FISCAL YEAR IN REVIEW 2015

Kevin
LEMBO
State Comptroller

General Fund

- The General Fund accounts for almost 60% of all state fiscal activity.
- FY 2015 ended with a General Fund deficit of $113,168,010. That amount will be transferred from the Rainy Day Fund to cover the shortfall.
- The balance in the Rainy Day Fund will decline from $519,169,363 to $406,001,353, which is 2.2% of Net General Fund appropriations for FY 16.

Rainy Day Fund

- Budget reserve funds are vital in creating budget stability. Proper reserves eliminate the need for large tax increases and program cuts in tough economic times when such policies place additional drags on economic growth.

BRF Balances - Assuming Deposits made according to formula 1992-2015

FY	Actual BRF Balance	New Deposit Formula BRF Balance
2001	$595M	$1,680M
2009	$1,382M	$2,791M
2015	$519M	$532M
Total:	$2,496M	$5,003M
Total Payment Toward Unfunded Liability 1992-2014		$776M

- Since 1990 the state has realized over $5 billion in unexpected revenue windfalls. The majority of those windfall dollars were not placed in reserve.

- The Comptroller offered legislation, which was enacted in 2015, to ensure that the bulk of future revenue windfalls will go to the Budget Reserve Fund.

- A 15% reserve is an accepted standard target, which for FY 16 would equate to $2.7 billion.

General Fund Spending

- General Fund spending grew by 2.6% in FY 2015.
- Three deficit mitigation plans totaling about $100 million were required to control the growth in projected monthly shortfalls during the fiscal year.
- In the six fiscal years that followed the large 2009 deficit, General Fund annual spending growth has averaged 2.5%.
- In the fiscal years leading up to the 2009 deficit, General Fund spending had been advancing at an annual average rate of 7.3%.
- 26 appropriation line items account for 87% of all General Fund spending. These are the line items that have been vital in constricting the rate of growth in the General Fund.

Dollar Change in Major General Fund Line-Items

fiscal year in review ***2015***

Line Item	FY09 Expenditure	FY15 Expenditure	$ Change FY09 to FY15
State Employees' Retirement	$454,776,174	$970,863,047	$516,086,873
Medicaid	$1,848,812,115	$2,347,719,375	$498,907,259
Teachers' Retirement	$539,302,674	$984,110,000	$444,807,326
Education Equaliz. Grant Towns	$1,882,944,341	$2,122,676,702	$239,732,361
Magnet Schools	$128,612,642	$310,660,393	$182,047,751
Retiree Health Insurance	$434,564,847	$598,635,039	$164,070,192
State Employees' Health Insurance	$489,278,029	$635,096,886	$145,818,857
Pension Obligation Bonds (TRB)	N/A	$133,528,190	$133,528,190
Develop. Services Residential	$395,021,853	$463,611,013	$68,589,160
Debt Service	$1,363,285,876	$1,417,188,349	$53,902,472
Develop. Services Jobs	$162,298,520	$215,982,341	$53,683,822
UConn 2000 Debt	$100,785,838	$136,543,508	$35,757,669
Regional Vocational Schools	$135,214,879	$154,932,230	$19,717,351
DCF Board & Care Foster	$107,635,071	$125,895,821	$18,260,750
DSS Child Care Services	$93,987,193	$109,776,111	$16,657,384
Workers' Compensation	$90,987,193	$100,643,272	$9,656,079
PILOT Private Property	$122,430,256	$125,431,737	$3,001,481
DMHAS Disproportionate Share	$105,935,000	$108,935,000	$3,000,000
Student Excess Cost Grant	$140,044,731	$139,830,460	-$214,271
Employers' Social Security	$227,424,254	$225,966,607	-$1,457,646
Temp. Assist. to Families	$112,605,456	$102,478,267	-$10,127,189
CT State Universities	$162,935,234	$152,665,084	-$10,270,150
Other Expenses	$524,609,418	$503,323,825	-$21,285,593
DCF Board & Care Resid.	$196,143,165	$111,326,748	-$84,816,417
St. Employee Personal Serv.	$2,434,626,449	$2,286,605,166	-$148,021,283
Higher Ed. Operating Expen.	$663,465,565	$507,660,418	-$155,805,147

Percent Change in Major General Fund Line-Items

fiscal year in review ***2015***

	Avg Annual Change FY09 to FY15	Change FY14 to FY15
Pension Obligation Bonds (TRB)	N/A	-8.0%
Magnet Schools	15.8%	8.2%
State Employees' Retirement	13.5%	6.0%
Teachers' Retirement	10.5%	3.7%
Retiree Health Insurance	5.5%	9.1%
UConn 2000 Debt	5.2%	13.6%
Develop. Services Jobs	4.9%	1.8%
St. Employees' Health Insurance	4.4%	3.4%
Medicaid	4.1%	-4.2%
DSS Child Care Services	2.8%	13.8%
Develop. Services Residential	2.7%	5.3%
DCF Board & Care Foster	2.6%	10.1%
Regional Vocational Schools	2.3%	5.8%
Education Equaliz. Grant Towns	2.0%	2.7%
Workers' Compensation	1.7%	4.2%
Debt Service	0.6%	3.0%
DMHAS Disproportionate Share	0.5%	0.0%
PILOT Private Property	0.4%	8.7%
Student Excess Cost Grant	0.0%	0.0%
Employers' Social Security	-0.1%	3.9%
Other Expenses	-0.7%	3.8%
St. Employee Personal Services	-1.0%	4.8%
CT State Universities	-1.1%	2.1%
Temp. Assist. to Families	-1.6%	-4.3%
Higher Ed. Operating Expens.	-4.4%	6.6%
DCF Board & Care Residential	-9.0%	-11.3%

