

FISCAL
YEAR in review

Fiscal Year 2012 **Dealing With the Deficit**

- When the FY 12 budget was being formulated the deficit was estimated at \$3.2 billion.
- Connecticut's projected deficit was in the top 10 in the nation as a percent of the budget (over 17%).
- Despite the slow national economic recovery, FY 12 closed with a deficit of \$143.6 million- 0.8% of the budget.
- More than \$3 billion of the budget deficit was eliminated.



General Fund Operating Results

Fiscal Year 2012

From a Budget Plan to Actual Results

Revenue	\$18,561,633,086
Spending	\$18,781,734,411
Gross Deficit	(\$220,101,325)

Adjustments to Gross Deficit:

Fund Balance Adj.	\$5,849,845
Prior Carryforward	\$200,985,128
FY 12 Carryforward	(\$130,350,834)
Net Deficit	(\$143,617,186)



General Fund Spending

Fiscal Year 2012

- GF spending increased by 5.2% in FY 12.
- After adjusting for the payout of a 27th payroll, and revenue neutral spending the rate of increase drops to just below 4%, which approximates the average annual spending growth of the previous 10 year period (4.2%)
- Spending in FY 11 was \$17.845 billion growing to \$18.782 billion in FY 12- an increase of \$936.9 million.



General Fund Historical Change in Spending



FY 12 Cost Drivers

Social Service and Paying Down Long-Term Debt

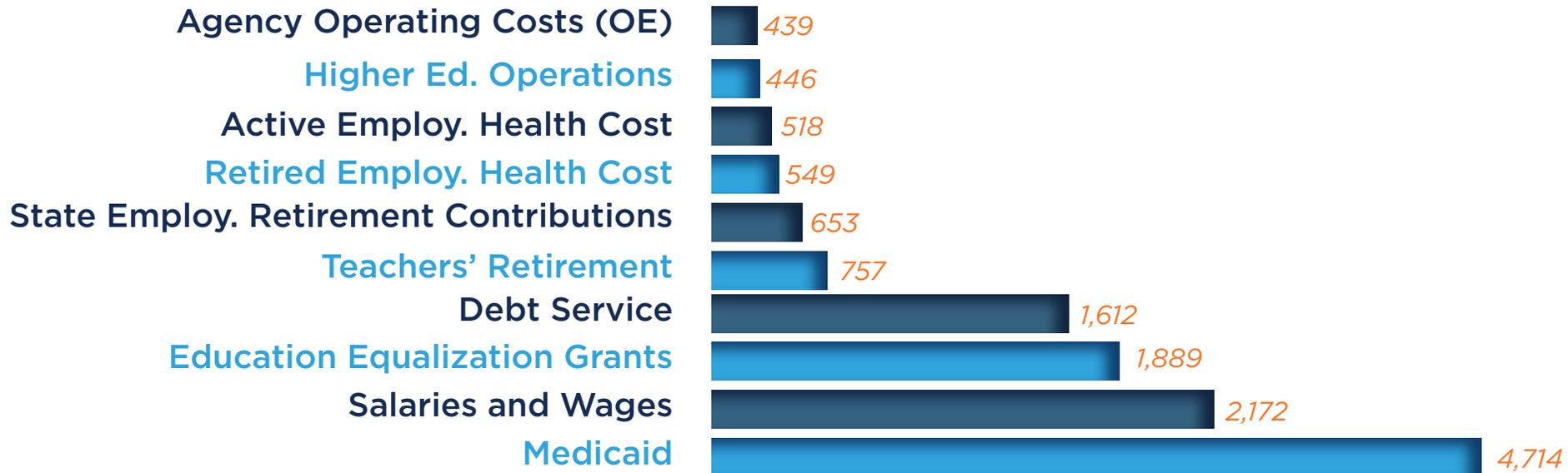
- **Department of Social Services** was up \$409.4 million, 8%. The Medicaid caseload increased 52%. Medicaid was up \$248.4 million and DISH payments were up \$216.8 million (with a provider tax offset to the spending).
- **Teachers' Retirement** was up \$210.2 million, 36%. The increase resulted from full funding of the accumulated unfunded liability.
- **Debt Service** was up \$165.2 million, 11.4% as the 1st year of 2009 ERN payments began (\$915.8 million in notes issue at 2.3%).
- **State Employees' Retirement** was up \$89.3 million, 16%. Full funding of the system was implemented paying down accumulated unfunded liability.



