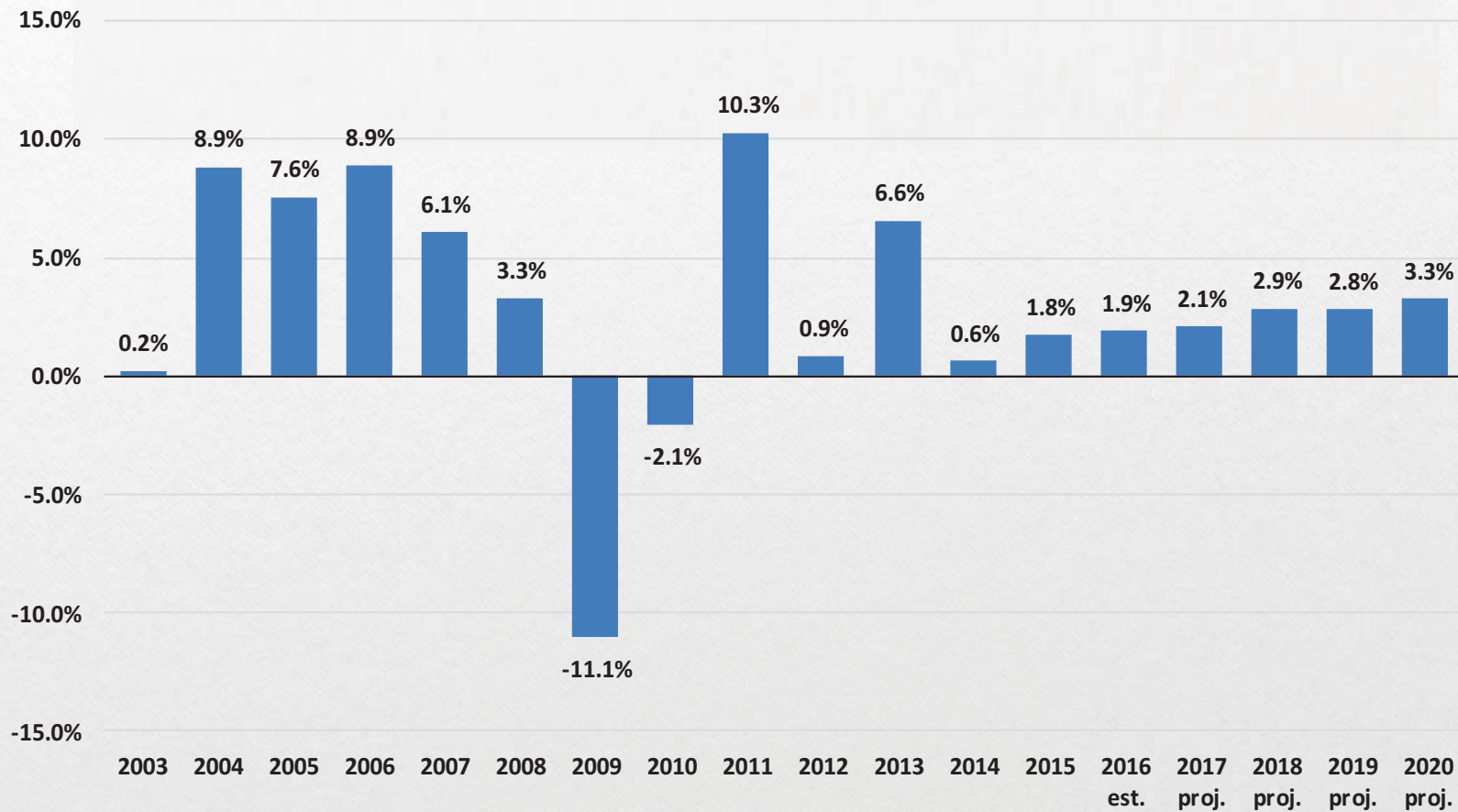
* Refunds are estimated at \$1,101.5 million, Earned Income Tax Credit is estimated at \$133.6 million, R&D Credit Exchange is estimated at \$8.5 million, Refunds of Payments are estimated at \$67.1 million, and Transfers to Other Funds are estimated at \$57.2 million in FY 2017.