Dollar Change vs. Percentage Change

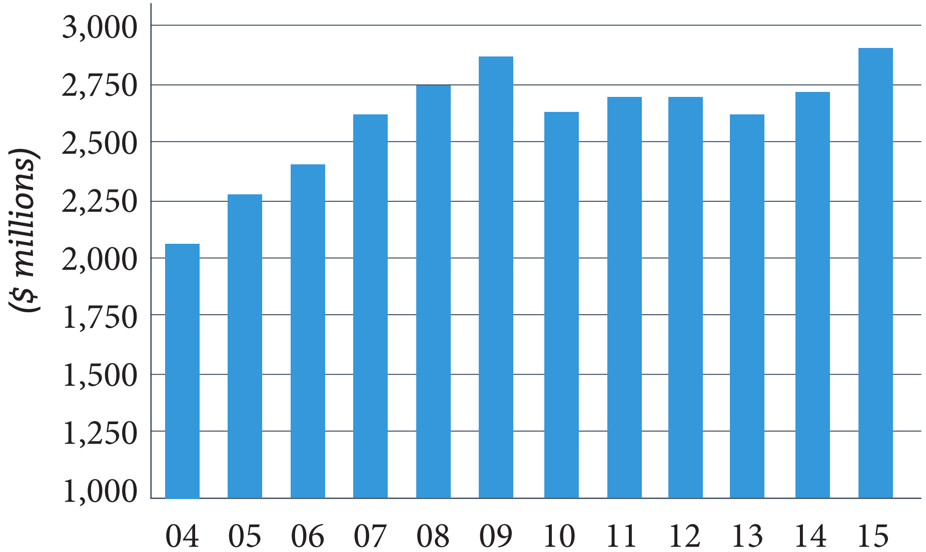
- Dollar growth and percentage growth are not the same.
- A program like Medicaid can have a growth rate that is consistent with or even below general medical inflation and still consume one of the largest dollar shares of the budget.

Line Item	FY09 Expenditure	FY15 Expenditure	$ Change FY09 to FY15	Avg Annual Change FY09 to FY15	Change FY14 to FY15
St. Employee Personal Serv.	$2,434,626,449	$2,286,605,166	-$148,021,283	-1.0%	4.8%
State Employees' Retirement	$454,776,174	$970,863,047	$516,086,873	13.5%	6.0%
Medicaid	$1,848,812,115	$2,347,719,375	$498,907,259	4.1%	-4.2%
Retiree Health Insurance	$434,564,847	$598,635,039	$164,070,192	5.5%	9.1%

State Payroll

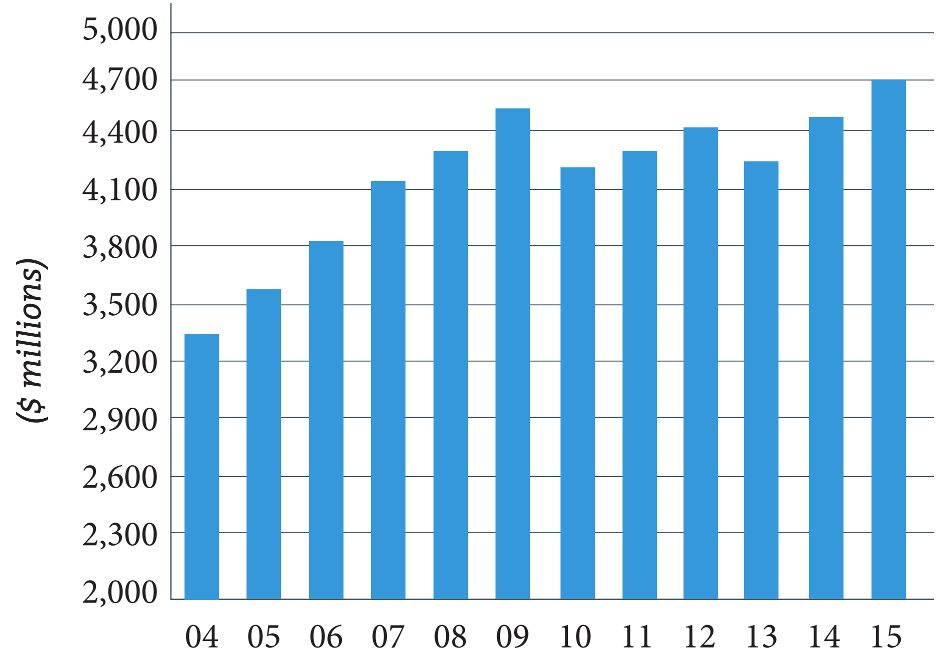
- Government is a service industry and payroll is a major cost item.
- Since the 2009 budget squeeze, annual state employee payroll growth has averaged less than 1%.

General Fund Payroll*
FY 09-15 Annual Growth Rate 0.2%



** Includes personal services and other payroll-related appropriations line items*

State Payroll - All Funds
FY 09-15 Annual Growth Rate 0.8%



Pension Costs

- Pension funding is a long-term liability of the state, and the annual state contribution requirements have been a cost driver in the General Fund.

- Between 2009 and 2015 the average annual increase in General Fund retirement payments has been 13.5% for state employees and 10.5% for teachers.

- In the state retirement system 82% of that payment is primarily for employees that have already retired; for teachers about 70% is for members already retired. These represent obligations that were incurred over past decades, but were not funded. They have become large fixed operating costs.

- Pension reforms have significantly reduced the cost for new employees. The normal pension cost rate for a new employee is between 6.3% and 2.57% of pay, depending on the designated retirement plan.

- *Based on a pension education toolkit published by AARP*, after the recession the average employer contribution to pension plans in the private sector was 8% of payroll.