10 Line Items Account for 3/4 of Spending

Historically, 10 appropriation line items in the budget have accounted for almost 75% of all General Fund Spending. The graph shows FY 12 spending.

Spending (\$ millions)



Reducing Payroll Costs



- After adjusting for the 27th paycheck, salaries and wages declined by more than 8% in Fiscal Year 2012.
- This is the highest rate of decline in more than a decade.
- Even adding in the 27th payroll, wage and salary spending declined by \$100.7 million. The 27th payroll was approximately \$90 million, so the adjusted decline was close to \$200 million.
- Initiatives by the Comptroller's Office coupled with provisions of the SEBAC agreement will yield long-term budget savings.
- Pension costs are being fully funded, which will reduce the overall system cost as earnings on that additional funding compound over time.



Non-General Fund Spending

- In Fiscal Year 2012, the state spent \$9.108 billion from non-General Fund resources (not including trust funds).
- The largest expenditures come from special revenue funds. These outlays totaled \$7.044 billion in FY 12. These are funds in which specific revenue sources have been identified to support specific program purpose.
- Special revenue funds include:
 - » Restricted Grants (federal and non-federal sources)
 - » The Transportation Fund
 - » University Operating Funds
 - » Environmental Funds
 - » Economic Development
- There are 65 special revenue funds on the state's books.



Non-General Fund Spending by Source

Debt Service	\$465 million
Enterprise	\$458 million
Internal Service	\$54 million
Special Revenue	\$7.044 billion
Capital Projects	\$1.159 billion

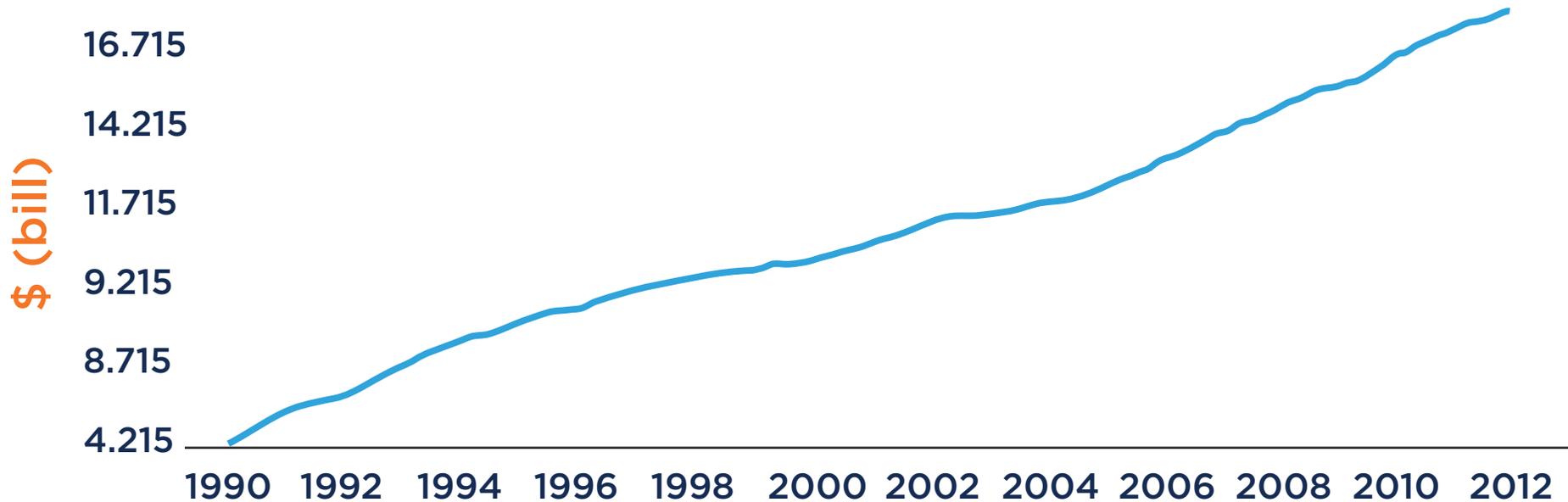
These funds follow the same annual growth pattern as the General Fund.