Revenue Proposals

- No new taxes or tax increases
- Eliminating minimum bottle pricing on alcoholic beverages
- Capping Probate Court fees on estates at \$40,000
- Personal property tax exemption for businesses with total personal property valued at less than \$10,000 (46% of all businesses)

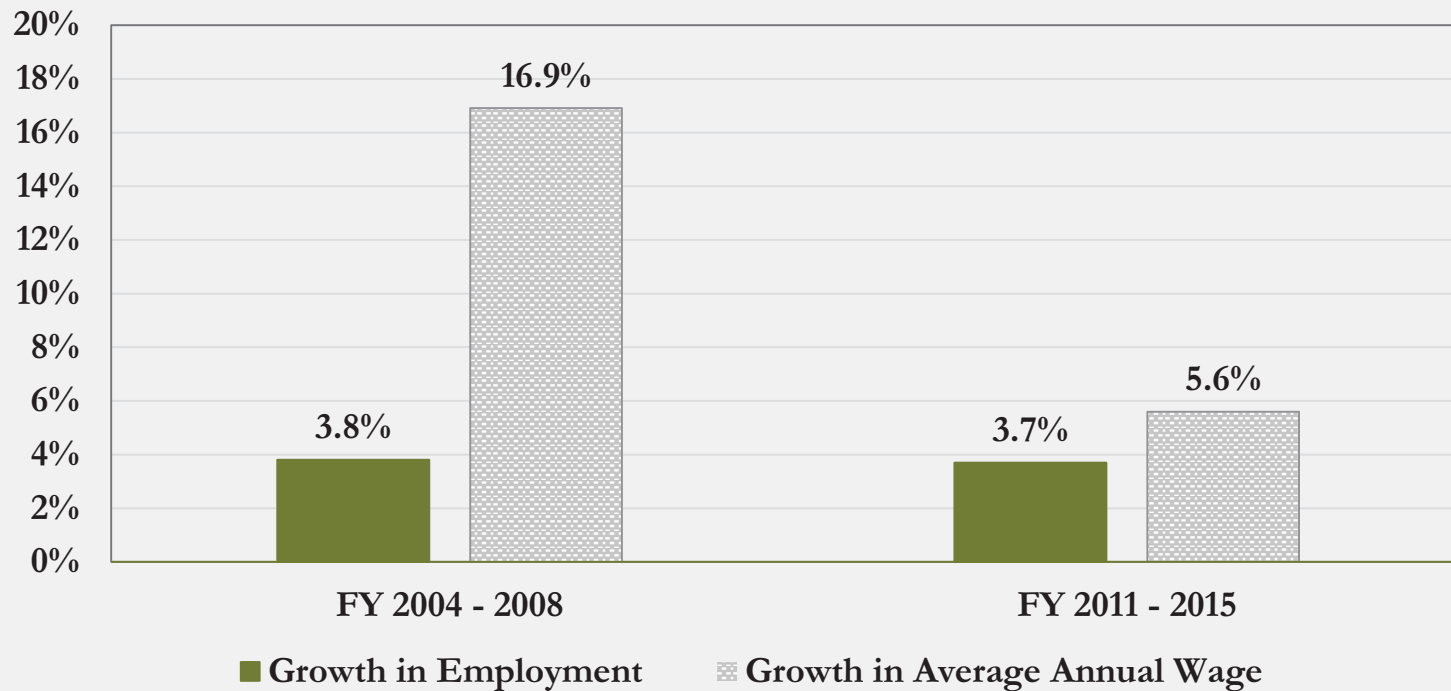
General Fund Revenue

Economic Growth Rates



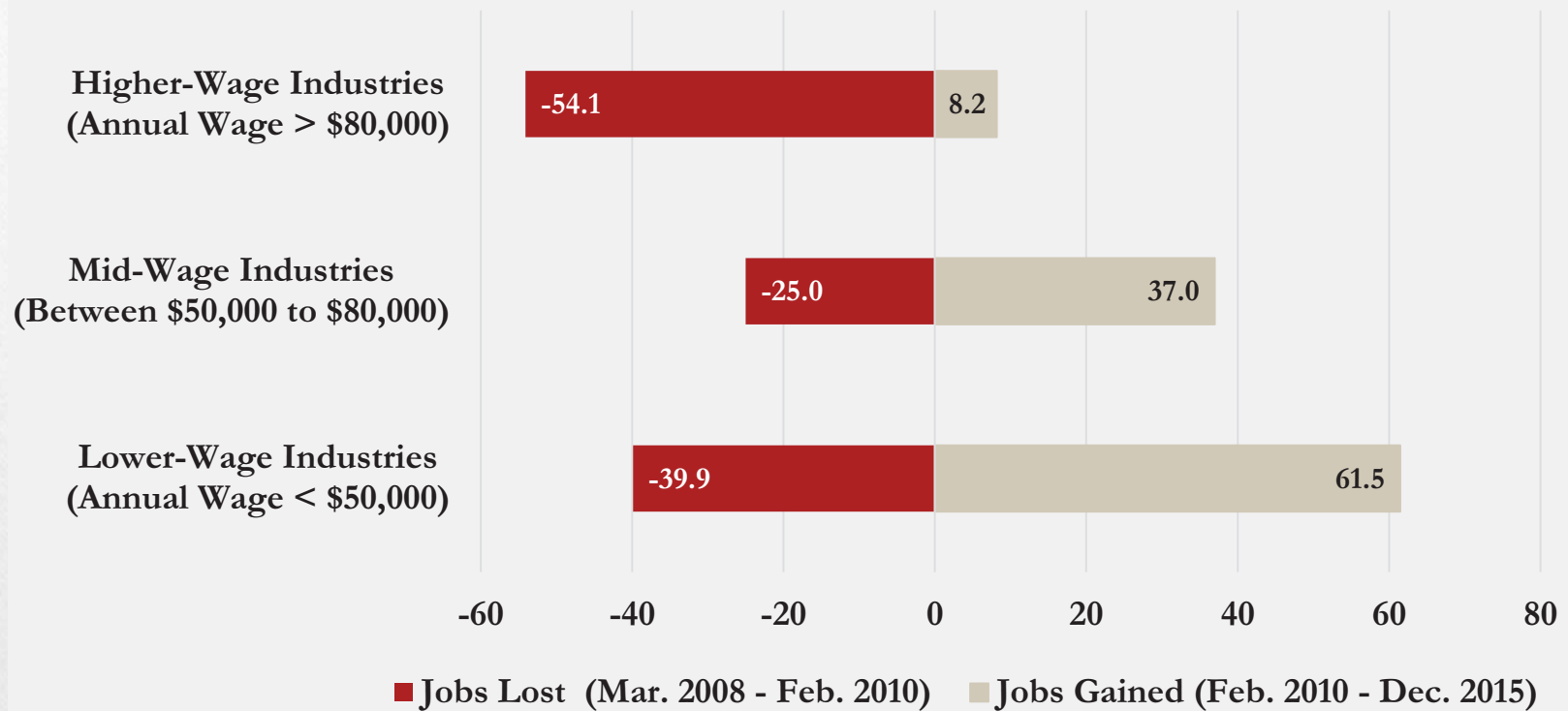
Fiscal Year