(Munnell, A.H., Aubry, J., and Muldoon, D. 2008. The Financial Crisis and State/Local Defined Benefit Plans. Chestnut Hill, MA: Center for Retirement Research at Boston College)

SERS Pension Fund

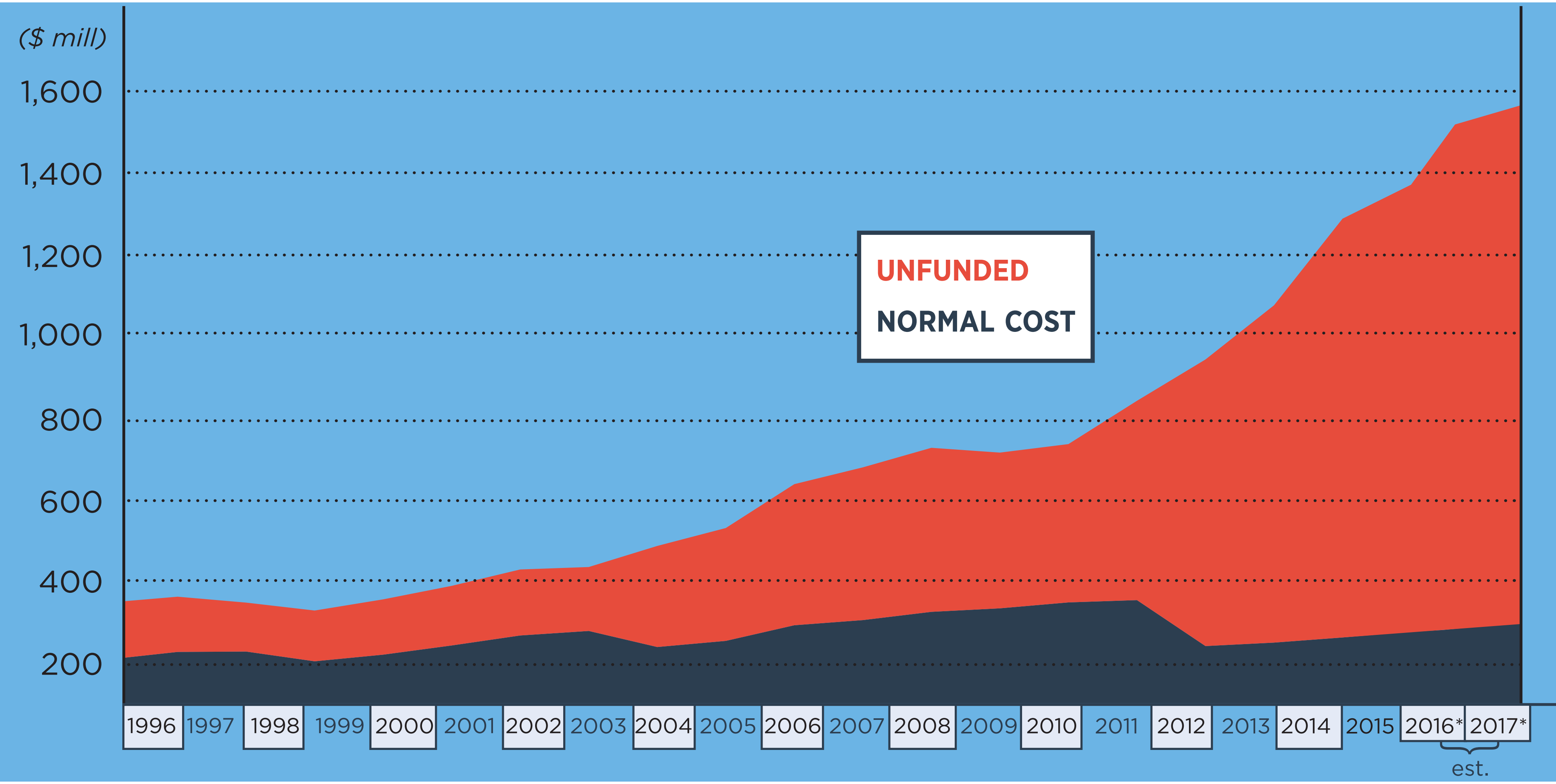
- Based on the most recent actuarial valuation as of June 30, 2014, the State Employees Retirement System (SERS) is currently 41.5 percent funded, with an unfunded liability of $14.9 billion.

- The employer Annual Required Contribution (ARC) for SERS in FY 2015-16 will be over $1.514 billion, of which $1.235 billion or 82 percent represents the amortization payment for unfunded liability.

- The normal cost contribution for FY 2016 will equal $278.8 million.

