FISCAL ACCOUNTABILITY REPORT
FISCAL YEARS 2012 – 2016

OFFICE OF POLICY AND MANAGEMENT
BENJAMIN BARNES, SECRETARY
NOVEMBER 29, 2011

PRESENTATION OVERVIEW

- Accomplishments and Challenges
- Summary of OPM projections
- Expenditure cap calculation
- Budget Reserve Fund status
- Economic Factors and Revenue Trends
- Expenditures, Major Cost Drivers and Long-Term Obligations
- Five Year Bond Projections
- Summary and Conclusion

ACCOMPLISHMENTS…

FY 2011 – 2013 Biennial Budget

- Restoration of structural balance to the budget.
- Preservation of the safety net.
- Enhancement of municipal aid.
- Government is leaner and more efficient: fewer state agencies and reduced state workforce.

Structural balance and adherence to the expenditure cap will result in:

- Repayment of FY 2009 Economic Recovery Notes by the end of FY 2014, two years ahead of schedule.
- Reduction in the cumulative GAAP deficit.
- Restoration of the Budget Reserve Fund by FY 2016.
- Balance will be available to contribute toward unfunded liabilities.

…AND CHALLENGES

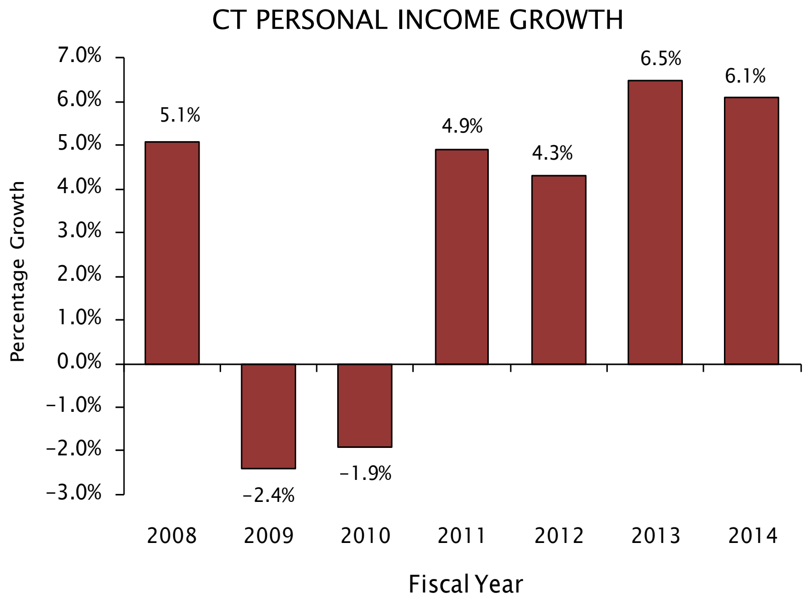
- The state is unprepared for a recession in the short term:
  - The Budget Reserve Fund is depleted.
  - The Unemployment Insurance Trust Fund is insolvent and the state must repay the federal government at least $810 million for amounts borrowed to date, and potentially more than $1.2 billion for amounts projected to be borrowed through 2015.
  - The state owes approximately $600 million on the Economic Recovery Notes that were issued in 2009 to finance that year's operating deficit.
- The state still has significant unfunded liabilities including Other Post Employment Benefits (OPEB), SERS, and TRS.
- The state still needs to address many long-neglected policy areas, including health reform and education, which may demand future resources.
- Partisan gridlock in Washington may lead to draconian cuts to programs important to Connecticut.

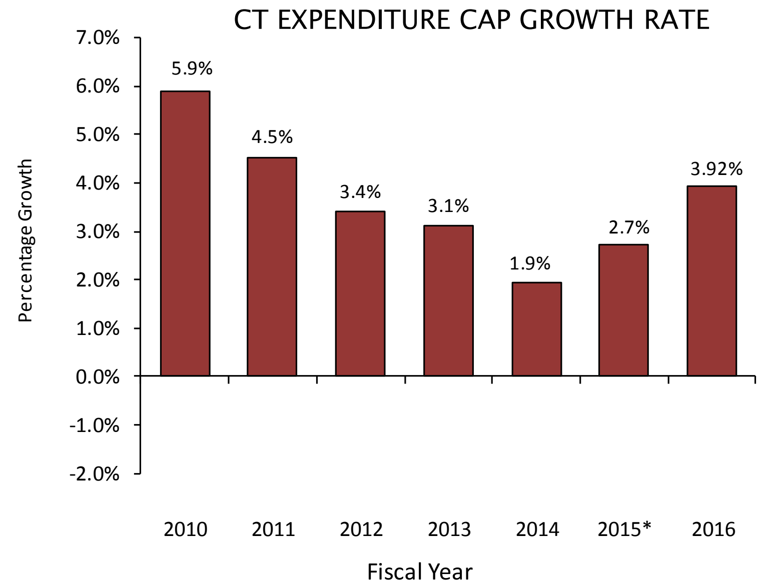
FINANCIAL SUMMARY OF FUNDS

(In Millions)

	Estimated	Revised Enacted	Projected		
General Fund	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues	$ 18,777.5	$ 19,354.0	$ 20,290.9	$ 21,275.1	$ 22,303.6
Expenditures	18,710.4	19,056.5	20,127.5	21,114.5	21,783.0
Operating Balance	$ 67.1	$ 297.5	$ 163.4	$ 160.6	$ 520.6
Reserve for GAAP	(67.1)	(50.0)	(160.0)	(160.0)	(160.0)
Reduce Indebtedness/Rebuild Reserves	$ -	$ (247.5)	$ (3.4)	$ (0.6)	$ (360.6)
Balance	$ -	$ -	$ -	$ -	$ -
Special Transportation Fund					
Revenues	$ 1,243.7	$ 1,316.1	$ 1,351.2	$ 1,368.8	$ 1,401.6
Expenditures	1,241.9	1,277.8	1,318.7	1,372.2	1,430.1
Operating Balance	$ 1.8	$ 38.3	$ 32.5	$ (3.4)	$ (28.5)
Cumulative Fund Balance	$ 109.2	$ 147.5	$ 180.0	$ 176.7	$ 148.1
Other Funds					
Revenues	$ 171.5	$ 170.1	$ 247.4	$ 251.8	$ 255.7
Expenditures	171.2	169.6	247.0	251.3	255.3
Operating Balance	$ 0.3	$ 0.5	$ 0.4	$ 0.5	$ 0.4
Total All Appropriated Funds					
Revenues	$ 20,192.7	$ 20,840.2	$ 21,889.5	$ 22,895.7	$ 23,960.9
Expenditures	20,123.5	20,504.0	21,693.2	22,738.0	23,468.5
Operating Balance	$ 69.2	$ 336.2	$ 196.3	$ 157.7	$ 492.4

EXPENDITURE CAP





- Revenues have been the sole limiting growth factor for the budget over the past few years. That is about to change.
- Personal Income growth serves as the expenditure cap's proxy for the economy's ability to pay for government services.
- Two years of declines in Connecticut personal income will take their toll on upcoming expenditure cap rates.
- The next few years will witness the lowest allowable expenditure cap growth rates since the inception of the cap.
- The rate of inflation is projected to be the limiting factor in 2015, rather than the growth in personal income. The 5-year moving average of Personal Income is projected to fall to 2.2%, which is below the projected growth in inflation of 2.7%.

EXPENDITURE CAP

FINANCIAL SUMMARY OF FUNDS

(in Millions)

	Estimated	Revised Enacted	Projected		
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Expenditure Cap Results					
Total All Appropriated Funds	$ 20,140.8	$ 20,504.0	$ 21,693.2	$ 22,738.0	$ 23,468.5
Allowed Appropriations per Cap	20,141.9	20,699.1	21,040.5	21,624.7	22,252.6
Over/(Under) the Cap	$ (1.0)	$ (195.1)	$ 652.7	$ 1,113.3	$ 1,215.9
Revenues and the Expenditure Cap					
Revenues - All Funds			$ 21,889.5	$ 22,895.7	$ 23,960.9
Allowed Appropriations per Cap			21,040.5	21,624.7	22,252.6
Revenues Less Allowed Approps.			$ 849.0	$ 1,271.0	$ 1,708.3

- The state is below the spending cap in FY 2012 and FY 2013.
- The state is projected to be over the cap in FY 2014 through FY 2016.

BUDGET RESERVE FUND

PROJECTED FUND BALANCE

(in Millions)

BUDGET RESERVE FUND ACTIVITY

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016[3]
Beginning Balance	$ 103.2	$ -	$ -	$ -	$ 662.1	$ 1,890.9
Deposits/(Withdrawals)	(103.2)	-	-	662.1	1,228.8	1,489.2
Ending Balance	$ -	$ -	$ -	$ 662.1	$ 1,890.9	$ 3,380.1
Balance as Percent of Budget	0.6%	0.0%	0.0%	3.3%	9.2%	15.9%
Budget Reserve Fund Target	$ 1,870.8	$ 1,905.7	$ 1,952.2	$ 2,008.1	$ 2,065.4	$ 2,124.5
Balance Over/(Under) Target[1]	$ (1,870.8)	$ (1,905.7)	$ (1,952.2)	$ (1,346.0)	$ (174.5)	$ 1,255.6
Available Over BRF Target [2]	$ -	$ -	$ -	$ -	$ -	$ 1,255.6

(1) Target Balance is equal to ten percent of the next fiscal year's adjusted general fund appropriations.
(2) Available for debt service and/or unfunded liabilities when BRF target of 10% has been reached.
(3) FY 2016 Target Balance assumes average expenditure growth rate of previous two years.
Note: Assumes General Fund expenditures will remain within the spending cap in FY 2014 - FY 2016.

ECONOMY AND REVENUE

GENERAL FUND REVENUE SOURCES

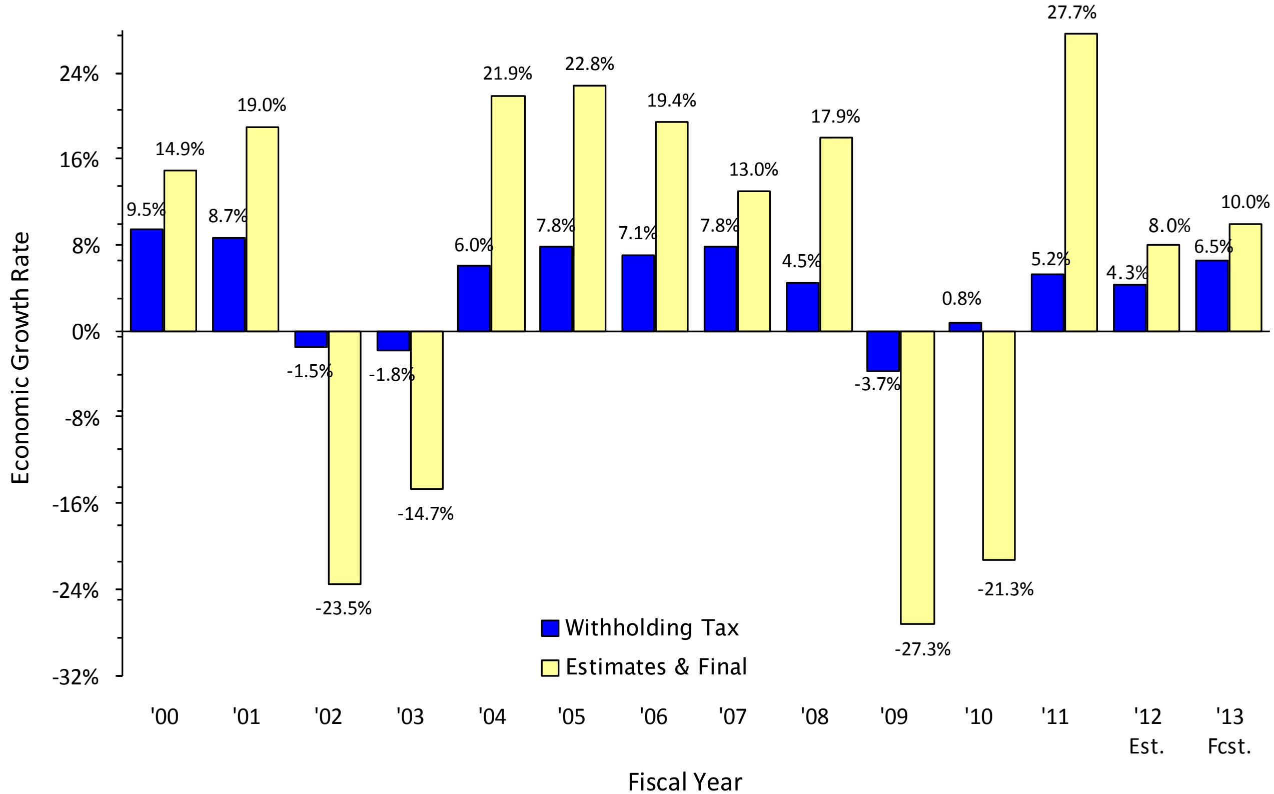
(in Millions)*

	FY 2012	% of Total	FY 2013	% of Total
Personal Income Tax	$ 8,456.9	45.0%	$ 8,839.3	45.7%
Sales Tax	3,765.5	20.1%	3,916.0	20.2%
Federal Grants	3,606.0	19.2%	3,716.7	19.2%
Corporation Tax	707.7	3.8%	774.5	4.0%
Health Provider Tax	525.9	2.8%	530.7	2.7%
Cigarette Tax	443.8	2.4%	425.9	2.2%
Indian Gaming Payments	354.8	1.9%	365.5	1.9%
All Other	916.9	4.9%	785.4	4.1%
Total	$ 18,777.5		$ 19,354.0	

* October 2011 Consensus Revenue, adjusted for October Special Session.