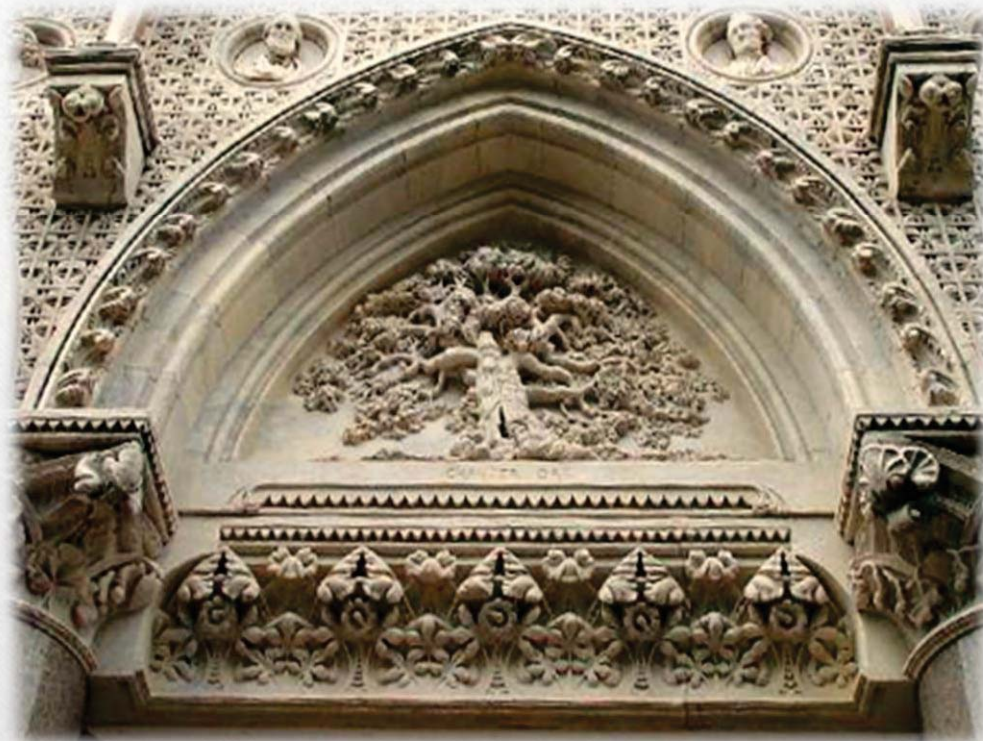
Connecticut's Total Employment and Wage Growth



Low versus High Wage Job Growth

Connecticut Net Employment Change
(in Thousands)





Budgeting for Arts, Tourism, and Other Community Grants

Line item grants are transferred to the Comptroller's miscellaneous accounts in the following groups

- \$3.8 million for Arts Grants
- \$0.4 million for Community Development Grants
- \$3.3 million for Tourism Grants