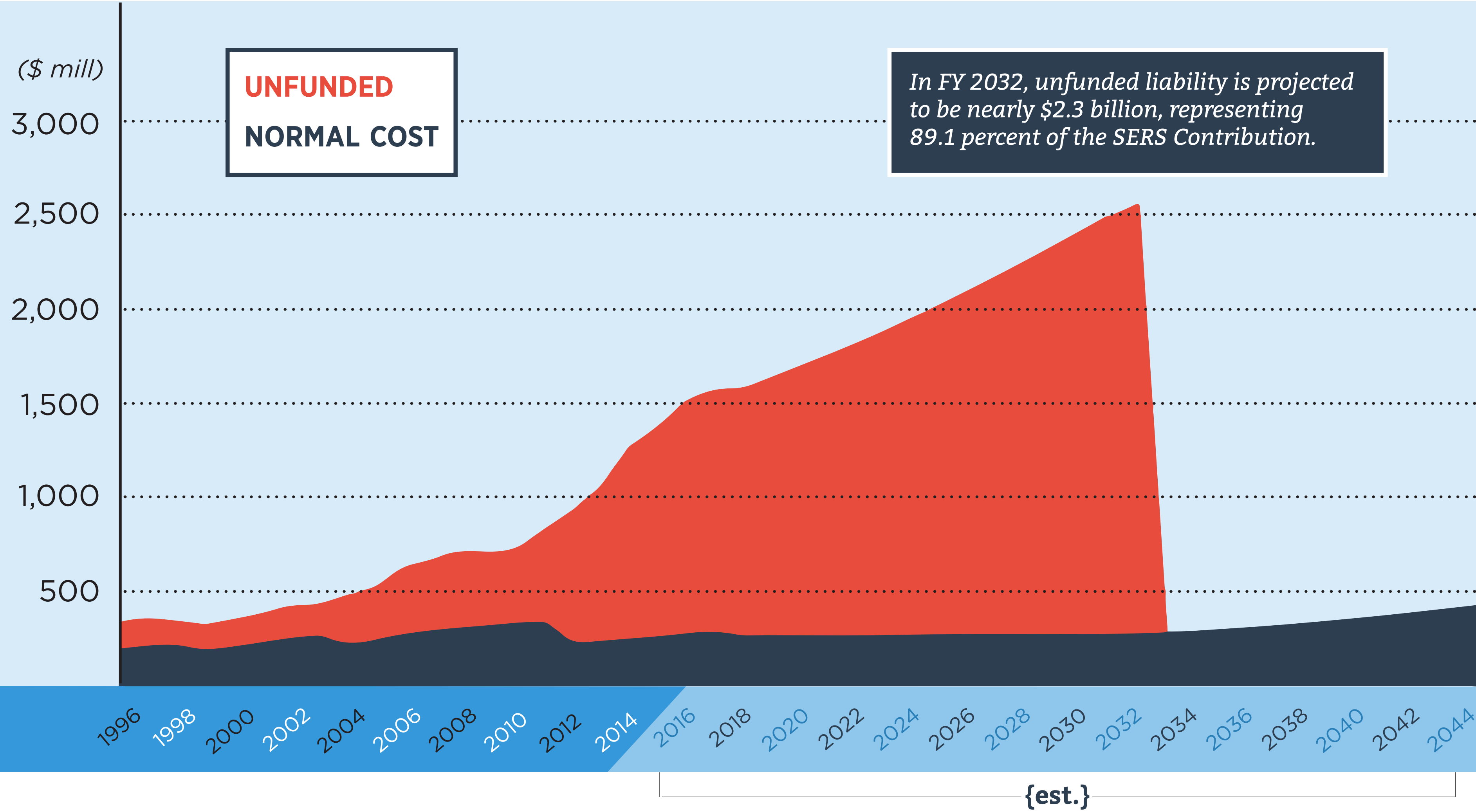
SERS Pension Fund

fiscal year in review **2015**



SERS Pension Fund

fiscal year in review **2015**

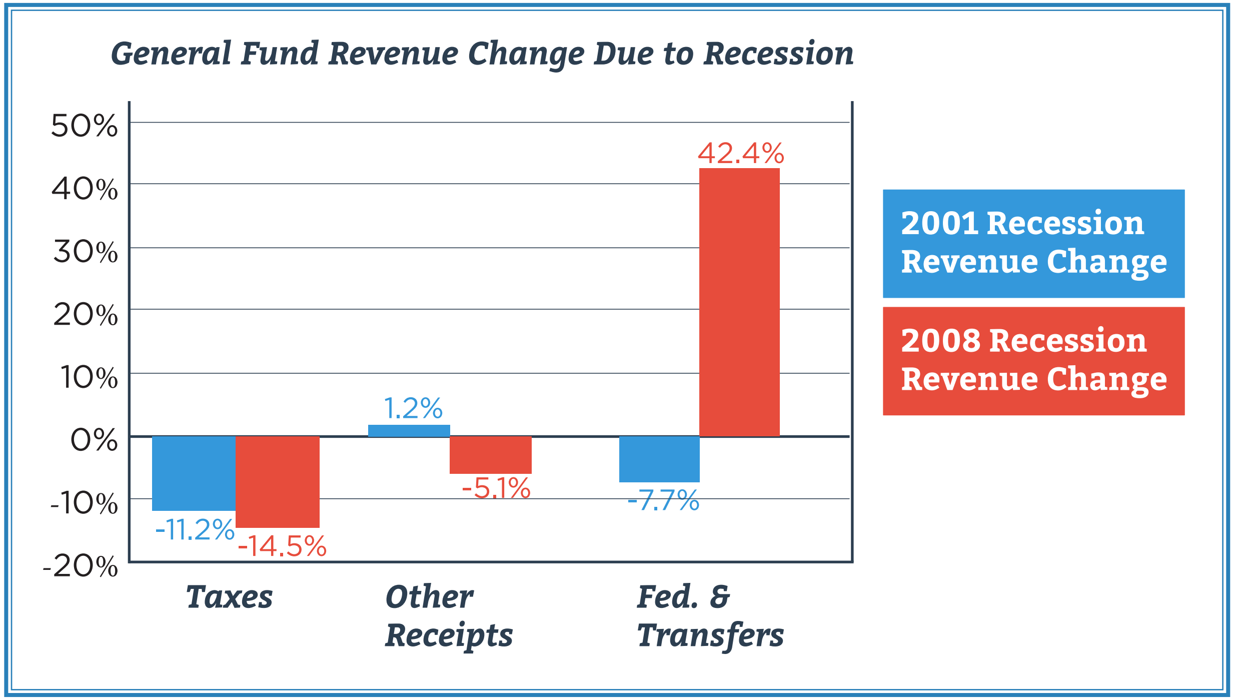


Medicaid

- Just under half of all Medicaid spending is for direct payments to hospitals (28%), and for pharmacy costs (18%).
- Hospital spending fell 1.5% between FY 14 and FY 15, while pharmacy spending grew by almost 40%.
- Overall Medicaid spending dropped 4.2% between FY 14 and FY 15. This was primarily the result of a federal reimbursement increase in the program of 16.4% during the fiscal year.
- The Medicaid expansion under the federal Affordable Care Act (ACA) was operational for all of FY 15. The ACA expansion covered half of Fiscal Year 14.
- FY 15 began with the federal government deferring $249.2 million in payments to the state as the Department of Social Services (DSS) worked to justify their federal Medicaid claims.
- In December of the fiscal year, DSS determined that only $25 million of the original deferral would be withheld from federal payments to the state.

General Fund Revenue
a slow recovery

- The 2008 recession had a more significant impact on General Fund revenue than the 2001 recession.
- The full impact of the 2008 recession was partially mitigated by federal recovery support to states, which ended in FY 12.