PERSONAL INCOME TAX TRENDS

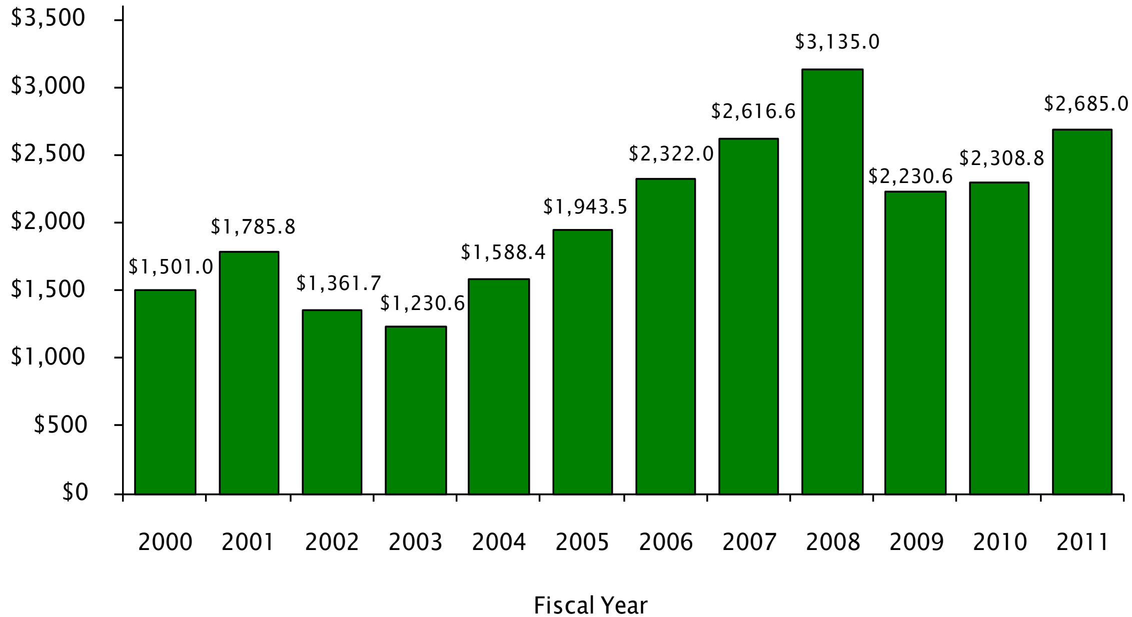
ECONOMIC GROWTH RATES



- Over the past decade, Connecticut's income tax revenue has fluctuated dramatically.
- These fluctuations were due to the performance of the stock market and two recessions.
- Financial market performance significantly influences this revenue source.

ESTIMATES AND FINALS PERSONAL INCOME TAX

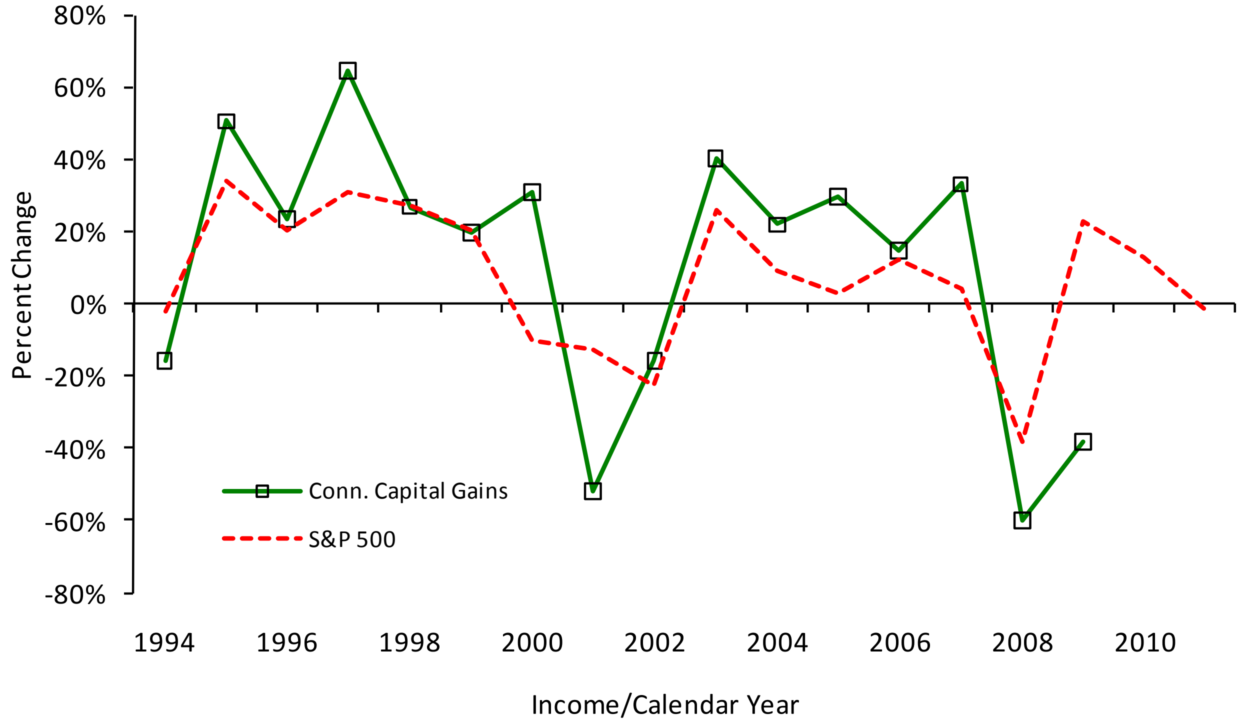
ACTUAL TAX COLLECTIONS
(in Millions)



- The estimates and finals component of the income tax typically represents one-third of total income tax collections.
- Collections have been extremely volatile.
- In FY 2002, estimates and finals fell by $424.1 million.
- In FY 2003, they fell by an additional $131.1 million for a total of $555.2 million or 31% from the 2001 peak.
- In FY 2009 alone, estimates and finals fell by $904.4 million and fell an additional $475.4 million (excluding the impact of the tax increase on millionaires) in FY 2010 for a total decline over two years of approximately $1.4 billion or 44.5% from the 2008 peak.
- The increase in actual collections in FY 2010 was a result of increasing the top tax rate from 5% to 6.5%, the underlying economic growth rate was -21.3%.

INCOME TAX GROWTH REMAINS TENUOUS

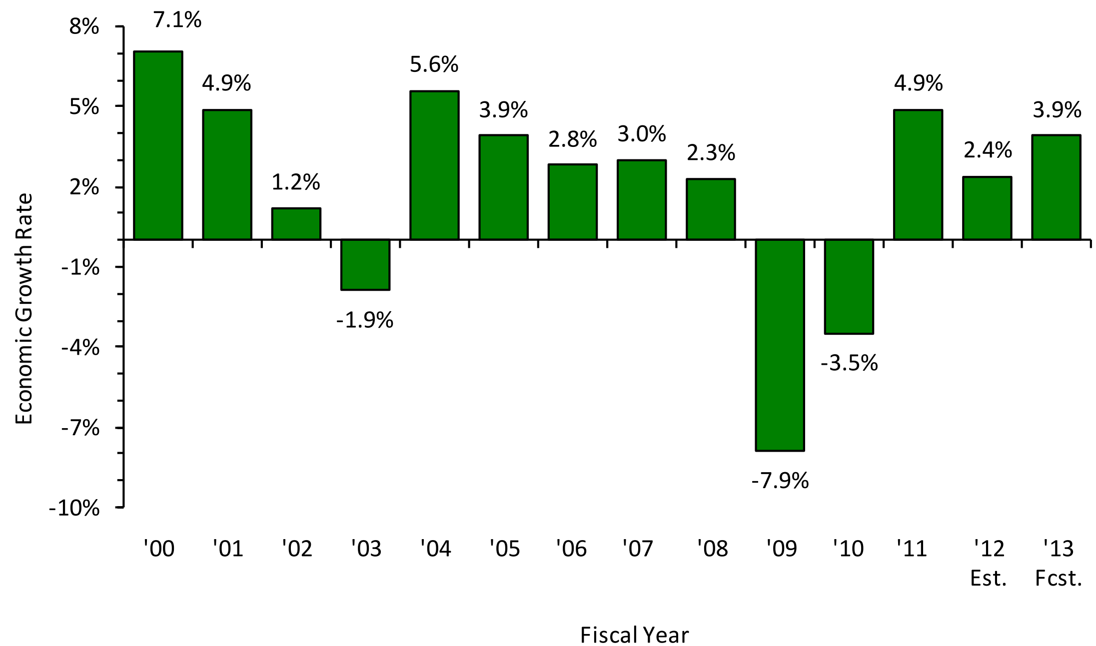
CONNECTICUT CAPITAL GAINS AND THE S&P 500



- Boom periods can encourage unsustainable levels of expenditures when capital gains collapse.
- While the equity markets provided a healthy recovery in 2009 & 2010, returns in 2011 do not bode well for accelerated and sustained growth in the short run.

SALES TAX TRENDS

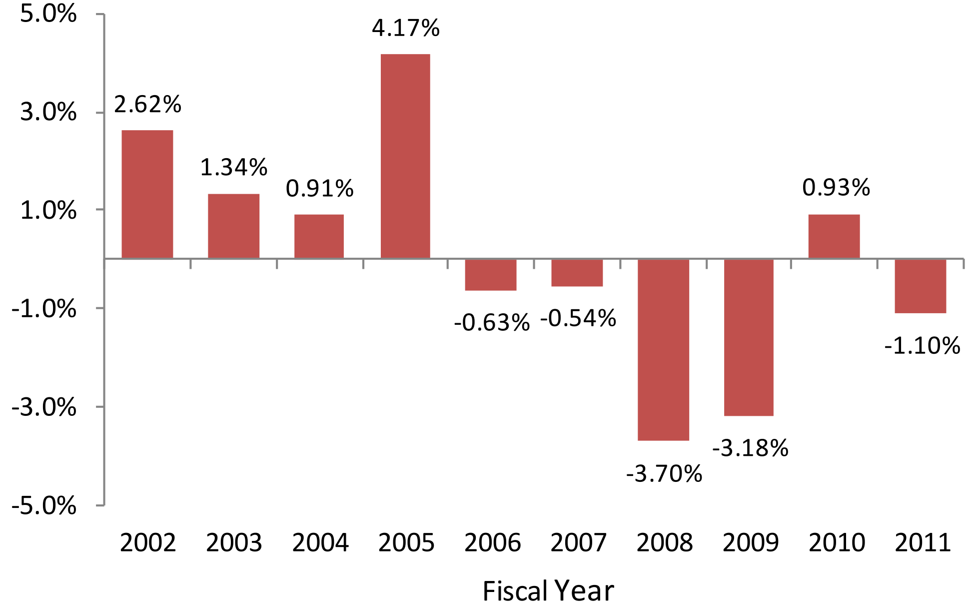
ECONOMIC GROWTH RATES OF THE SALES AND USE TAX



- The sales tax dropped in two consecutive years, fiscal 2009 and 2010, due to chaos in the financial market and the worst economic downturn since WWII.
- Beginning in late FY 2008, collections started to weaken as the housing market deteriorated with prices declining and foreclosure rates increasing.
- Without the federal stimulus packages, FY 2009 and FY 2010 would have been worse.
- Collections in late FY 2011 improved as employment and personal income increased.
- A 1.0% increase in the sales and use tax growth rate results in a revenue gain of more than $30 million.