- \$6.0 million for Workforce Development Grants
- \$2.3 million for Youth Development Grants

A New Approach to Funding Higher Education

Convert Higher Education Funding to True Block Grants

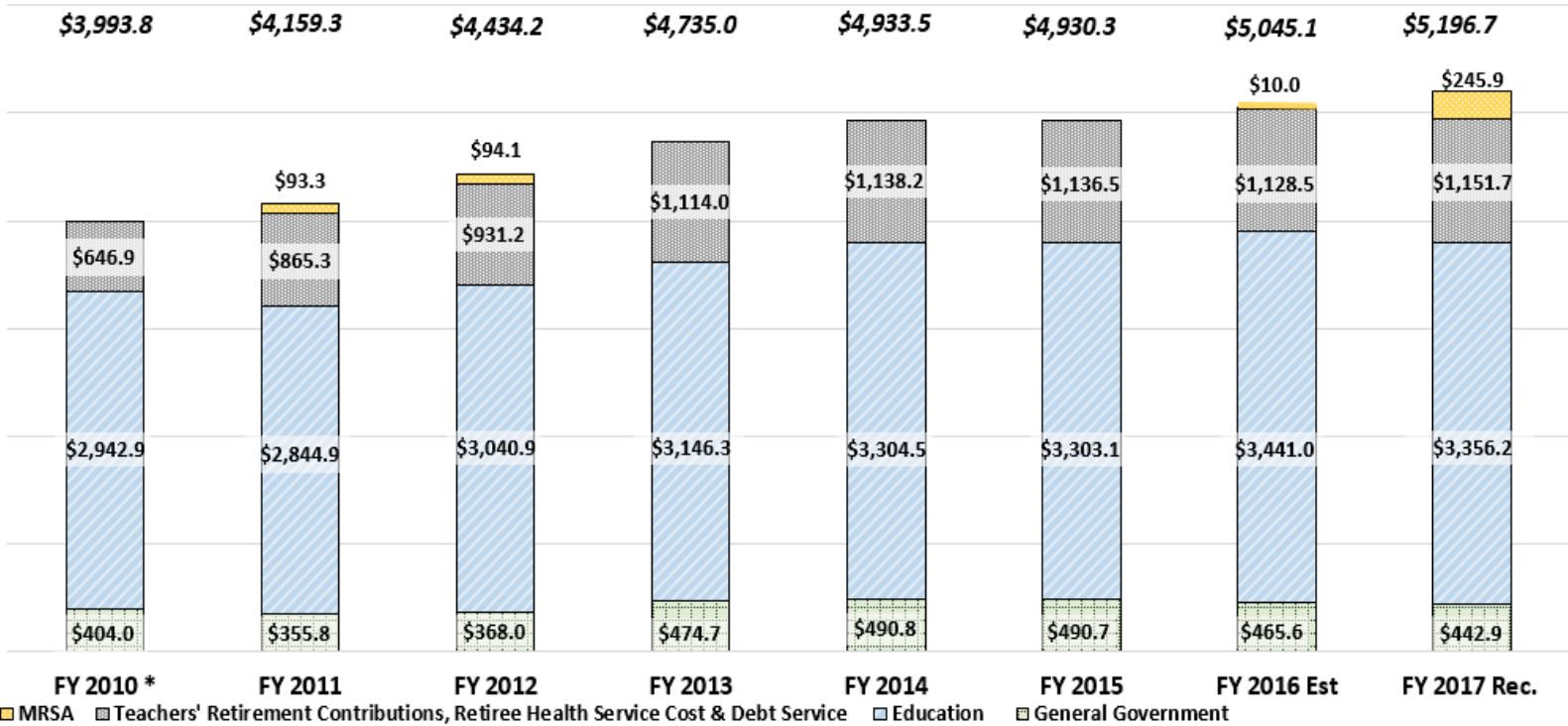
- Reflect all operating support for higher education by including the fringe benefits for General Fund supported employees
- Create a separate grant to cover the costs of unfunded accrued pension liabilities for tuition funded employees