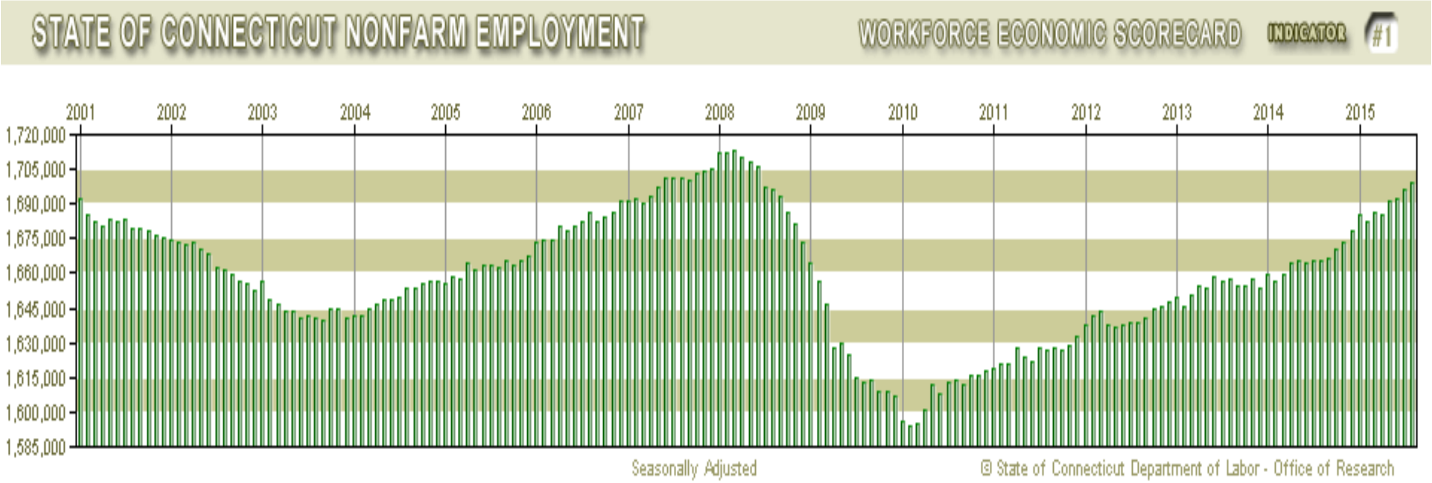


Federal Revenue Change

FY02	-$94,800,000
FY09	+$917,900,000
FY10	+$446,800,000
FY12	-$628,000,000

Jobs & Wages

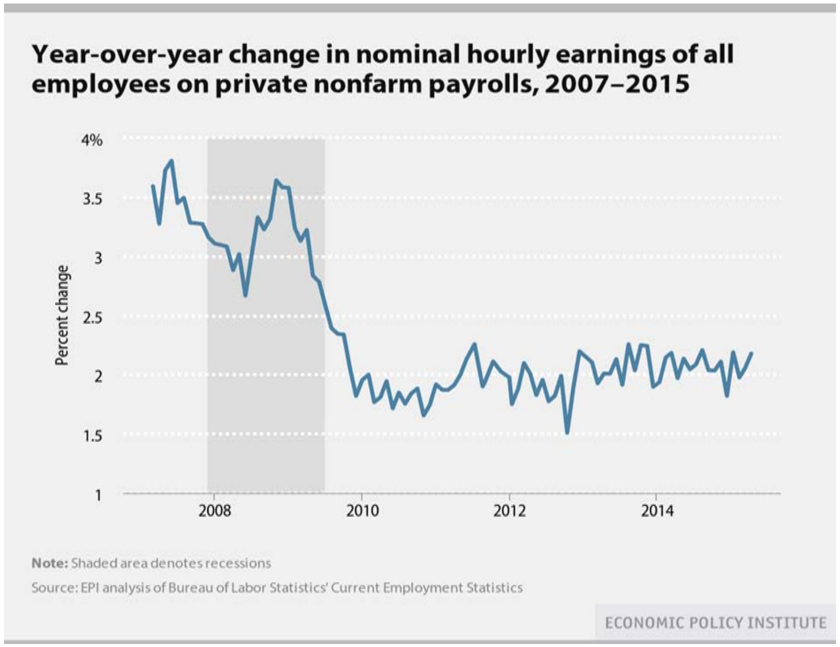
- Connecticut's post-recession job growth was slow to take hold.
- It wasn't until the middle of 2014 that Connecticut began to experience consistent monthly job additions.
- Connecticut posted a gain of 27,000 payroll jobs during FY 2015.
- By the end of FY 15, the state had recovered 97,900 or 82% of the 119,000 lost during the recession.
- Connecticut's rate of job growth is close to the national rate of 2% per year, which is typical in an expanding economy.



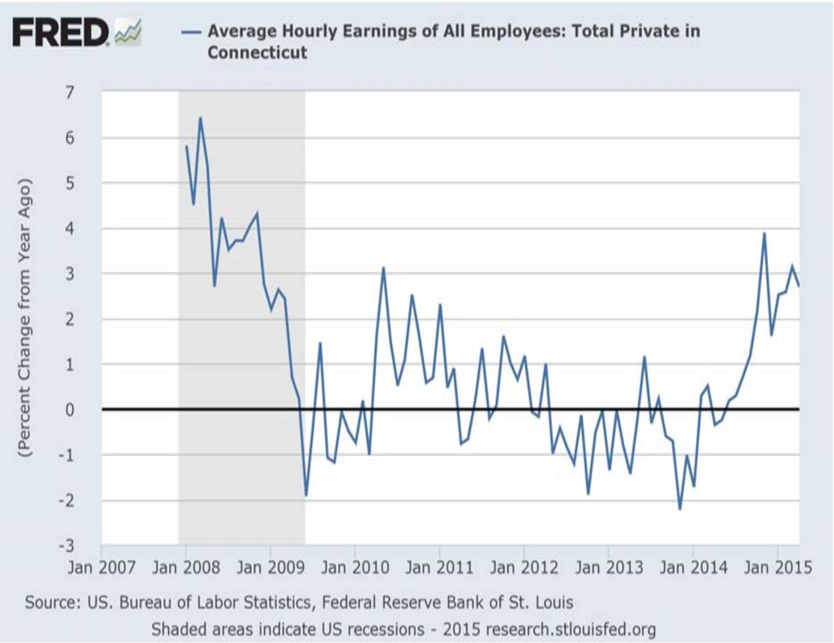
Employment Growth Has Not Triggered Wage Growth

- Slow wage growth has hindered economic expansion and the normal growth rate of state revenue.
- Despite employment gains, wage growth remains well below pre-recession levels. This is both a national and a Connecticut problem.