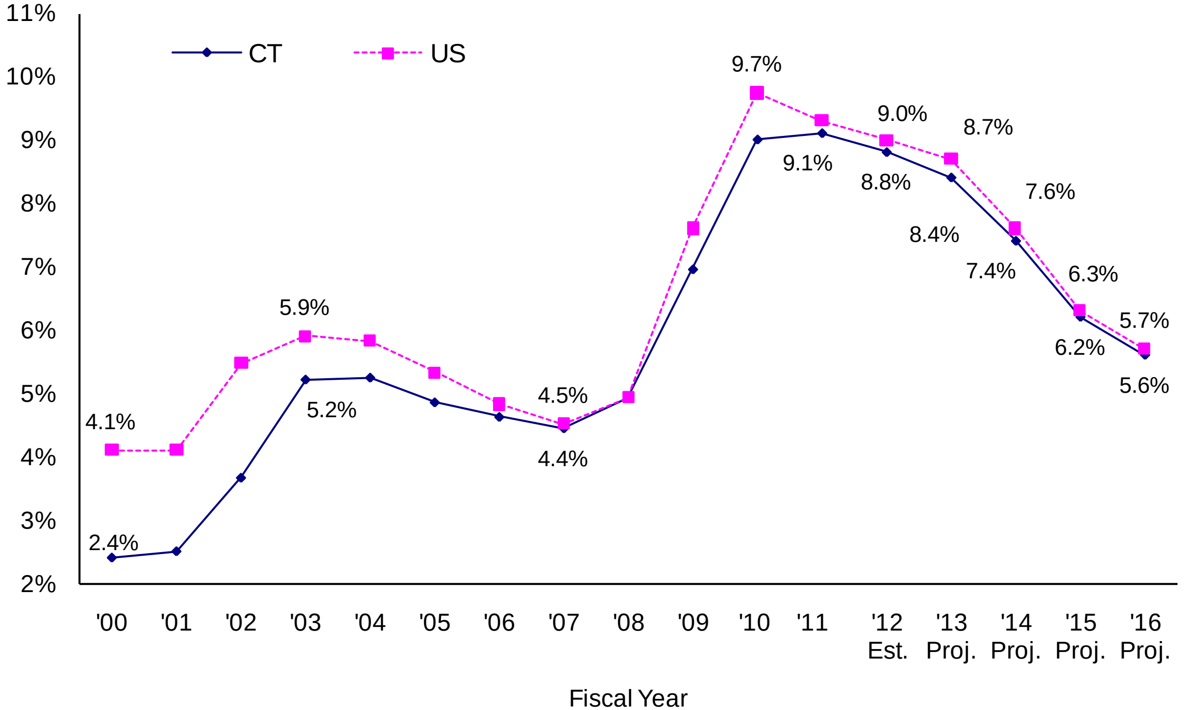
MOTOR FUELS TAX TRENDS

ECONOMIC GROWTH RATES OF THE MOTOR FUELS TAX



- Consumers began to curtail consumption as prices began to rise.
- By the summer of 2008, record high gasoline prices and the onset of a severe national recession forced consumers to significantly alter their driving habits and/or mode of transportation in an effort to reduce their gasoline bill in the short term.
- Gasoline consumption rose in FY 2010 but the decline in FY 2011 consumption, again due to rising prices, more than offset the one year of positive growth.
- In FY 2011, Motor Fuels tax revenue equaled 41% of the total revenue of the Special Transportation Fund.

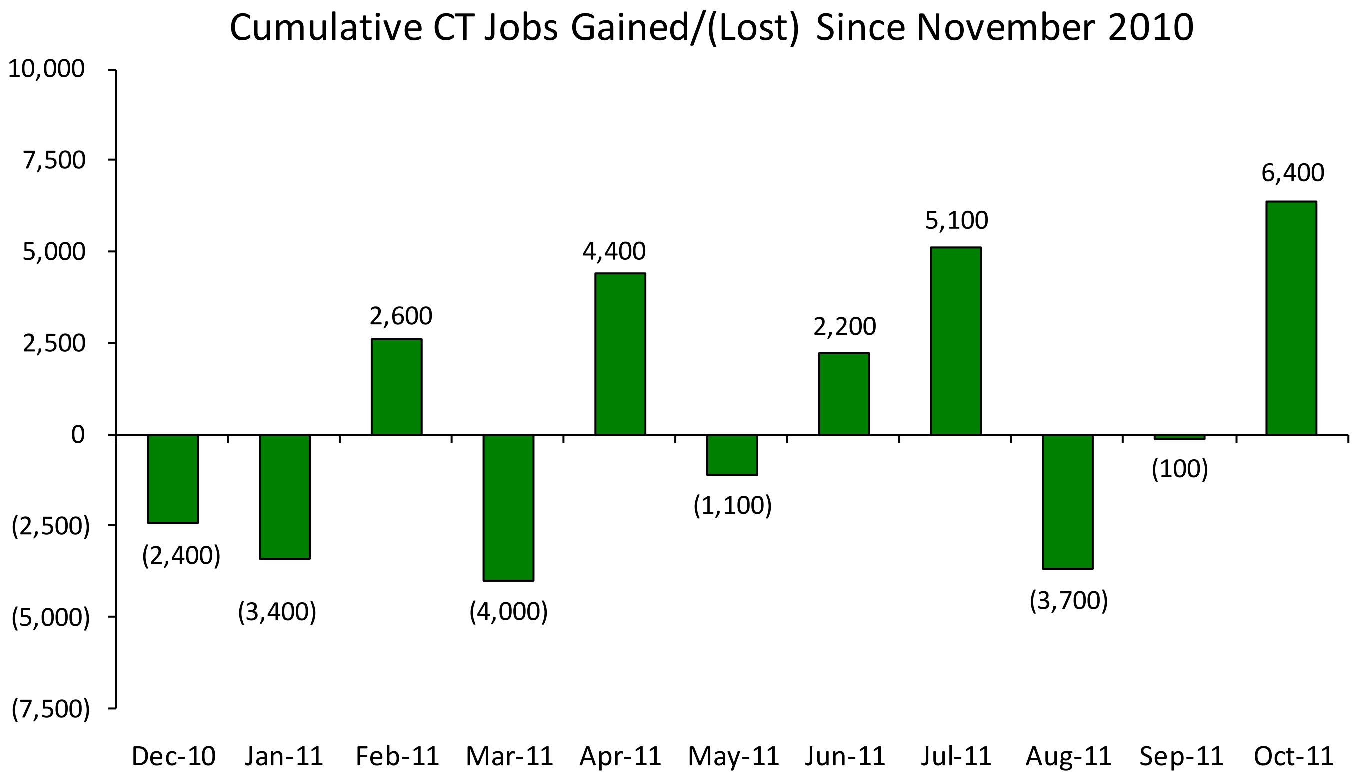
UNEMPLOYMENT RATE



Source: Moody's Economy.com 11/4/2011

- CT's October 2011 unemployment rate of 8.7% was below the US at 9.0%, and down from 9.1% from a year ago.
- CT's unemployment rate is projected to remain below the national average in the out-years, but elevated relative to historical norms.

CONNECTICUT JOB GROWTH HAS LANGUISHED



Source: CT Dept. of Labor

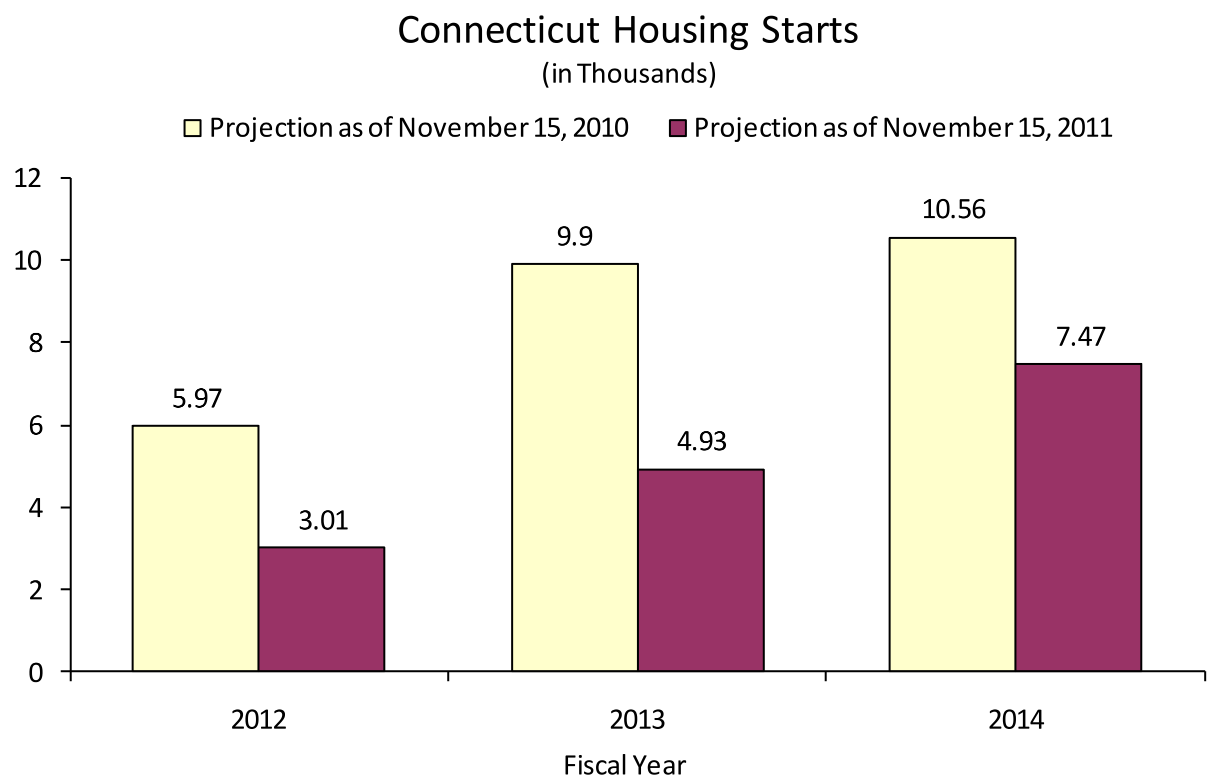
- Job growth in the state has not been consistent.
- Cumulatively Connecticut has added only 6,400 jobs since the last fiscal accountability report. This is a mere 0.4% growth.

UNEMPLOYMENT COMPENSATION FUND

High unemployment rates will have an effect on Connecticut businesses for the next several years.