Establish an Incentive Fund for Outcomes Based Financing

- The Governor recommends \$2.3 million for the Board of Regents to support the state goal of promoting student success for low-income students
- Establishing baselines, investing in best practices and using metrics to measure outcomes will increase accountability

State Aid to Local Governments

Includes Appropriated, Capital, Federal ARRA and Revenue Intercept Sources
(In Millions)



*In FY 10, includes use of \$269 M in ARRA funds

Improving Services for Individuals with Intellectual Disabilities

- Creation of an Intellectual Disabilities Partnership modeled after the successful Behavioral Health Partnership, tasked with
 - Developing a continuum of services between in-home supports and group home placement
 - Exploring options for private pay and other third-party payments
 - Expanding supportive housing tailored to persons with intellectual disabilities
 - Developing strategies to address and fund the DDS waiting list
- Conversion of funding for residential services from grants to fee-for-service
 - Transfer \$537.1 million from DDS to DSS with no reduction
 - Maximize federal Medicaid reimbursement

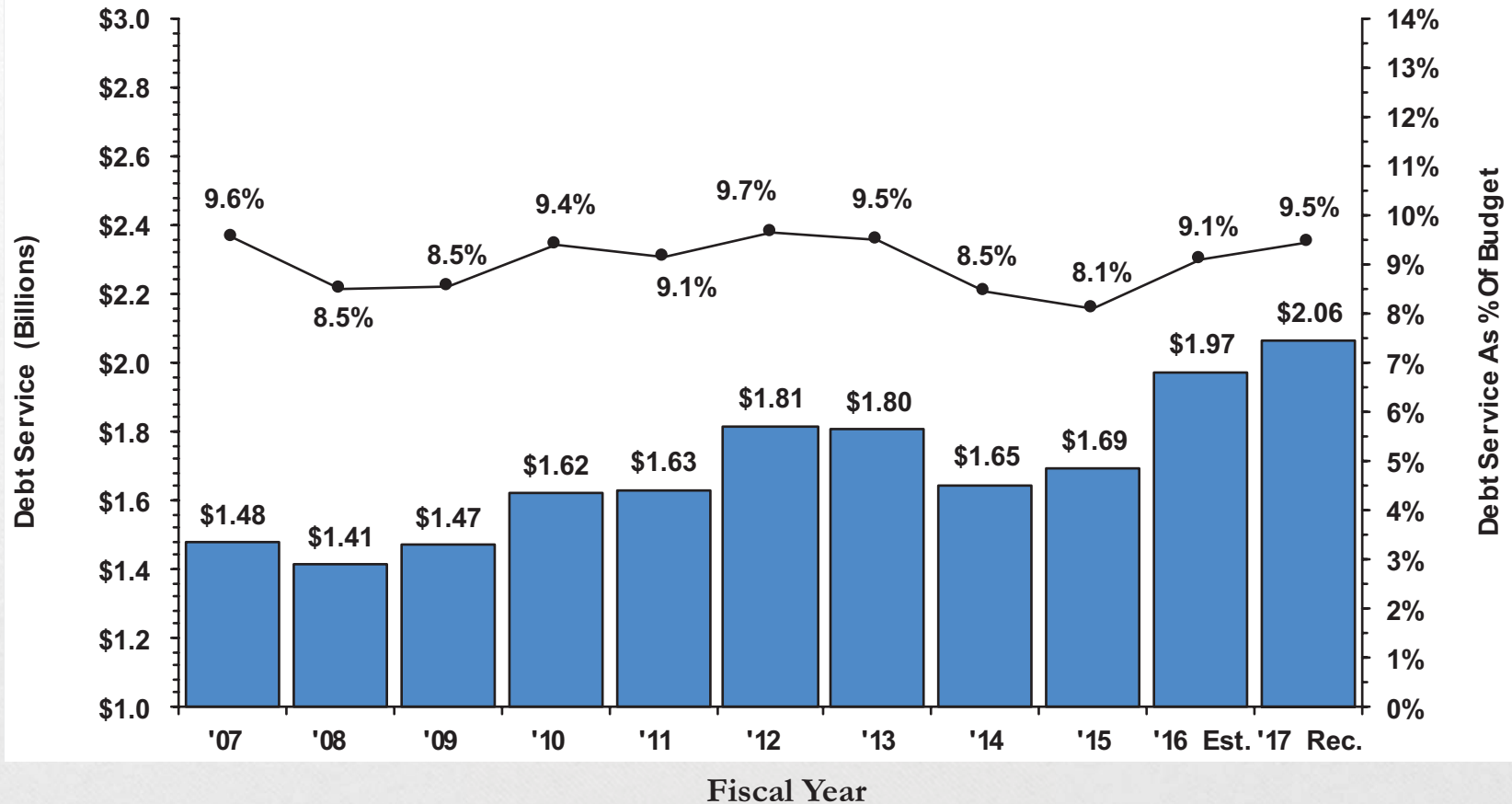
Capital Budget

Adjustments to bond authorizations for FY 2017

- \$60 million in additional special tax obligation bond authorizations for bus and rail projects
- \$8 million for transit-oriented development