Connecticut's Debt Picture

State debt has been on an upward path over the past two decades reaching \$17.276 billion in FY 2012

Bonds Payable from General & Transportation Fund



Moody's State Debt Rankings 2011

Debt Per Capita

1. Connecticut	\$5,236	Aa2
2. Massachusetts	\$4,711	Aa1
3. Hawaii	\$4,236	Aa2
4. New Jersey	\$3,940	Aa3
5. New York	\$3,149	Aa2
6. Delaware	\$2,676	Aaa
7. Washington	\$2,626	Aa1
8. California	\$2,542	A1
9. Illinois	\$2,383	A1
10. Rhode Island	\$2,191	Aa2

Debt as a % of Personal Income

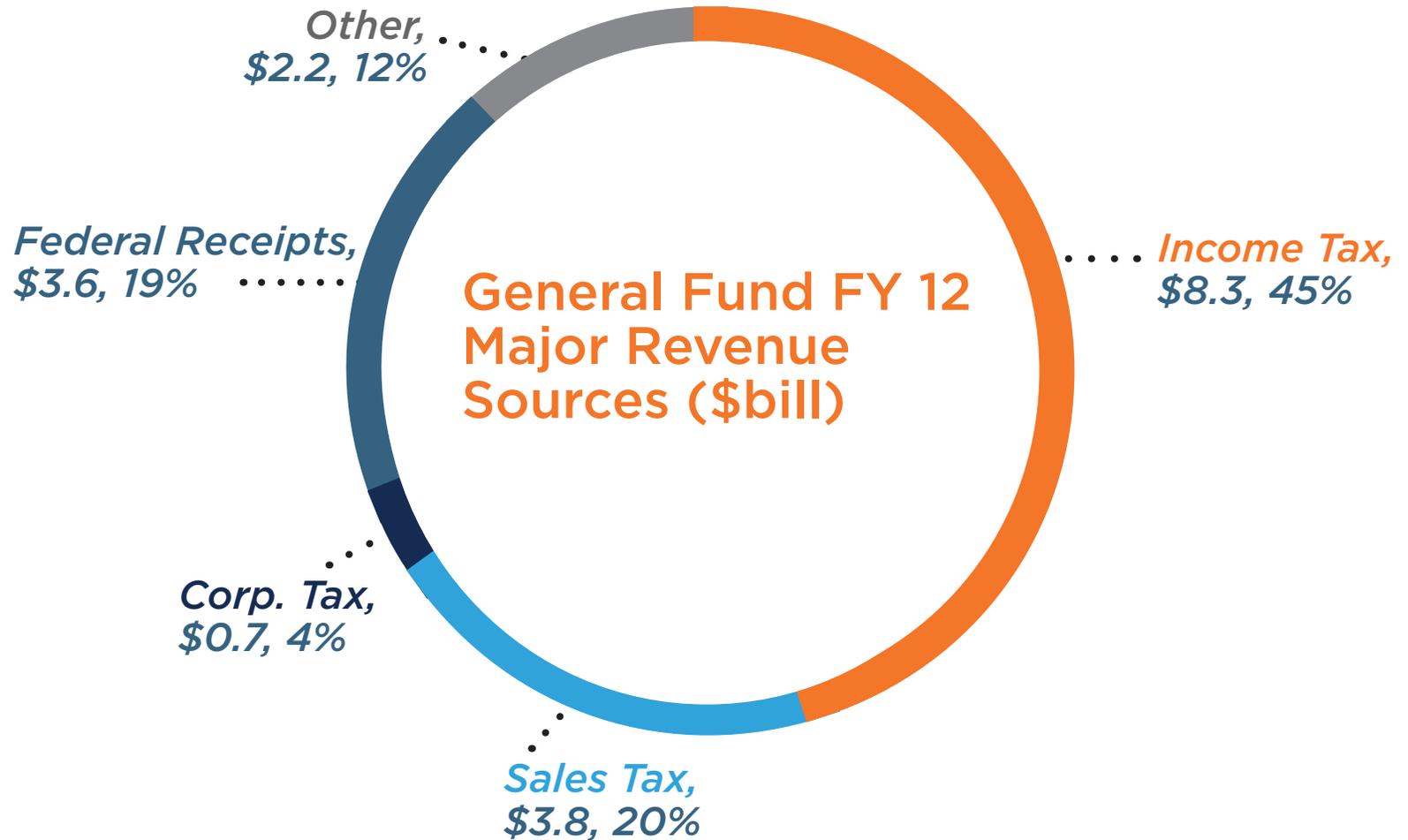
1. Hawaii	10.1%
2. Massachusetts	9.5%
3. Connecticut	9.5%
4. New Jersey	7.9%
5. Delaware	6.8%
6. New York	6.8%
7. Washington	6.2%
8. Kentucky	6.1%
9. California	6.0%
10. Illinois	5.7%