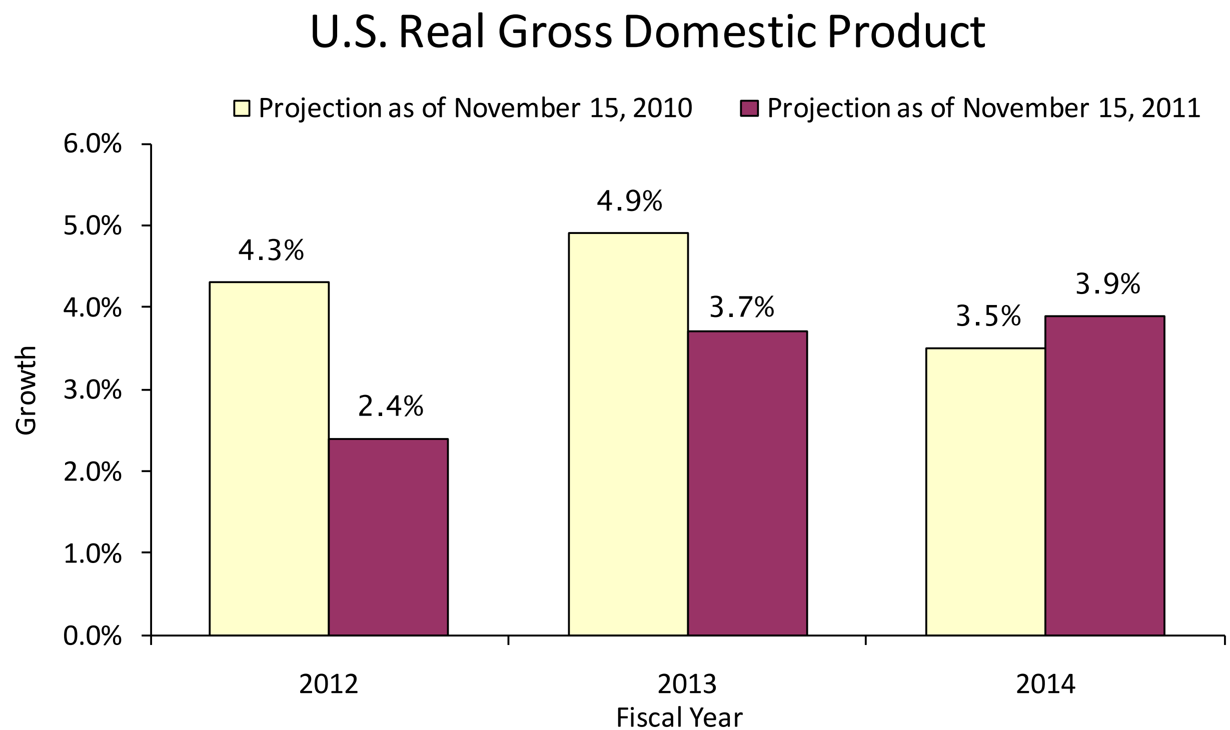
- The Unemployment Compensation Fund became insolvent in October 2009.
- To continue making unemployment payments, Connecticut has been borrowing from the federal government.
- The ARRA had provided interest free borrowing through calendar year 2010, however, states with loans outstanding at the beginning of 2011 are subject to interest on those loans.
- Since Connecticut was unable to repay borrowed funds within two years, beginning in January 2012 the federal government will raise the federal Unemployment Insurance (UI) tax on employers until the loan is fully repaid.
- Current projections, which are based on existing statutory provisions (both state and federal), indicate –
  - The need for continued borrowing until at least CY 2015 and will total approximately $1.2 billion. Although borrowing is anticipated in calendar years 2012 to 2015, it is assumed that funds will be paid back in the year borrowed and may not be subject to interest.
  - Under current statutory provisions, final repayment of the loans will likely occur in CY 2015 with $1.03 billion from state UI taxes and $180.0 million from the increased federal UI taxes.

SLOWER ECONOMIC RECOVERY



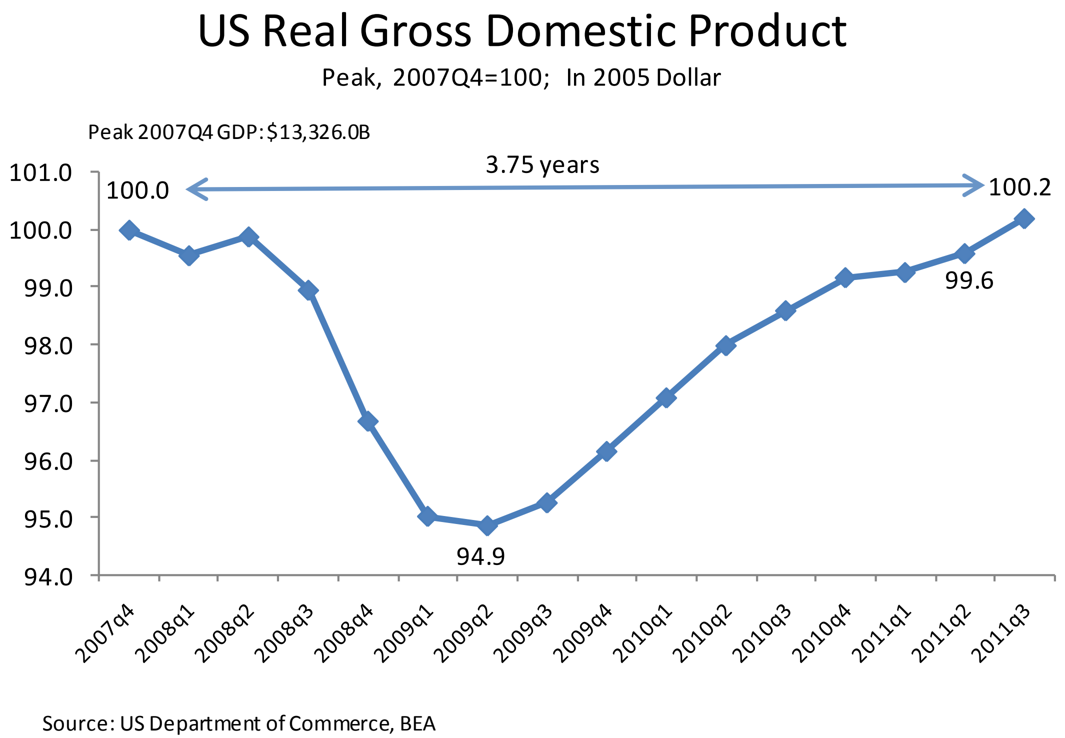
- The recovery in the housing sector has been delayed and will be less substantial than projected last year at this time.

SLOWER ECONOMIC RECOVERY



- The U.S. economy was originally projected to grow by 4.3% in FY 2012. Current projections have been revised downward to 2.4%.
- Similarly, the growth estimate for FY 2013 was 4.9%, but now has been reduced to 3.7%.

SLOWER ECONOMIC RECOVERY



- From peak to trough, economic output in America fell 5.1%.
- It has taken 3 years and 9 months for the U.S. economy to finally re-attain output levels last seen before the onset of the recession.

EXPENDITURES:

MAJOR COST DRIVERS & LONG TERM OBLIGATIONS

SUMMARY OF APPROPRIATED FUND PROJECTIONS

LARGEST AMOUNTS (in Millions)

GENERAL FUND	Estimated FY 2012	Revised Enacted FY 2013	Estimated FY 2014	Estimated FY 2015	Estimated FY 2016
DSS - Medicaid	$ 4,662.1	$ 4,855.2	$ 5,253.3	$ 5,651.0	$ 5,939.2
STATEWIDE - Personal Services	2,366.9	2,266.5	2,372.7	2,483.5	2,598.2
SDE - Education Equalization Grants	1,889.6	1,889.6	1,945.4	2,005.1	2,047.0
OTT - Debt Service	1,697.4	1,678.3	1,719.3	1,776.7	1,656.0
TRB - Retirement Contributions	757.2	787.5	819.0	851.8	885.9
OSC - Employee Retirement Contribution	722.1	715.5	773.7	807.8	843.3
OSC - State Employees Health Serv Cost	602.4	663.8	691.4	719.1	746.9
OSC - Retired Employee Health Serv Cost	565.1	614.1	639.6	665.2	691.0
STATEWIDE - Other Expenses	466.1	465.0	478.9	493.7	504.1
DDS - Community Residential Services	419.6	431.9	455.3	469.3	493.5
DSS - Disproportionate Share-Med Emer Asst	268.5	268.5	268.5	268.5	268.5
OSC - Employers Social Security Tax	244.9	245.9	253.1	260.9	266.3
SDE - Magnet Schools	215.9	235.4	254.5	263.6	267.7
UOC - Operating Expenses	213.5	210.4	219.9	229.8	240.2
DCF - Board & Care - Residential	189.2	196.9	190.5	200.3	207.8
DDS - Employment Opportunities & Day Svcs	186.6	197.1	205.2	211.5	215.9
MHA - General Assistance Managed Care	182.5	195.8	205.5	215.8	226.6
BOR - Connecticut State University	157.4	153.5	160.4	167.7	175.2
BOR - Regional Community - Technical Colleges	153.8	150.1	156.8	163.9	171.3
SDE - Regional Vocational-Technical School Sys	149.6	143.7	149.9	156.4	163.0
SDE - Excess Cost - Student Based	139.8	139.8	184.8	196.0	207.9
UHC - Operating Expenses	121.0	109.2	114.1	119.2	124.6
DSS - Temporary Assist to Families - TANF	120.6	122.2	120.0	124.9	129.1
SDE - Priority School Districts	116.6	116.1	119.5	123.2	125.8
DCF - Board and Care for Children - Foster	115.5	120.1	120.6	128.1	134.3
OPM - Loss Taxes Private Tax-Exempt Property	115.4	115.4	115.4	115.4	115.4
OTT - UConn 2000 - Debt Service	110.3	130.0	144.9	157.4	161.7
STATEWIDE - ALL OTHER	2,569.0	2,804.9	2,961.0	3,054.6	3,142.6
General Fund - Gross	**$ 19,518.6**	**$ 20,022.3**	**$ 21,093.3**	**$ 22,080.3**	**$ 22,748.8**
Total Lapses	(808.2)	(965.8)	(965.8)	(965.8)	(965.8)
General Fund - Net	**$ 18,710.4**	**$ 19,056.5**	**$ 20,127.5**	**$ 21,114.5**	**$ 21,783.0**

DIFFERENCES BETWEEN OPM AND OFA ESTIMATES FOR GENERAL FUND

(In Millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Medicaid	$30.0	$100.0	$125.4	$138.4	$151.0
Debt Service	$50.1	$44.8	$40.0	$26.0	$31.6
Fringe Benefits	($52.9)	$6.1	($14.3)	($21.2)	($40.5)
All Other	$6.7	$8.3	($4.3)	$43.1	$59.3
Net Difference	$33.9	$159.2	$146.8	$186.3	$201.4
% of Total	0.18%	0.84%	0.73%	0.89%	0.93%

- Positive numbers indicate OPM’s expenditure estimates are greater than OFA’s.

SUMMARY OF APPROPRIATED FUND PROJECTIONS

OTHER APPROPRIATED FUNDS (in Millions)

	Estimated FY 2012	Revised Enacted FY 2013	Estimated FY 2014	Estimated FY 2015	Estimated FY 2016
SPECIAL TRANSPORTATION FUND - Gross	$ 1,315.5	$ 1,345.8	$ 1,386.6	$ 1,440.1	$ 1,498.0
Total Lapses	(73.5)	(67.9)	(67.9)	(67.9)	(67.9)
Special Transportation Fund - Net	$ 1,241.9	$ 1,277.8	$ 1,318.7	$ 1,372.2	$ 1,430.1
BANKING FUND - Gross	$ 26.8	$ 26.2	$ 27.1	$ 28.1	$ 29.0
Judicial Branch Savings Target Lapse	(0.3)	(0.1)	-	-	-
Banking Fund - Net	$ 26.6	$ 26.1	$ 27.1	$ 28.1	$ 29.0
INSURANCE FUND	$ 26.6	$ 26.1	$ 27.3	$ 28.4	$ 29.6
CONSUMER COUNSEL/PUBLIC UTILITY FUND	$ 26.4	$ 26.0	$ 27.0	$ 28.0	$ 28.9
WORKERS' COMPENSATION FUND	$ 22.3	$ 22.0	$ 22.9	$ 23.7	$ 24.5
MASHANTUCKET PEQUOT AND MOHEGAN FUND	$ 61.8	$ 61.8	$ 135.0	$ 135.0	$ 135.0
SOLDIERS, SAILORS AND MARINES FUND	$ 3.1	$ 3.1	$ 3.2	$ 3.3	$ 3.4
REGIONAL MARKET OPERATION FUND	$ 1.0	$ 0.9	$ 1.0	$ 1.0	$ 1.0
CRIMINAL INJURIES COMPENSATION FUND	$ 3.5	$ 3.6	$ 3.7	$ 3.8	$ 3.9
TOTAL ALL OTHER FUNDS - NET	**$ 1,413.1**	**$ 1,447.5**	**$ 1,565.7**	**$ 1,623.5**	**$ 1,685.4**
TOTAL ALL FUNDS - NET	**$ 20,123.5**	**$ 20,504.0**	**$ 21,693.2**	**$ 22,738.0**	**$ 23,468.5**