- \$15 million for capital improvements grants to nonprofit health and human service providers
- \$5 million for renovations and improvements at the Department of Veterans' Affairs
- \$181 million for renovations and a new parking garage at the State Office Building
- \$10 million for Department of Economic and Community Development programs
- \$60 million for utility work at York Correctional Institution in East Lyme
- \$385.4 million of prior GO bond authorizations are proposed for cancellation to stay within the statutory debt limit

Debt Service Expenditures

General Fund



Note: FYs 2014-17 adjusted for net budgeting of Medicaid for comparison to prior years

Second Chance Society 2.0

- Raise the Age
 - Creates a new class within juvenile justice system for young adults
 - Raises the age of the juvenile court jurisdiction through age 20 by 2019
- Youthful Offender eligibility raised through age 20 effective October 1, 2016
- Bail Reform
- These initiatives, with the continuing trends in declining crime and prison admissions, will allow DOC to close another facility in FY 2017

Continuing to Invest in Transportation

Special Transportation Fund

(In Millions)

	Estimated FY 2016	Appropriated FY 2017	Revised Recommended FY 2017
Beginning Balance	\$ 180.0	\$ 180.0	\$ 180.0
Revenues	1,388.8	1,596.9	1,537.7
Total Available Resources	1,568.8	1,776.9	1,717.7
Recommended Appropriations	1,388.8	1,496.1	1,499.0
Surplus/(Deficit)	\$ -	\$ 100.8	\$ 38.7
Projected Fund Balance 6/30	\$ 180.0	\$ 280.8	\$ 218.7