Debt is consuming a rising share of total state income



Fiscal Year 2012 General Fund Revenue

Four revenue categories account for almost \$9 of every \$10 collected in the General Fund.



General Fund Revenue Growth FY 12

- Total General Fund revenue expanded 4.8% in FY 12, or by \$854.2 million.
- In the 10 fiscal years preceding FY 12, the average annual growth rate was 4.2%.
- Both the income tax and sales tax posted the strongest growth, over 14%. In dollar terms the income tax brought in \$1.1 billion more than last year, the sale tax was up \$476.9 million.
- Overall, General Fund tax revenue was up 14.6%; however, non-tax revenue categories posted declines from last year. Most notably federal receipts were down \$628 million (14.8%) due to the loss of federal stimulus money.



General Fund Revenue

Growth Below Budget Targets

- Although revenue rose above historical trends as tax increases were implemented, total revenue fell \$227 million short of budget projections.
- The shortfall is largely explained by income tax receipts that were \$239.8 million below budget expectations.
- The income tax was budgeted to grow 16.7% in FY 12. The tax increase was expected to yield over 13% of this growth.



Income Tax Components and Fiscal Year 2012 Growth

- The withholding and final payments portion of the tax combined to meet budget expectations with growth of 15.5% and 18.2% respectively.
- The capital gains and bonus driven estimated payments fell far short of expectations growing just 8%.