PROJECTED FY 2012 GENERAL FUND DEFICIENCIES

(In Millions)

	10/20	11/18
Deficiencies		
• Department of Social Services – Medicaid (net)	$30.0	$7.6
• Public Defenders Svcs Comm – Contracted Attorneys (net)	0.6	2.0
• Teachers' Retirement Board – Retiree Health Service Cost	2.4	2.4
Total deficiencies	$33.0	$12.0
Offsetting lapses		
• Office of the Treasurer – Debt Service	$15.0	$65.0
• Office of Legislative Management – Personal Services	2.0	2.0
• Auditors of Public Accounts – Personal Services	0.3	0.3
• Department of Children and Families – various	13.0	24.0
• Office of Policy and Management – Elderly Renters	0.0	2.0
• Achievement of Unallocated Lapses	0.0	(72.0)
Total lapses	$30.3	$21.3
Net Deficiencies/(Surpluses)	$2.7	($9.3)

Watch Areas

- Active and retiree health service costs
- Pension costs (revaluation pending)
- Federal budget reductions – impact on state programs (including LIHEAP)
- State share of costs related to the August and October storms

IMPROVING EXPENDITURE PROJECTIONS

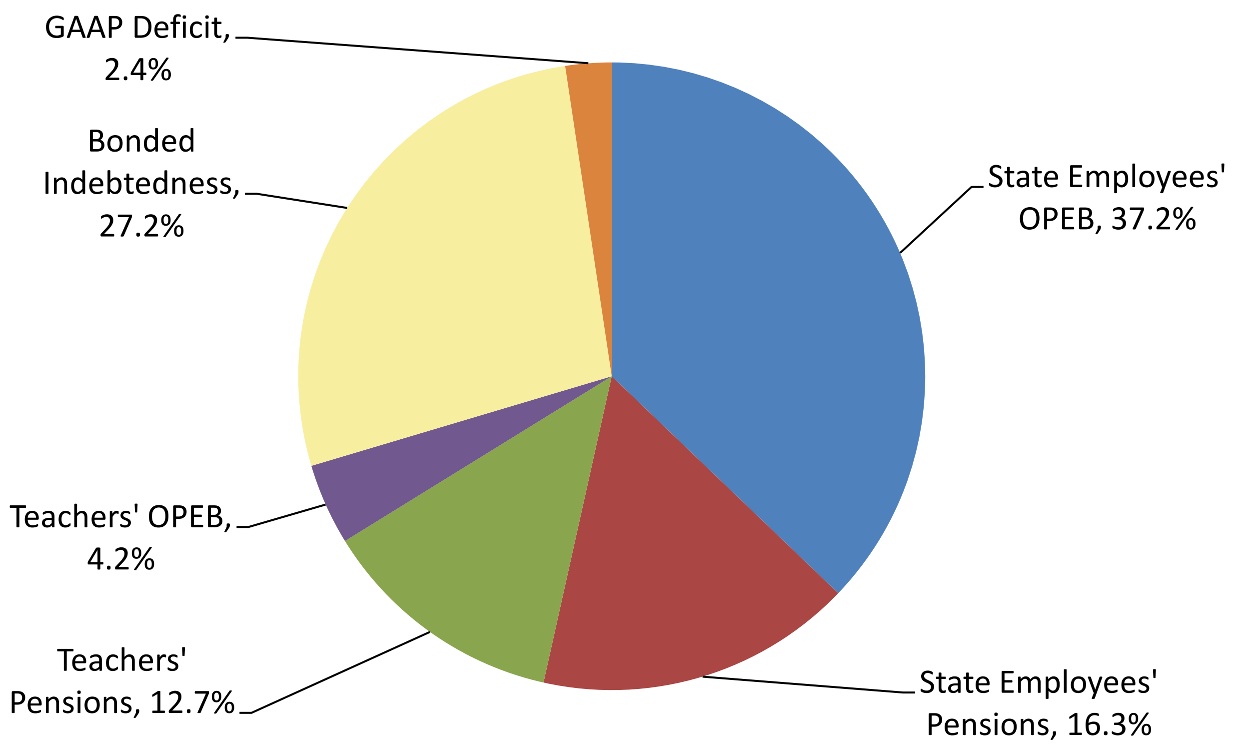
Change in OPM's expenditure projections for identified agencies: 10/20/11 vs. 11/18/11 letters to the Comptroller:

	Change (Millions)
OTT - Debt Service Lapse	$50.0
DSS - Various Accounts	$22.4
DCF - Various Accounts	$11.0
OPM - Tax Relief for Elderly Renters	$2.0
PDS - Contracted Attorneys	($1.4)
Combined Improvement in balance	$84.0

- Improved expenditure projections noted above are partially offset by a $72.0 million decrease in the projection for unidentified lapses.
- Uncertainty remains with regard to expenditure projections for Comptroller's fringe benefits accounts.

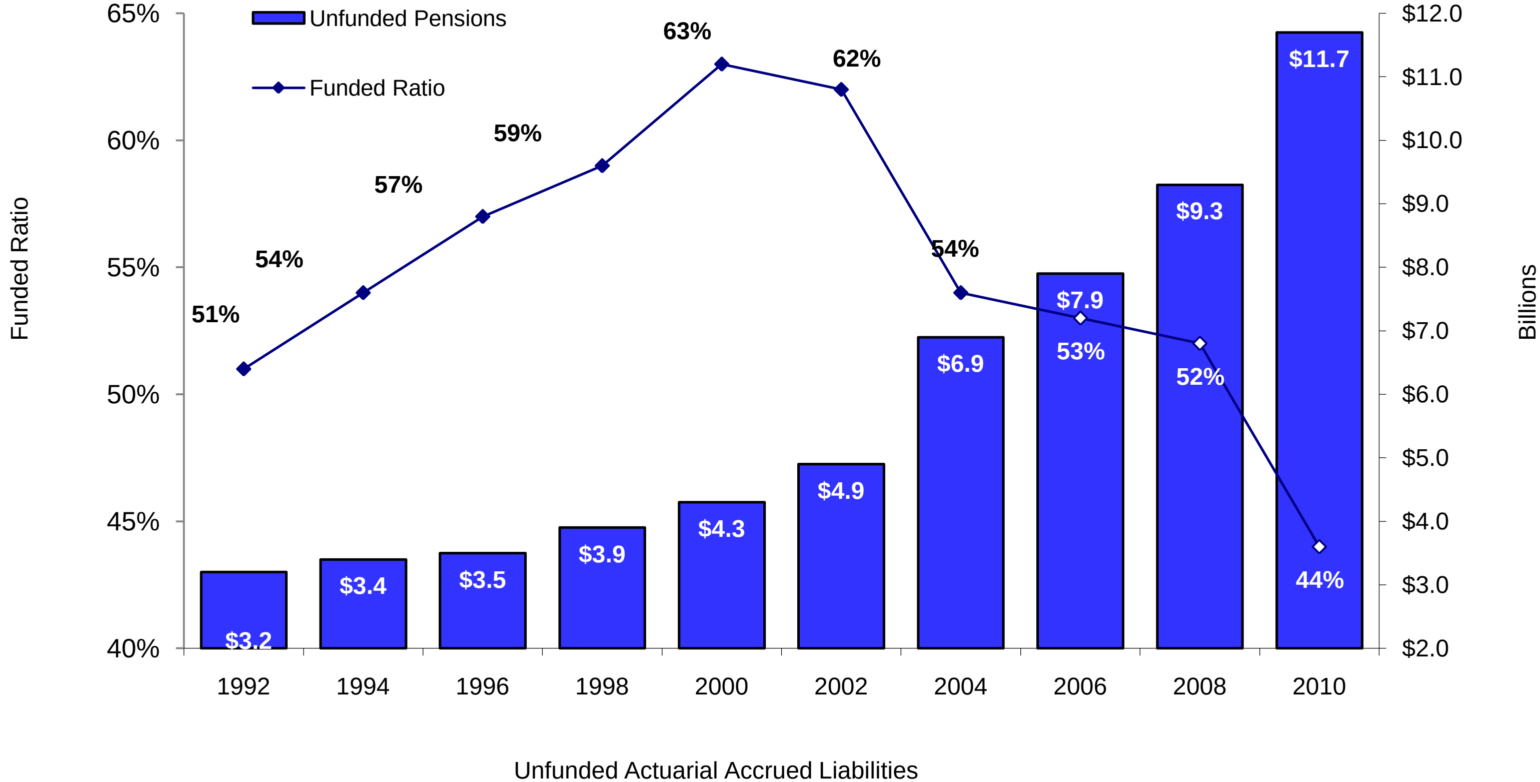
LONG TERM OBLIGATIONS

- The state's long-term obligations total $71.6 billion, up 5.6% from last year's reported amount of $67.8 billion.
- This equates to approximately $20,450 for every man, woman and child in Connecticut, up $1,050 from last year's reported amount of $19,400.
- In comparison, total Personal Income Tax collections in FY 2012 will only be $8.7 billion.



UNFUNDED PENSIONS

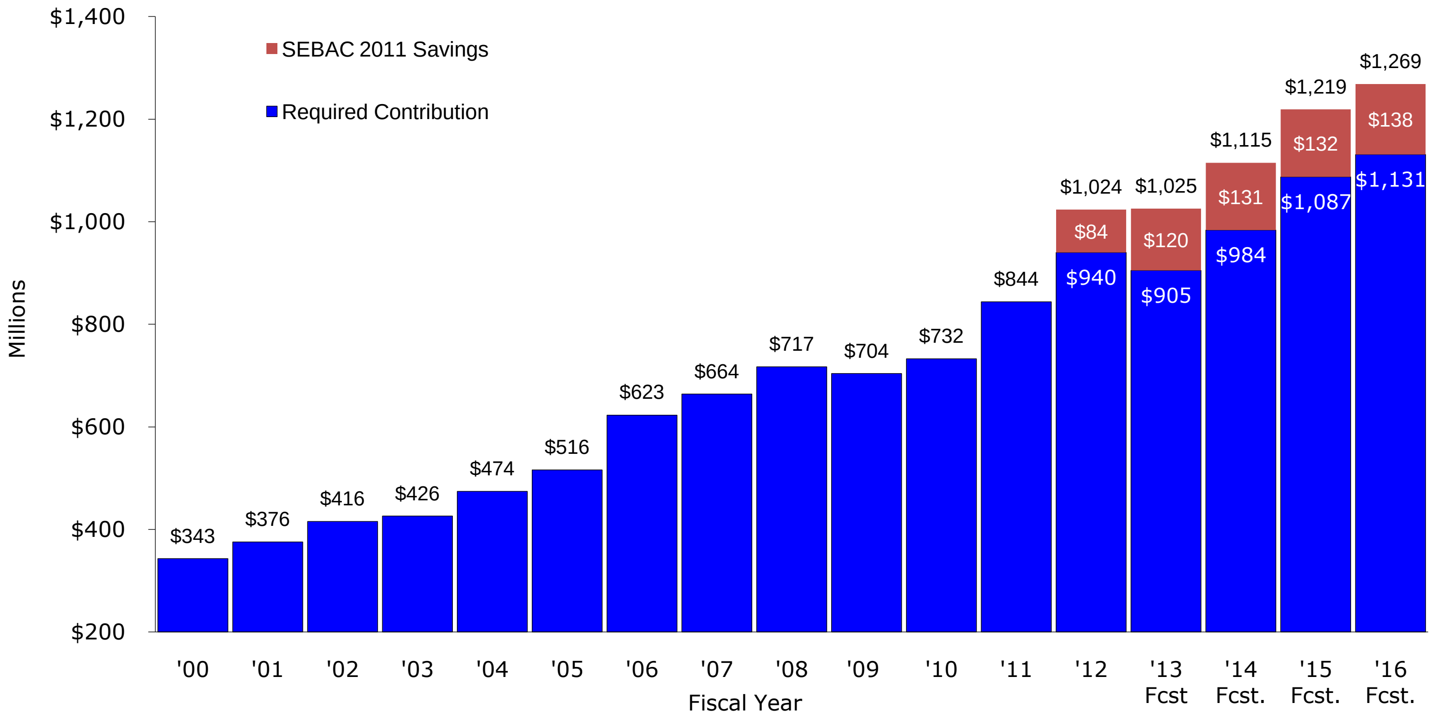
STATE EMPLOYEES RETIREMENT SYSTEM AS OF 6/30



- State Employees unfunded pension liabilities continue to grow.
- The State's obligations at the end of FY 2010 totaled $11.7 billion.
- This obligation represents roughly $3,275 for every man, woman, and child in the State.