Transportation

- **Major Projects - In Progress**

- \$350 million reconstruction of I-84 east of Waterbury
- \$568 million replacement of the WALK Bridge
- Replacement of the communications, signal, and overhead wire power system for the New Haven Line
- Completion of the Hartford Line rail system between New Haven and Springfield
- Modifications to the I-91 connection to I-84 at the Charter Oak Bridge in Hartford
- Extension of *CTfastrak* service east of the Connecticut River

Transportation

Mid-Term Adjustments

- \$6,145,000 to continue rail improvements and safety initiatives through Metro-North
- \$200,000 to launch bus service between Waterbury and Torrington
- \$250,000 to establish Transit Corridor Development Assistance Authority (TCDAA), which will help interested municipalities to undertake economic development within one-half mile of rapid transit stations
- Over \$50,000 for the Connecticut Port Authority



“an ugly reckoning looks inevitable”

Hartford Courant, 1/31/2016

- This budget includes a 5.75% reduction to discretionary agency accounts, including municipal aid (except ECS) in FY 2017
- In FY 2018, major cost drivers will exceed current projections of revenue growth, potentially requiring an additional 9% cut to discretionary spending

Outyear General Fund Estimates

(in millions of dollars)

	Proposed FY 2017	Projected FY 2018	Projected FY 2019	Projected FY 2020
Projected Revenue	18,152.3	18,323.7	18,824.5	19,387.4
Increase over Prior Year Growth		171.4 0.9%	500.8 2.7%	562.9 3.0%
<u>Projected Areas of Expenditure Growth (Relative to Prior Year)</u>				
Debt Service		275.2	(44.7)	198.0
Teachers' Retirement System		259.2	45.0	46.9
Medicaid		121.5	123.4	134.3
Matching Contributions for OPEB		132.6	-	-
State Employee Fringe Benefits Costs		71.6	62.6	72.5
Other Entitlements and Miscellaneous		6.9	5.9	9.0
Total Fixed Areas of Growth		867.1	192.2	460.7
Surplus / (Shortfall) of Revenue vs. Fixed Costs		(695.7)	308.6	102.2
Change to Agency Operating Accounts, Higher Ed Block Grants, and Non-ECS Municipal Aid Needed for Balance		-9.7%	4.8%	1.5%

A Long-Term Approach to a Sustainable Budget

- Reduce discretionary spending by 15% over two years through service and workforce reductions, efficiencies, and gains at the collective bargaining table
- Restructure state employee and teachers' pensions to avoid future fiscal cliffs
- Constrain growth in fixed and entitlement spending by
 - Reducing long-term fringe benefit costs
 - Limiting benefits under entitlement programs
 - Meeting court mandated outcomes in human services, child protection and education within limited resources

Challenges to State Agencies

Implementing the Governor's budget proposal presents significant challenges to state agencies

- 5.75% cut to operating budgets, with further reductions likely in FY 2018
- Budget flexibility is necessary for agencies to focus on core services
- New reporting requirements linking outcomes and expenditures
- Scale of cuts will lead to reduced staffing and services and demand new ways of doing business

Agencies Identify Core Services

Some examples include

- DSS: Promoting and supporting the choice to live with dignity in one's own home and community
- SDE: Promoting excellence and equity in education for Connecticut's students
- DDS: Providing residential and day/employment services for individuals and families
- DCF: Ensuring children reside safely with their families whenever possible
- DAS: Reducing costs through centralized services such as collections, technology, construction services, procurement and other administrative support functions

Agency Management Strategies

- Increase the use of LEAN and data-driven business strategy development
- Leverage recent technology investments to encourage data sharing to maximize agency effectiveness
- Reduce the number of stand-alone agency IT systems through multi-agency solutions
- Evaluate grant programs to prioritize funding and support for those most closely aligned with core services and those found to be most effective
- Limit hiring to refills of critical positions aligning with agency priorities
- Redeploy existing staff and expand cross training