Reducing the GAAP Deficit and Liabilities

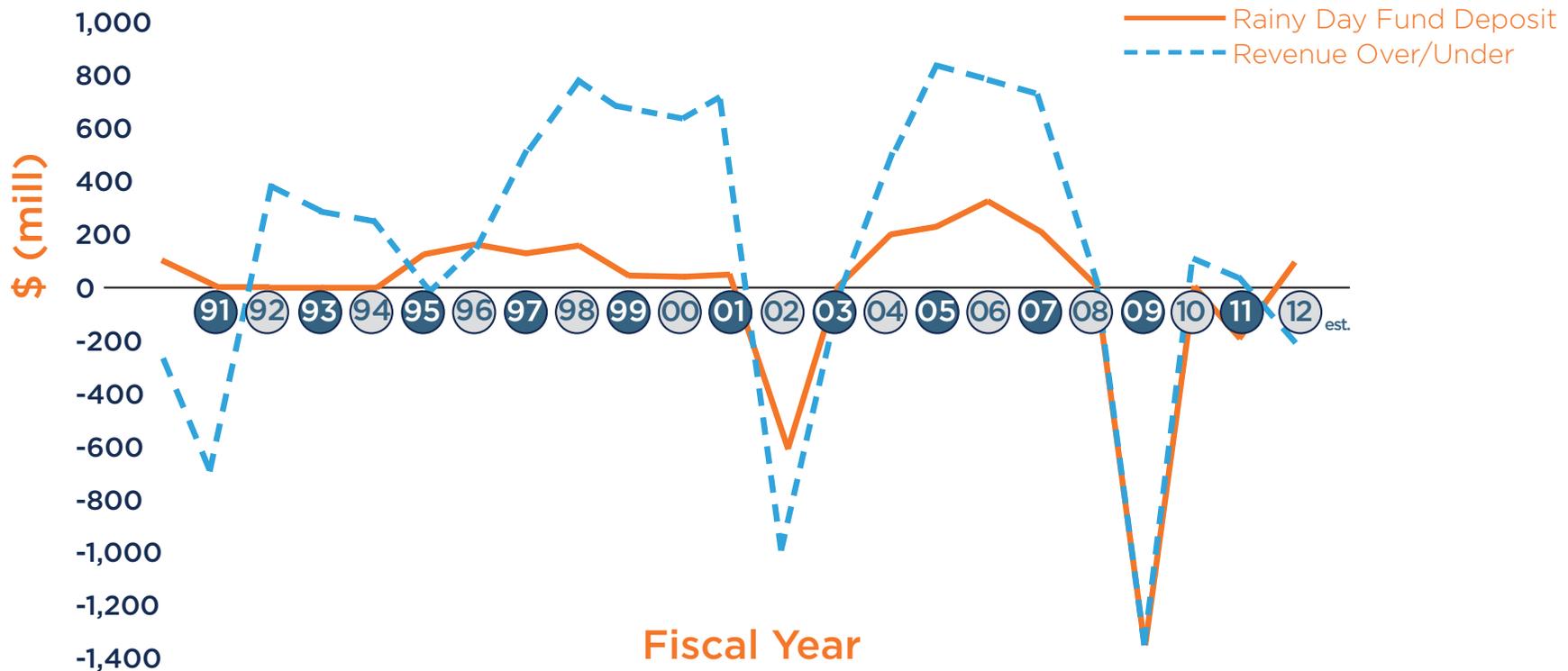
- An accumulated GAAP liability for the 27th payroll, which had built up over a 10 year period was eliminated. This will reduce the GAAP deficit in the General Fund by over \$90 million.
- The state's major retirement systems were fully funded in FY 12 reducing a GAAP reported long-term liability.
- A Rainy Day Fund Balance of \$78.8 million was created in Fiscal Year 2012. This balance is considered by bond rating agencies against the GAAP deficit.



Building the Rainy Day Fund

- Many states refer to their rainy day reserves as tax stabilization funds.
- Stable taxation is essential to economic development.
- Since 1990 the state has realized \$4.7 billion in revenue windfalls. The majority of this money was not deposited in the rainy day fund.

Excess Revenue & Rainy Day Fund



Connecticut's Employment Cycles

The state has regained 38,500 or one-third of the jobs lost to the recession. Private sector job gains have out performed the public sector with 43.8% employment recovery.

State of Connecticut Nonfarm Employment – Seasonally Adjusted

Dept. of Labor

Fiscal Year



Capital Markets a Growing Influence on the State Budget

- In the 2001 recession, sales tax revenue fell almost 4%, but the slide in the income tax was more than double that decline.
- In the latest recession, sales tax receipts declined by almost 9% while the income tax fell over 13%.
- Because of the large contribution of capital gains and bonuses to the income tax, it has shown greater volatility than the sales tax.
- UCONN found that the income tax is more volatile at higher income levels (5% for income below \$100,000; 35% on income over \$2 million)
- The more progressive the income tax, the more volatile it will be, reinforcing the need for a strong budget reserve fund.