UNFUNDED PENSIONS

STATE EMPLOYEES RETIREMENT CONTRIBUTIONS

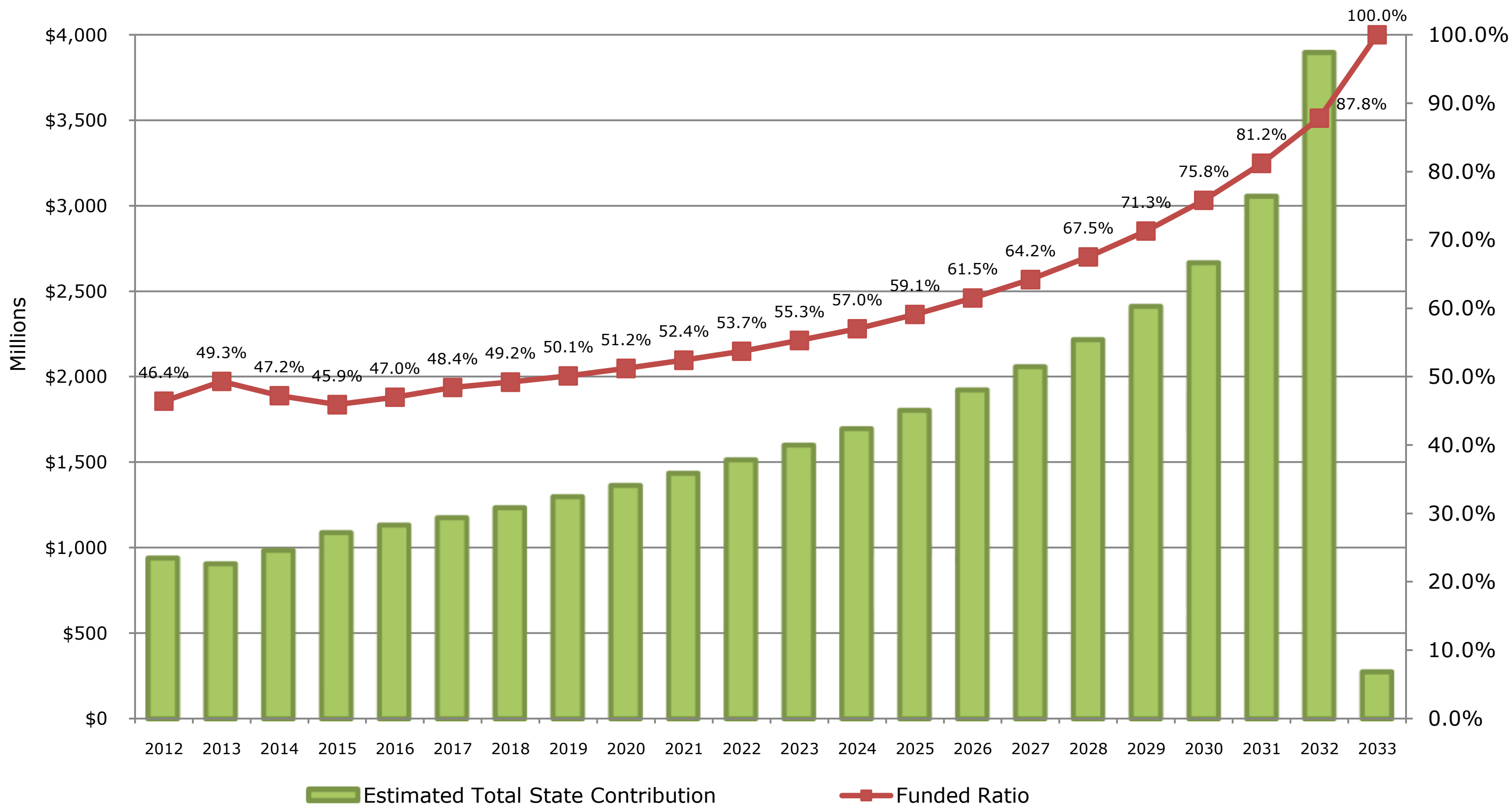


* FYs '09 through '11 include contribution deferrals per the 2009 SEBAC Agreement. FYs '12 through '16 reflect preliminary SEBAC 2011 savings estimates pending formal revaluation.

- This obligation rose even with the large increase in equity valuations that took place over the 1990s.
- SERS contributions were deferred: $50M in FY 2009, $164.5M in FY 2010 and $100M in FY 2011.

STATE EMPLOYEES RETIREMENT SYSTEM

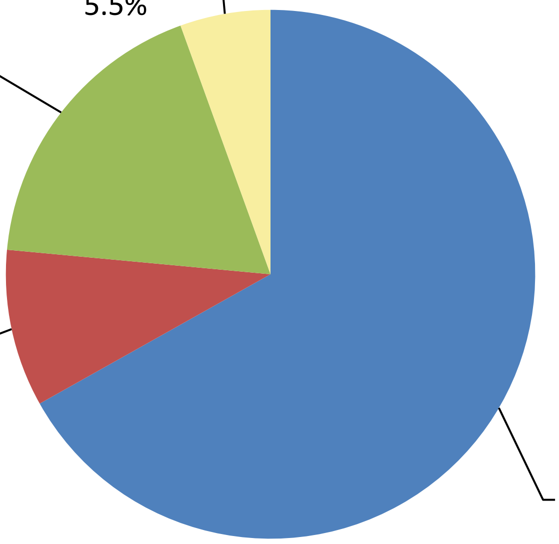
ANTICIPATED ARC REQUIREMENT THROUGH FY 2033



- Even though the state is paying the actuarially required contribution (ARC), the pension fund's funded ratio will remain low until late in the amortization period.
- The funded ratio will not be above 70% until FY 2029 – seventeen years from now.
- The amortization method (Level Percent of payroll) and SEBAC IV & V adjustments have the effect of increasing the ARC payments dramatically towards the end of the amortization period.

STATE EMPLOYEES RETIREMENT SYSTEM

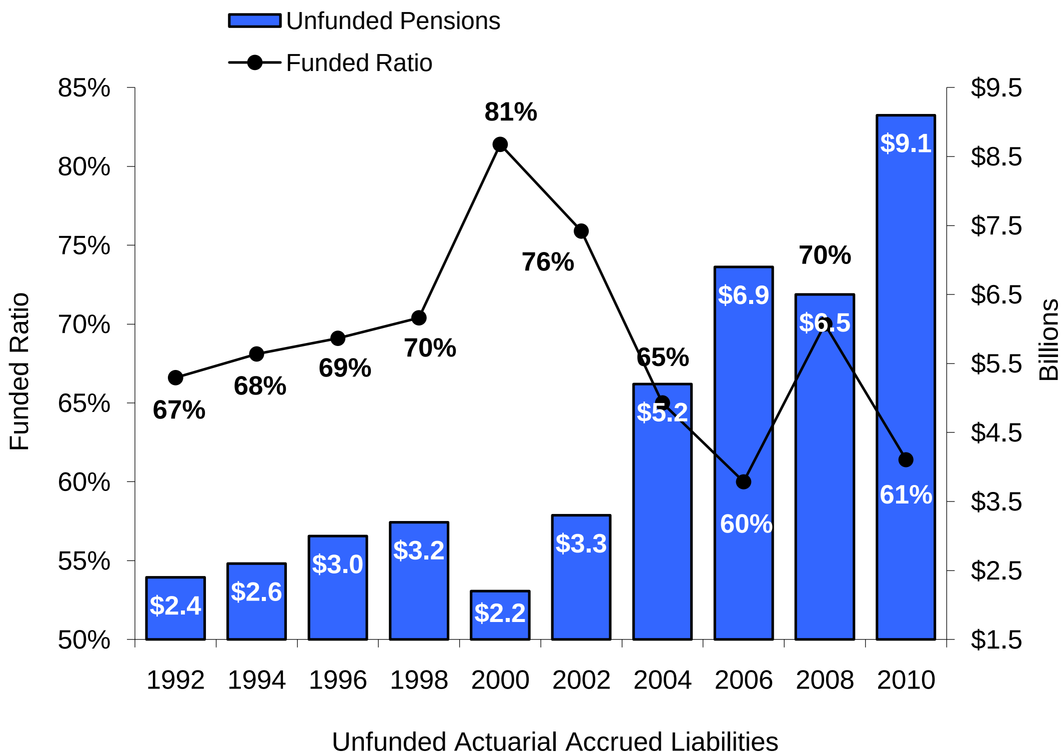
Based on 6/30/10 Valuation ($ in Thousands)	
Retired/Deferred Liability	$14,073,812
Active – Tier I Hazardous	107,631
Active – Tier IB	1,846,504
Active – Tier IC	71,283
Active – Tier II Hazardous	1,370,486
Active – Tier II Others	2,421,233
Active – Tier IIA Hazardous	475,050
Active – Tier IIA Others	688,198
Total Accrued Liability	$21,054,197
Actuarial Value of Assets	9,349,605
Unfunded Accrued Liability (UAL)	$11,704,592
Normal cost	$296,568
Amortization of UAL	726,883
Annual Required Contribution (ARC)	$1,023,451



- $21.0 billion total liability.
- Most of that liability is related to already-retired employees.
- $11.7 billion unfunded liability.
- 71% of the actuarially required contribution is for the unfunded accrued liability.

UNFUNDED PENSIONS

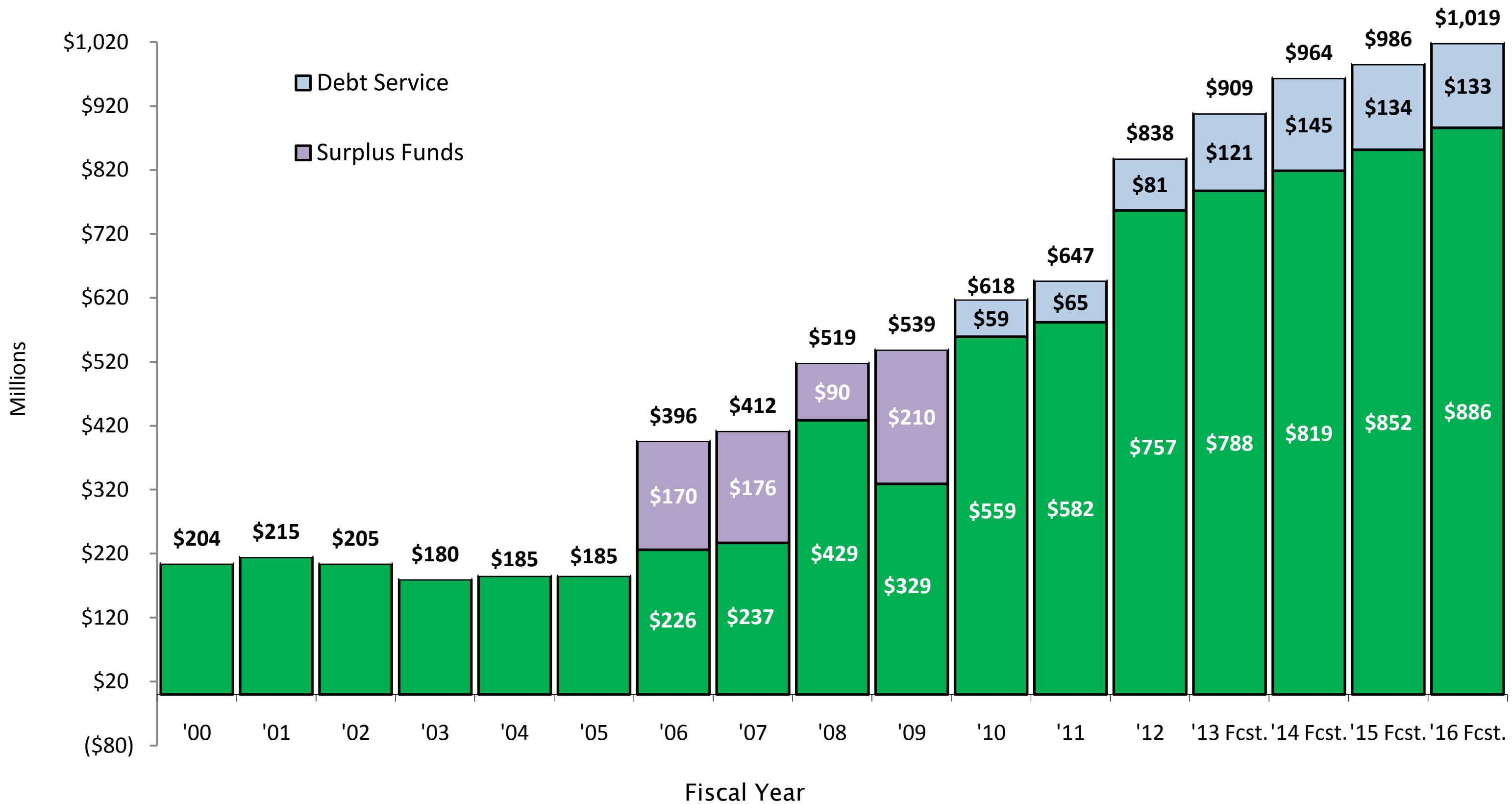
CONNECTICUT TEACHERS' RETIREMENT SYSTEM AS OF 6/30



- The State's obligations at the end of FY 2010 total $9.1 billion.
- Appropriations in FY 2006, FY 2007, FY 2008 and FY 2009 were supplemented by the use of surplus funds.
- The 2010 unfunded amount ($9.1 billion) includes investment losses from 2008 and 2009 which overwhelm other actuarial gains. This resulted in an increase in the UAAL and decrease in the funded ratio.