USA



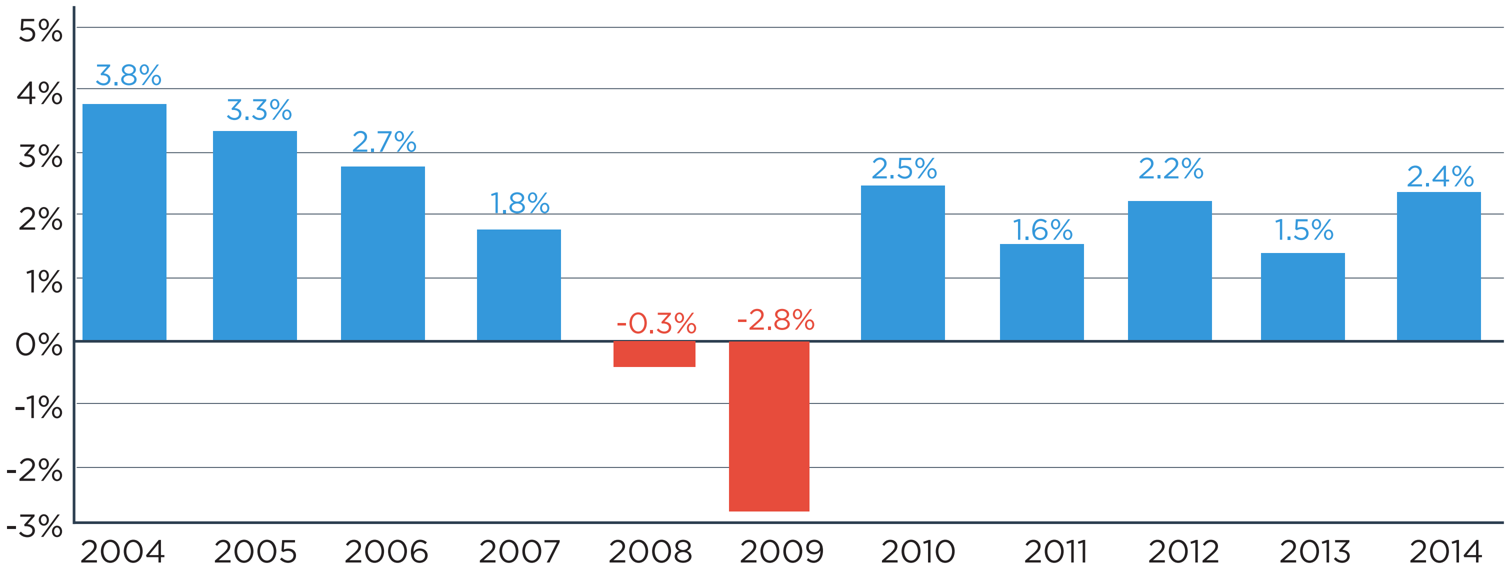
Connecticut



Wage Growth and Economic Expansion

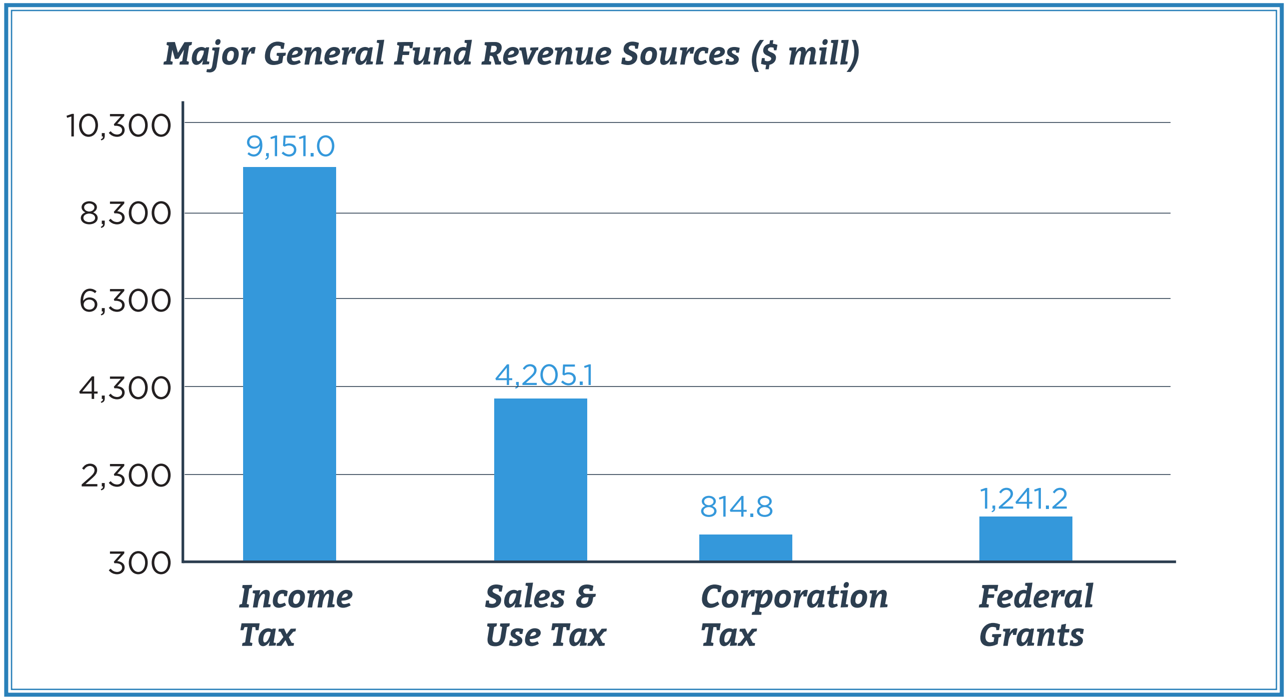
- About two-thirds of the U.S economy as measured by GDP is based on household consumption. Expanding wages are a vital growth component.
- Between 1947 and 2007 annual real household consumption grew by 3.6% on average. Since 2008, growth has been closer to 1.5%.
- This has resulted in the economy failing to attain a healthy full year GDP growth of 3% or better since the recession ended.