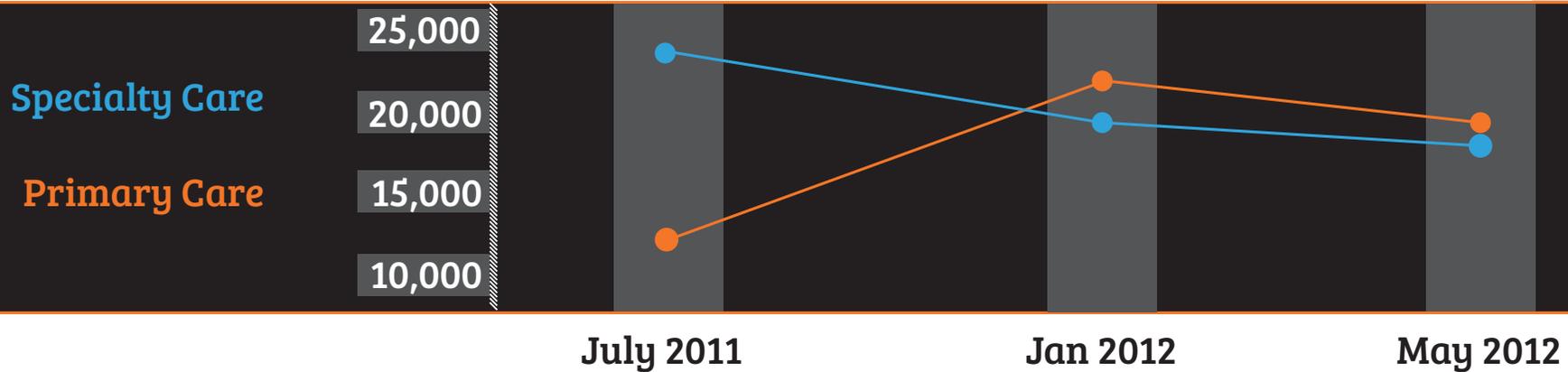




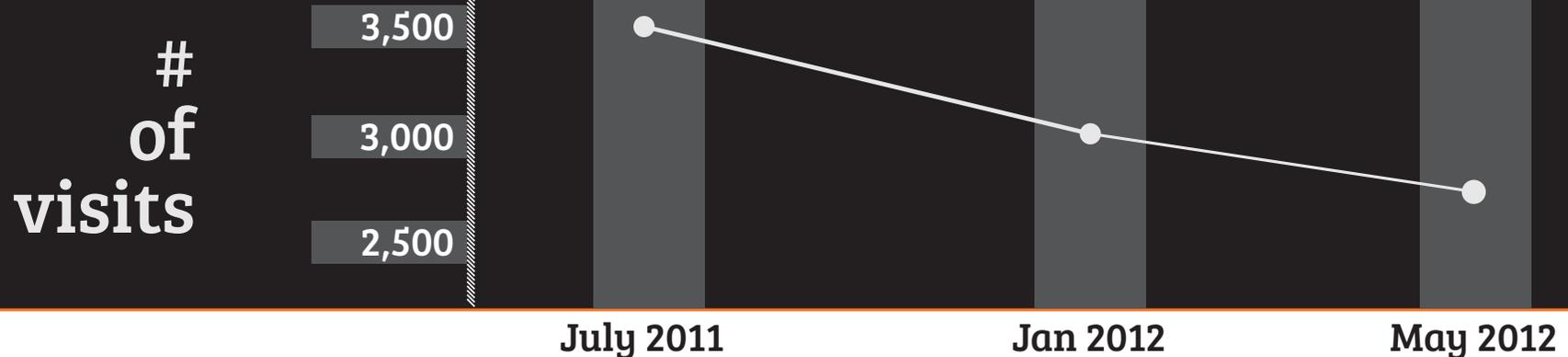
HEALTH CARE

Early Results

Utilization Highlights number of visits



Emergency Room Visits



Early Results

Chronic Disease Medication Adherence percent adhering to recommended services



- For the four trackable chronic diseases covered by HEP, all saw an increase to medication adherence



Early Results (cont)

Costs



* Active employees only

- 0% PMPM premium increase for FY 13
- Finished FY 12 \$100 million below appropriated levels
- Combined FY 12 Medical & Pharmacy PMPM trend of 3.8%*

* Includes IBNP estimate for final months of FY 12



Next Steps

- **Expanding plan to the Municipal Market (CT Partnership Plan)**
- **Continued focus on primary care**
 - Expanding utilization of Patient-Centered Medical Homes
 - Incorporating Health Enhancement Program status reports with electronic health records
 - Improving employee education on alternatives to emergency room care
 - Improving technology/online applications for employee planning
 - Expanding HEP rollout to dependents up to age 26