UNFUNDED PENSIONS

TEACHERS' RETIREMENT SYSTEM CONTRIBUTIONS *



* FY 2010 and beyond include debt service on the $2.3 billion pension obligation bonds issued on April 30, 2008 on behalf of the Teachers' Retirement System.

OTHER POST EMPLOYMENT BENEFITS

- The Governmental Accounting Standards Board (GASB) requires states to report on unfunded liabilities due to other post-employment benefits (OPEB), such as health, dental and life insurance for retirees.

- There is currently no requirement to pre-fund OPEB liabilities. (Some states have already begun pre-funding OPEB, which is looked upon favorably by rating agencies.)

- Among the New England states, Connecticut has the highest per capita OPEB actuarially accrued liability (AAL) and actuarially required contribution (ARC).

- Under various measures, Connecticut consistently ranks among the states with the highest unfunded Other Post Employment Benefit levels.

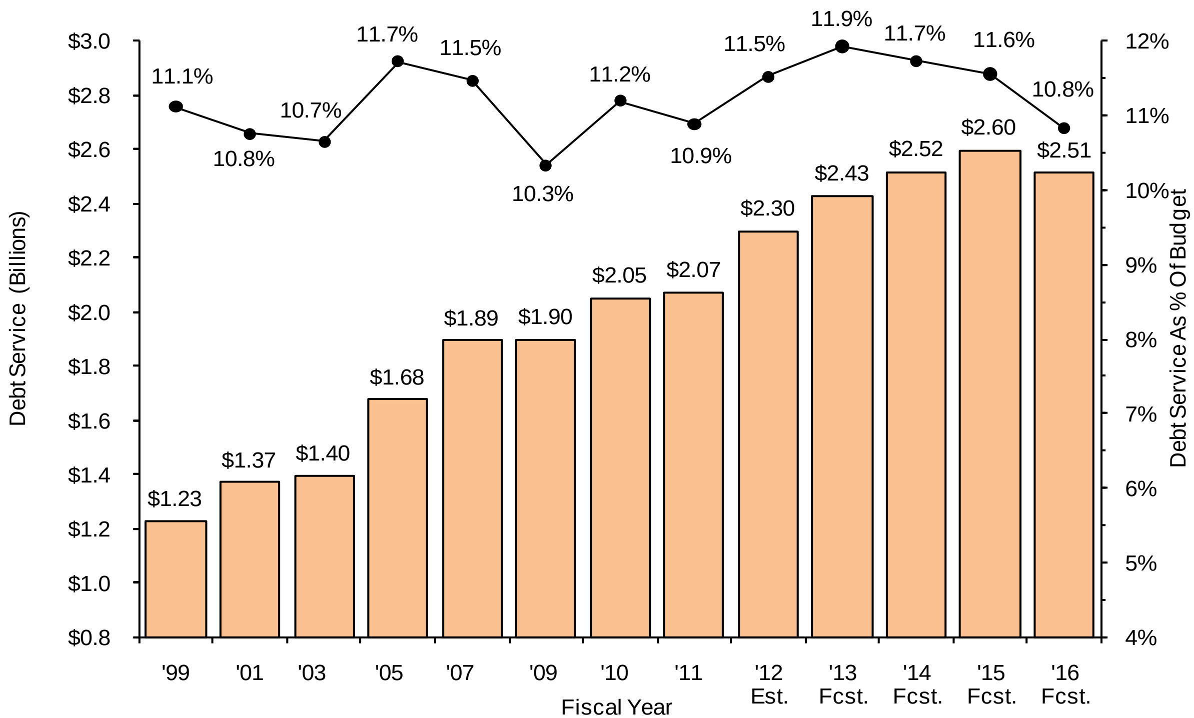
State	2008 OPEB AAL Per Capita (as % of Per Capita Income)	2008 OPEB ARC Per Capita	2008 Funding Ratio
Connecticut	$7,428 (11.8%)	$491	0%
Maine	3,334 (8.7%)	124	1.2%
Massachusetts	2,338 (4.1%)	128	1.8%
New Hampshire	2,443 (5.1%)	203	5.4%
Rhode Island	748 (1.7%)	44	0%
Vermont	2,606 (6.1%)	173	0.2%

Source: "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform", The Pew Center on the States, February 2010.

- Recent OPEB Reforms - The 2009 and 2011 SEBAC agreements require:
  - 3% contribution to Retiree Health Care Trust Fund for all health care eligible employees, with phased in implementation.
  - State match of employee OPEB contributions beginning July 1, 2017.
  - Greater premium share for individuals who elect early retirement.

IMPACT OF DEBT EXPENSES

DEBT SERVICE EXPENDITURES
GENERAL AND SPECIAL TRANSPORTATION FUNDS



- Debt Service expenditures have doubled since 1999.
- The increase in debt service expenditures crowds out discretionary spending.
- With the issuance of over $900 million in Economic Recovery Notes to fund the FY 2009 deficit, debt service as a percentage of expenditures climbs to a high of 11.9% in FY 2013.

CT'S BOND RATING

CURRENT GENERAL OBLIGATION BOND RATING

	Moody's	Standard & Poor's	Fitch
Rating	**Aa2**	**AA**	**AA**
Outlook	**Negative**	**Stable**	**Stable**

- Prior to 1975, Connecticut's General Obligation (GO) bonds had the highest rating possible: Aaa by Moody's and AAA by Standard & Poor's (S&P).
- The most recent revision in Connecticut's bond rating was an outlook change to negative by Moody's in June 2011.

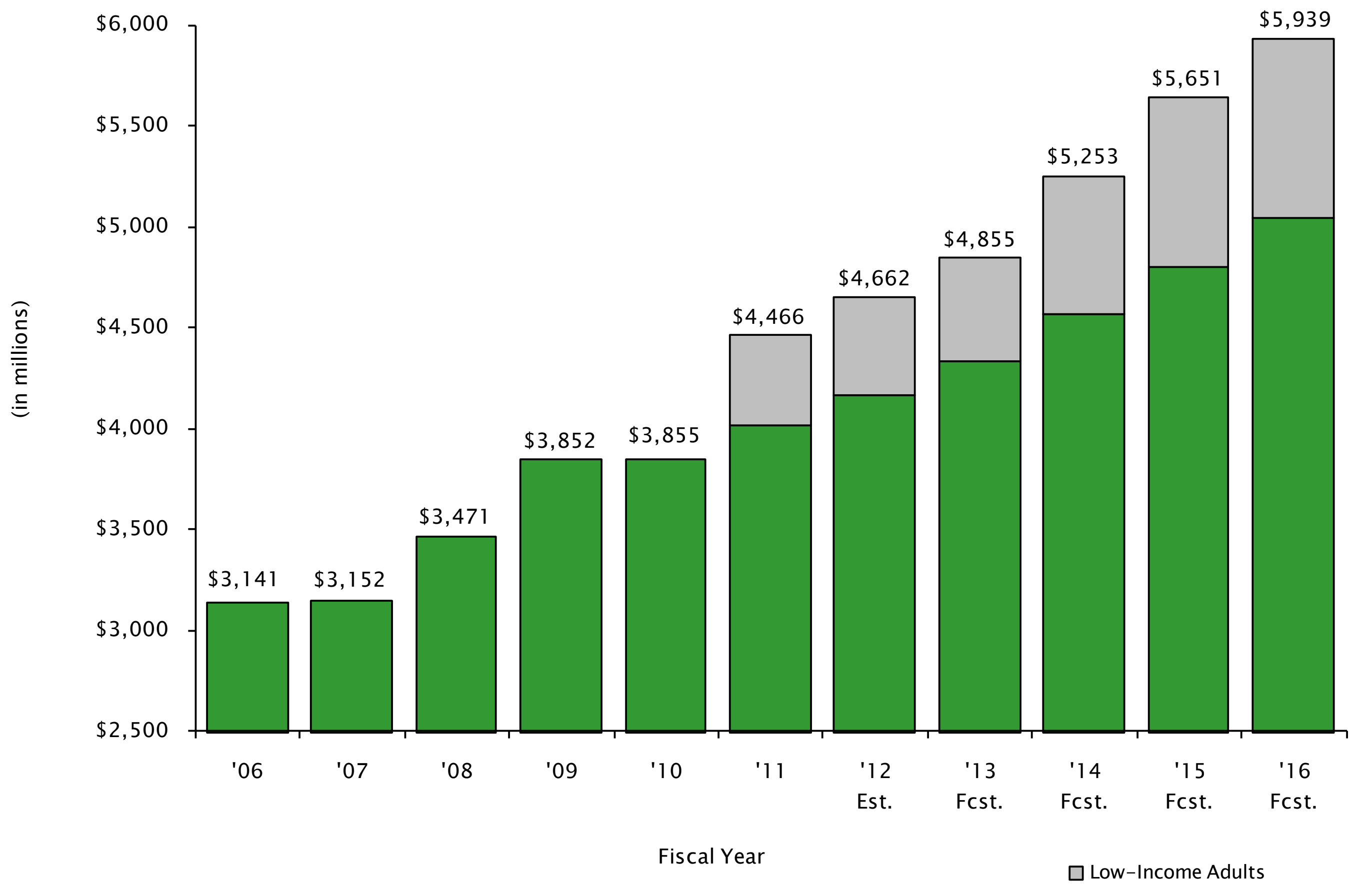
NUMBER OF STATES RATED BY

Rating	Moody's	S&P	Fitch
Better than CT	25	19	27
Equal to CT	10	15	5
Lower than CT	3	4	4
Total*	38	38	36

* 39 states issue GO bonds. All 39 states are rated by Moody's and Standard and Poor's; Fitch does not rate Arkansas and New Mexico.