Annual % Change in Real GDP



Major General Fund Revenues

- Four General Fund revenue categories account for 90% of total General Fund receipts.
- Due to the slow economic expansion, in order to sustain modest budget growth, numerous tax increases and revenue enhancements have been required.
- Major policy changes to increase revenue were enacted in 2009, 2011, 2013 and 2015.



General Fund Revenue Growth

In FY 15, General Fund revenue grew by 1.6%. Most of the gains experienced in the major revenue sources results from tax increases. Revenues fell $176.2 million short of original budget projections.

Taxes	FY15 Receipts	Change FY14 to FY15	Annual Change FY09 to FY15
Income Tax	9,151,036,849	5.0%	6.2%
Sales & Use Tax	4,205,050,813	2.5%	4.0%
Corporation Tax	814,805,089	4.2%	4.8%
Inherit. & Estate Tax	176,749,854	5.2%	-4.9%
Public Service Corp.	276,832,800	-5.6%	0.5%
Insurance Co. Tax	220,629,080	-8.3%	1.5%
Tobacco	358,703,574	-4.8%	2.0%
Oil Co. Taxes	0		-100.0%
Real Estate Convey.	185,954,672	3.0%	12.7%
Alcohol Tax	61,651,443	1.7%	4.6%
Misc. Taxes/Health Provider	474,008,959	-4.9%	22.1%
Adm., Dues, Caberet	38,436,033	-3.8%	1.1%
Electric Generation	7,269	-100.0%	
Total Taxes General Fund	15,963,866,435	2.9%	5.2%
Refund of Taxes	-1,163,638,716	-1.6%	-1.7%
R&D Credit EITC	-7,877,856	55.8%	-1.1%
Net Taxes GF	**14,792,349,863**	**3.3%**	**5.5%**

General Fund Revenue Growth

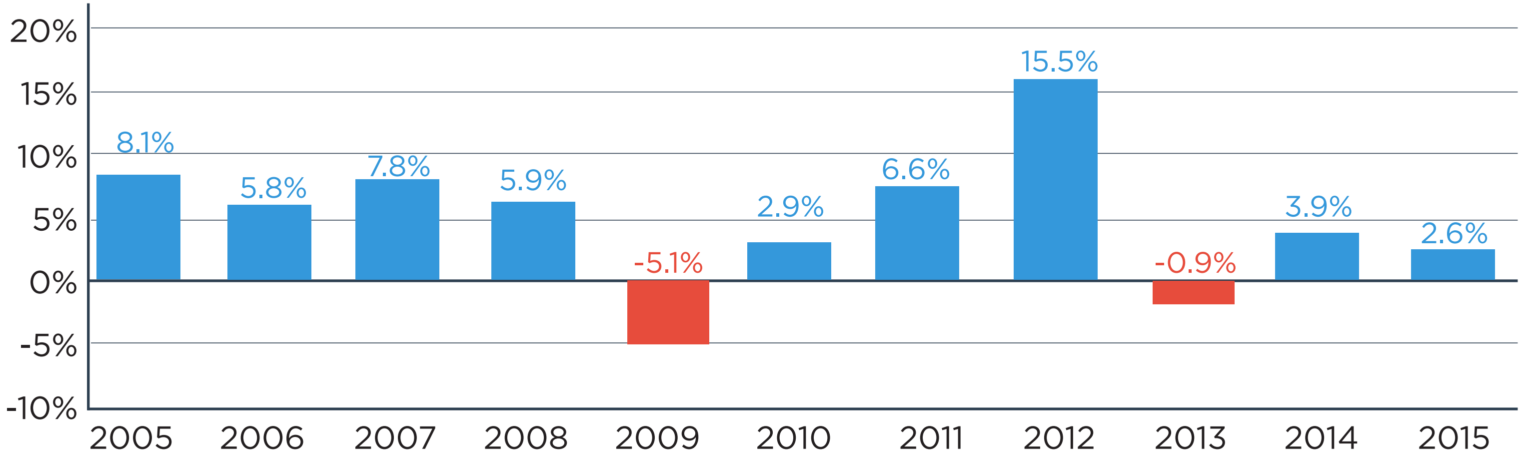
(continued)

Other Revenue	FY15 Receipts	Change FY14 to FY15	Annual Change FY09 to FY15
Transfers from Lottery	323,314,772	0.0%	2.0%
Indian Gaming	267,985,845	-4.2%	-5.6%
Licenses, Permits, Fees	257,444,374	-18.2%	8.0%
Sales of Goods & Serv.	35,812,835	-11.6%	1.6%
Rent, Fines, Esch.	168,678,647	28.9%	17.5%
Investment Income	942,896	-381.1%	-39.3%
Miscellaneous	185,013,677	-10.5%	2.1%
less refund of payments	-64,281,041	-3.5%	114.4%
Federal Grants	1,241,243,537	-0.2%	-16.3%
Transfers - fund to fund	-23,833,685	-122.4%	
From Other Funds/Tobacco	97,366,766	-9.0%	

Income Tax Withholding
A Key Revenue Indicator

- An important indicator in forecasting revenue growth is the payroll driven withholding component of the income tax. Withholding accounts for about 60% of total income tax revenue.
- As wage growth has stagnated, this revenue component has struggled to attain pre-recession growth levels.
- The large increases experienced in FY 11 and FY 12 are attributable to tax increases rather than underlying economic growth.