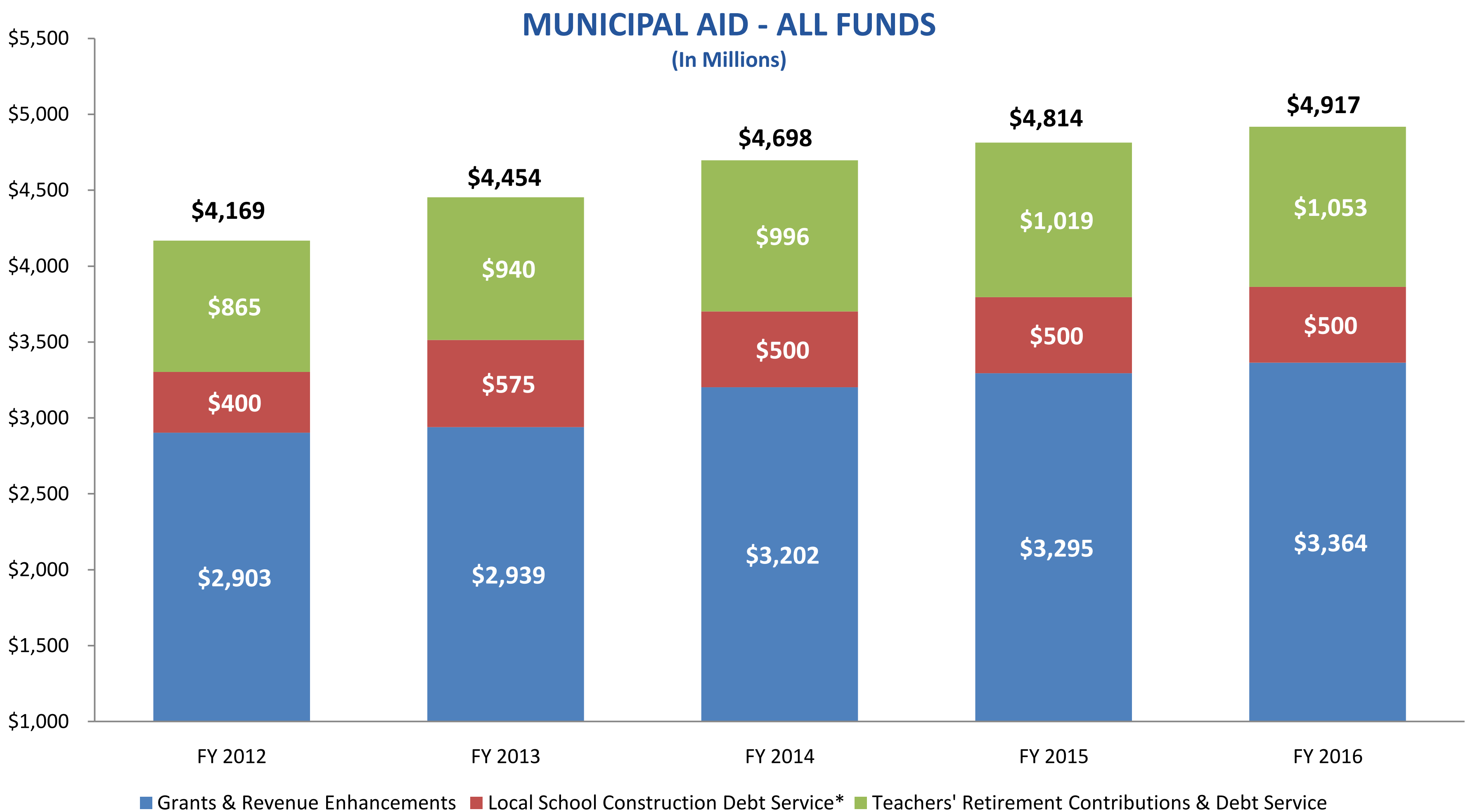
DEPARTMENT OF SOCIAL SERVICES

MEDICAID



- FY 2011 thru FY 2016 reflects growth due to the Medicaid expansion for low-income adults (LIA). Projected expenditures also reflect the impact of federal health care reform, which expands Medicaid coverage under LIA by increasing income eligibility to 133% of the federal poverty level beginning January 1, 2014.

STATE AID TO OR ON BEHALF OF LOCAL GOVERNMENTS



* As estimated by the Office of Policy and Management

HEALTH CARE REFORM

The Affordable Care Act includes a wide variety of health care provisions and requirements, most notably:

- Increases Medicaid eligibility for childless adults (in CT, through the Low Income Adult program) to 133% FPL effective January 1, 2014. While these costs are 100% federally reimbursable through 2016, the state's share will gradually increase through 2020, when the state will be responsible for 10% of the costs.
- Requires the creation of health insurance exchanges. Extensive efforts, funded with federal dollars, are underway to ensure that state residents can purchase qualified coverage through the Connecticut Health Insurance Exchange beginning January 1, 2014. Major policy decisions which may impact the state budget include whether to mandate benefits beyond those federally required and whether to provide for a basic health plan.
- Provides funding for a number of public health initiatives. DPH has been awarded a number of federal grants through the Affordable Care Act, most recently a $500,000 grant to support community prevention efforts to reduce chronic disease.

The Office of Health Reform & Innovation in the Office of the Lieutenant Governor has been established to coordinate and implement the state's responsibilities under health care reform with the goals of promoting health, improving access and reducing costs.

FEDERAL FUNDING

Federal revenue maximization and preservation

- Revenue maximization efforts continue to be a priority of the Administration.
  - Numerous Medicaid state plan amendments and waivers in place or underway.
  - Initiatives not requiring federal approval are being implemented.
- Equal or greater effort goes into preservation of existing sources of federal reimbursement.
  - The Centers for Medicare and Medicaid Services (CMS) has strengthened compliance activities resulting in significantly greater scrutiny of all State claims.
  - Significantly increased State time and effort explaining and justifying revenue items in order to sustain claims worth hundreds of millions of dollars that had once been considered “routine.”

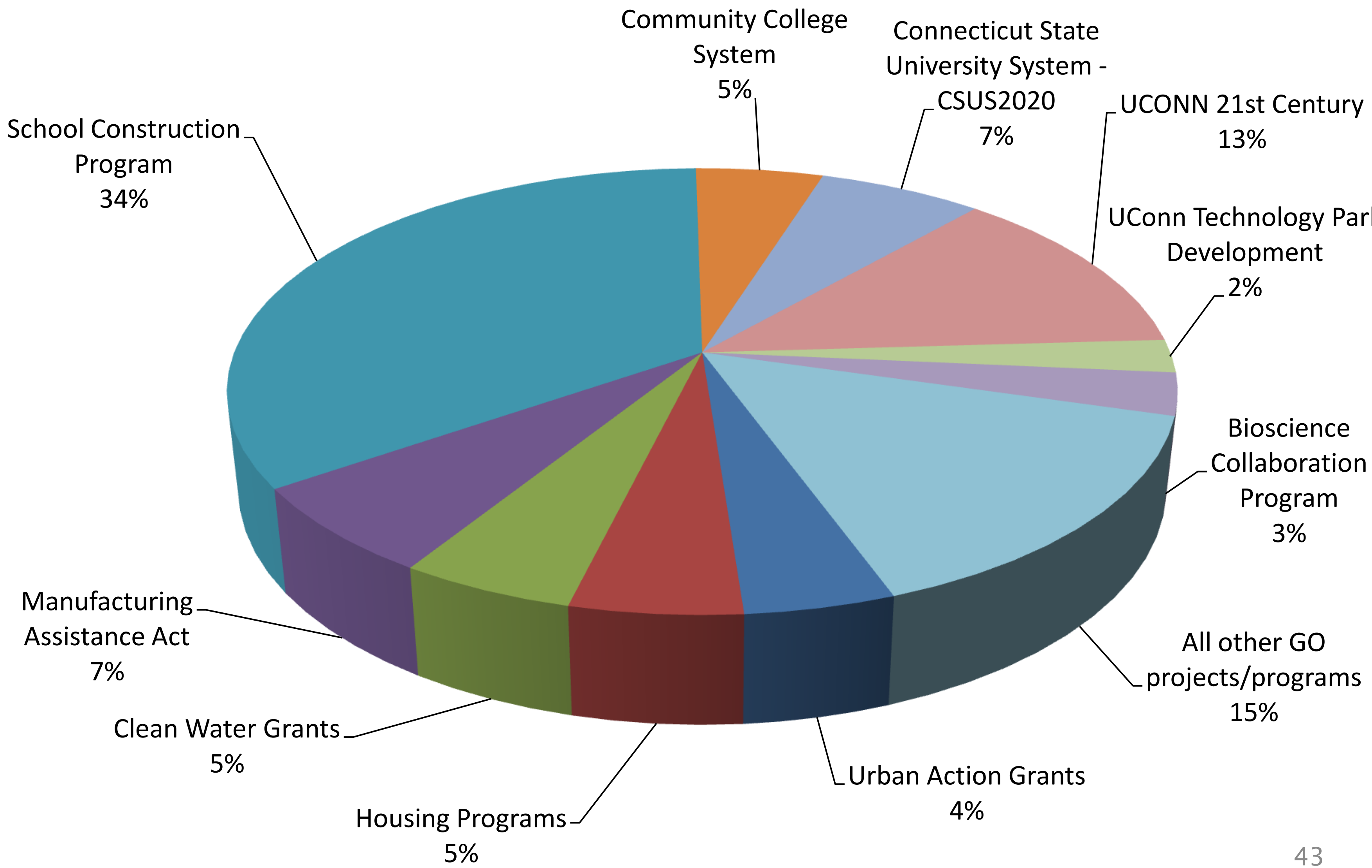
Budget Status

- First budget bill of FFY 2012 signed November 18th, covering Agriculture, Justice, Commerce, Transportation and Housing and Urban Development.
- Continuing resolution for remainder of federal budget through December 16th, with 1.5% across-the-board cuts in spending; remaining budget bills to be approved by Congress mid-December.
- Super-committee has failed to reach a deficit reduction agreement, resulting in automatic sequestration process (across-the-board funding reductions).
  - Reductions will be effective January 2013 for FFY 2013.
  - Half of reductions from defense, half from non-defense spending.
  - Defense reductions are expected to negatively affect Connecticut’s economy.
  - Exempt from cuts: Medicaid, CHIP, TANF, SNAP, child care, foster care, and highway programs.
  - Non-defense, non-exempt programs such as education, block grants, and housing, are expected to be reduced by about 8.8%.

FIVE YEAR
BOND PROJECTIONS

FIVE YEAR BOND PROJECTIONS

PROJECTED GENERAL OBLIGATION BOND ALLOCATIONS FY 2012 – FY 2016



SUMMARY AND CONCLUSION

SUMMARY

- The state's budgetary picture has stabilized as compared to the current services projection presented a year ago.
  - A year ago, current services shortfalls in excess of $3 billion were projected in each year of the current biennium.
- Changes adopted during the 2011 legislative session, including increased revenues, reduced spending, and concessions by the state's workforce, return the state to structural balance for the foreseeable future, with operating surpluses projected in each year of the biennium.
- Maintaining these structural surpluses over the long term is the key to achieving budgetary balance in accordance with Generally Accepted Accounting Principles, and to addressing the state's long-term obligations.

SUMMARY

- The state faces significant long-term obligations including debt, unfunded pension liabilities and unfunded post-employment retirement benefits that are estimated to exceed $71 billion in total.
- Significant cost drivers include health and pension costs for active and retired state employees and teachers, and expenditures related to the Medicaid program. Debt service will continue to consume a significant portion of the budget.

SUMMARY

- Despite the budget stability that can be expected in the near term, high fixed costs and the lack of reserves (i.e., a depleted Budget Reserve Fund) leave the state unprepared for the next recession.
- The economic recovery has been slower and more prolonged than past recoveries and will affect the state's economy and job picture.
  - During the most recent recession the state lost 119,200 jobs and has only regained 23% of those jobs over the past 20 months.
  - The state's unemployment rate is expected to remain elevated due to the slow recovery.
  - While not a budgeted fund, the state's Unemployment Insurance Trust Fund is insolvent and has relied on federal loans, which must be repaid, to maintain benefits. Repayment of the principal and interest on these loans will affect employers, who will pay increased assessments.

FREQUENCY AND LENGTH OF U.S. RECESSIONS

Post WWII Era Economic Cycles	Recessions	Expansions
Average Length	11.1 months	60.5 months
Longest	18 months	120 months
Shortest	6 months	12 months

Source: National Bureau of Economic Research

- The US has experienced eleven recessions since World War II ended including the most recent in 2008/09.
- On average, a recession occurs about every six years, from start to start.
- Given that the last recession began in December of 2007, this means that the nation could face its next recession as early as 2013, assuming the average holds.
- Although great strides have been made in re-establishing structural balance to the state's budget, the state is currently not prepared to face another recession:
  - No Rainy Day Fund,
  - Insolvent Unemployment Insurance Trust Fund, and
  - Still paying off FY 2009 Economic Recovery Notes.

CONCLUSION

Connecticut must continue to get its fiscal house in order. The State must:

- Continue to look for opportunities to efficiently serve the public, and to support business and industry as they create jobs.
- Plan for and undertake a disciplined approach to addressing its unfunded liabilities.
- Embark on rebuilding the Rainy Day Fund in order to be prepared for the next recession.