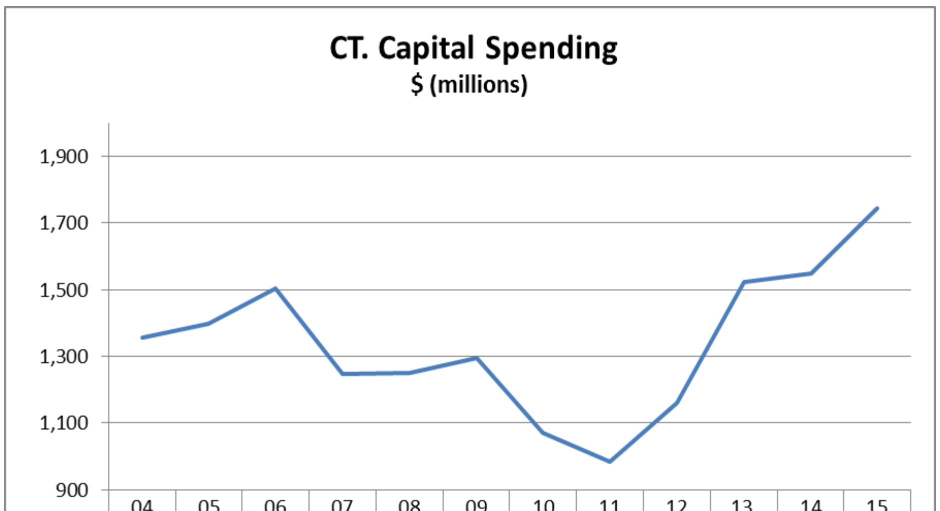
% Change in Withholding Tax by Fiscal Year



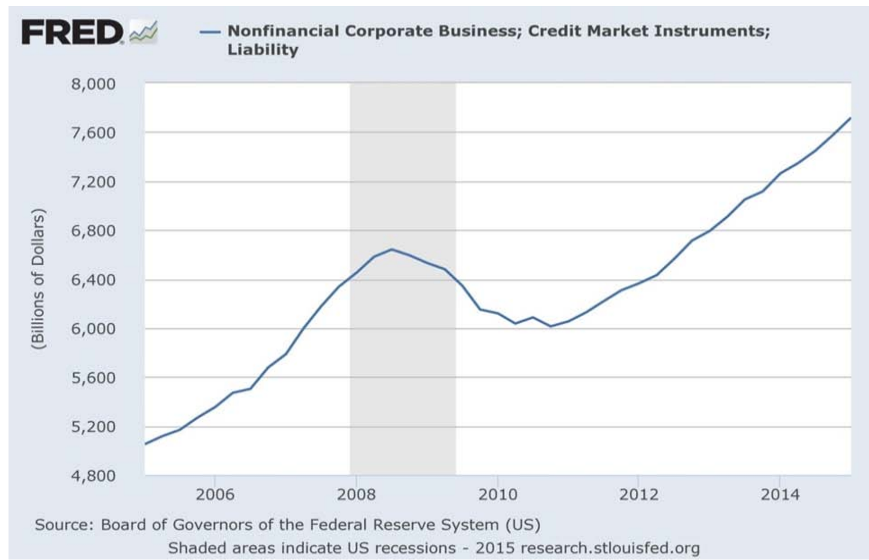
- FY 15 posted $13.9 billion in fiscal activity that fell outside the General Fund. The majority of this activity was in the Special Revenue Fund category. These are funds that have dedicated revenue sources to support their programs (e.g. Transportation Fund, university operating funds, federal and private grants).
- In FY 15, spending from these funds increased 9.8% from the prior year to total $11.5 billion.
- Half of that spending was in the federal programs area, which includes Medicaid and transportation funding. In FY 2015, federal grants increased by 10.6% or $545.8 million over last fiscal year.
- The Transportation Fund ended FY 2015 with a positive balance of $180.1 million. Spending increased in FY 15 4.5% over the preceding fiscal year to total $1.3 billion. Transportation Fund growth since 2009 has averaged 2.7%, close to the General Fund growth rate.

Capital Project Funds

- Capital project spending expanded at a 12.5% rate in FY 15 as compared to FY 14. Total spending in FY 15 was $1.7 billion. Capital project spending growth has averaged 6.3% per year since 2009.
- The use of debt financing has also increased significantly in the private sector as can be seen from the graph on the right.



	04	05	06	07	08	09	10	11	12	13	14	15
millions	1,357	1,397	1,503	1,248	1,251	1,296	1,072	985	1,159	1,522	1,549	1,743



Watch Items for FY 16

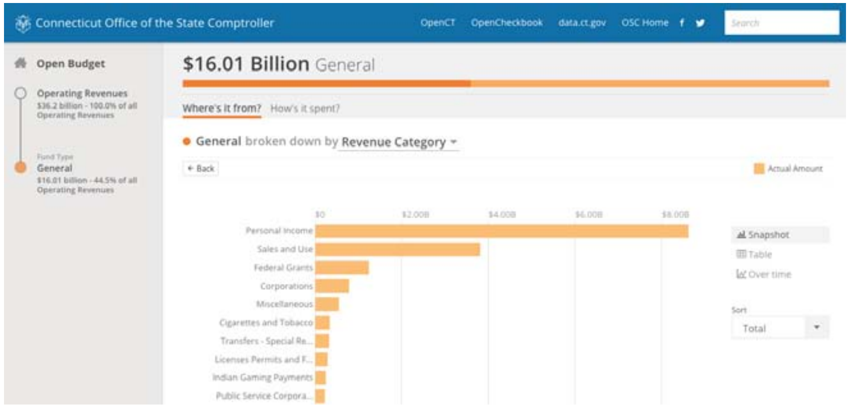
- Will wages begin to grow at 5% or better, which is consistent with an economic expansion? Each 1% increase in the withholding portion of the income tax is just under $60 million in additional state revenue.
- What impact will the stock market correction have on state revenue? The state has experienced significant fluctuations in the estimated and final components of the income tax. These components are correlated to capital gains experience. Federal tax changes that increased the top capital gains rate from 15% to 23.8% in 2013, and taxed short-term gains at the higher personal income tax rate caused distortions in the timing of capital gains distributions. Sufficient data is not yet available to determine the impact of current market corrections on state revenue.
- Will the Federal Reserve increase interest rates during FY 16? What impact will that have on realized state bond premiums in FY 16 and the markets in general?
- Will federal budget issues be resolved to ensure that state administered federal programs will not be disrupted?

Getting the Data

- Important decisions should be made using accurate data.
- Tools are available to monitor this data throughout the year.

OpenBudget.ct.gov

View the state's expenditures and revenues. Compare how state spending tracks against what was budgeted.



OpenCheckbook.ct.gov

Monitor all state expenses in real time. Search by vendor, service or government agencies and follow the money.

Open House!

Thursday, October 15 at the LOB. 10am.