

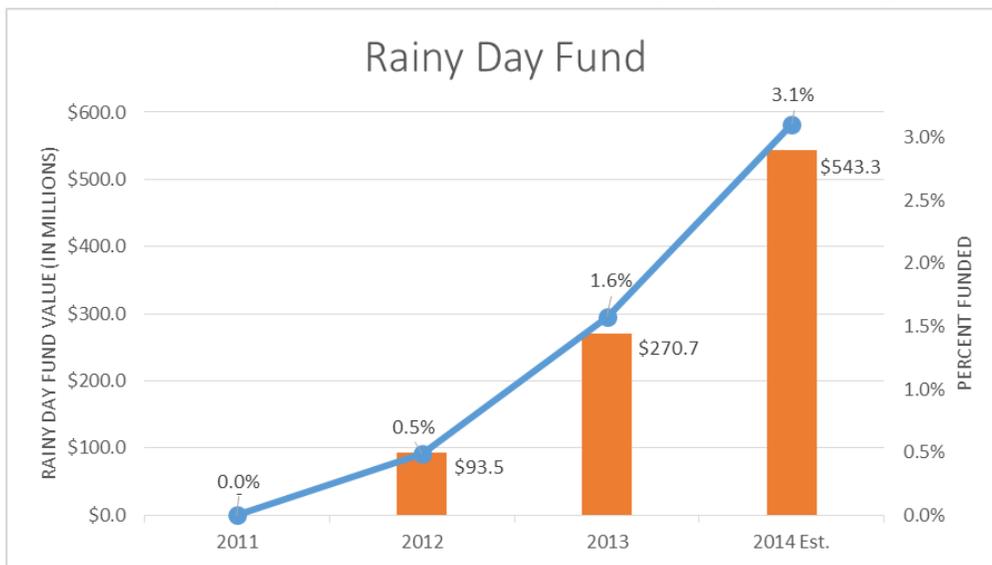
INTRODUCTION

Governor Malloy’s budget adjustments for FY 2015 come as Connecticut begins to turn a corner. Our economy continues to improve – slowly – while major reforms to state government begin to bear fruit. We have made tough but necessary budget decisions, and this budget asks us to continue to make hard and smart choices.

This budget reflects the Governor’s choices to keep control over our spending and get control over our debt, while putting resources in the most critical areas: education, jobs, and health care for those who need it.

This budget starts to do this with a proposal for the FY 2014 budget surplus, which is over \$500 million today. This budget proposes a simple, three-pronged approach for a responsible use of those funds.

First, the lion’s share should go directly into our rainy day fund. At least \$272.6 million will go to the Budget Reserve Fund, on top of the \$270.7 million already deposited during the last two years, bringing the fund to more than half a *billion* dollars.



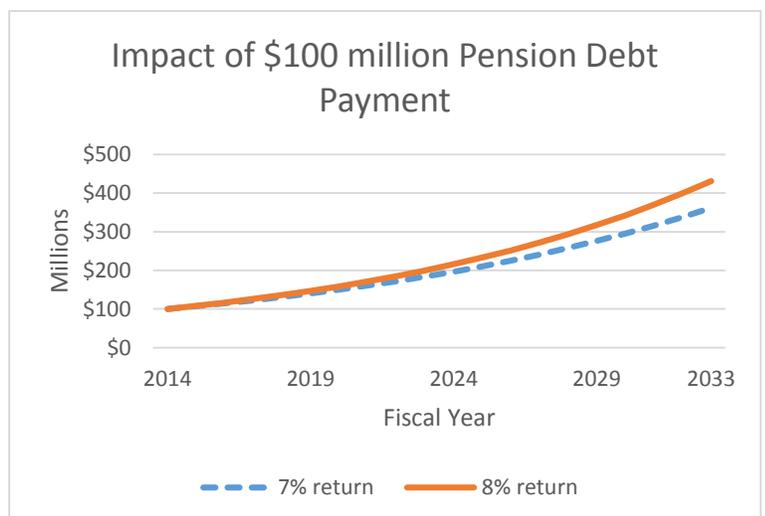
more than half a *billion* dollars.

Second, this budget proposes we reduce our long-term debt by making an extra \$100 million payment toward state pension obligations. The return on that investment will mean a \$430 million reduction in our long-term debt over the next 20 years.

Third, we should give something back to

Connecticut taxpayers, because if the people of Connecticut are going to share in the sacrifice during tough times, they should also share in the recovery as things begin to turn around. This budget proposes a refund of \$110 for families and \$55 for individuals, targeted at struggling and middle class families, that will help offset the payments they’ve made toward sales and gas taxes.

This budget also will keep control over our spending and get control over our debt by living within the lean spending levels adopted in the biennial budget. For FY 2015, the proposal is more than \$1 million below the enacted budget in the General Fund. It represents growth of 2.3% over spending in FY 2014. This continues a



trend throughout the Malloy administration of low growth, with a 2.8% average budget growth over 4 years, compared with average growth rates of 4.2% and 4.7% in the two prior administrations.

This budget stays within the spending cap and fully funds the annually required contributions for the State Employee and Teachers' Retirement Systems, as have all of Governor Malloy's budgets.

This budget includes a \$40 million increase in early childhood and K-12 education spending: \$32 million in funding for a new commitment to high-quality universal Pre-Kindergarten (pre-K) and \$8 million in funding to ensure that the state reaches the goals required in the newest Sheff agreement. It also strengthens the Connecticut Board of Regents for Higher Education, helping to deliver on the promise of an integrated, dynamic Connecticut State College and University system with the resources it needs to succeed.

This budget delivers expanded mental health services, including new supportive housing units and transitional services for young adults.

This budget includes new waiver slots in critical health programs like the Katie Beckett Waiver, which serves families with severely disabled children, and the Connecticut Home Care Program for Adults with Disabilities pilot program. It adds new funding to support services for individuals with autism.

This budget restores the Tax Relief for Elderly Renters (Renters Rebate) program that helps low-income seniors and totally disabled individuals to pay their housing costs. It addresses homelessness and unemployment among veterans with new resources and programs.

This budget supports the doctors who serve the poorest among us by maintaining primary care physician rates under Medicaid after the federal support runs out in December.

This budget continues our efforts to ensure that Connecticut's healthcare system meets everyone's needs, at an affordable price, by funding system reform efforts that will help deliver on the promise of affordable care.

This budget supports local governments. It contains significant new support for pre-K and K-12 education; it increases funding for the Private College and Hospital PILOT; it has new economic development assistance targeted at communities that have traditionally relied on manufacturing jobs; it authorizes new capital funds for local bridges, school security, and other community projects; it provides revaluation relief; and it reduces onerous mandates.

Most importantly, this budget supports these important initiatives without jeopardizing our future prosperity. Rather than adding to the bottom line as the economy improves, Governor Malloy has elected to live within the lean bottom line set last year, allowing the state to return something to Connecticut residents through permanent tax cuts.

Expenditure Growth	
Fiscal Years	Total All Funds*
FY '96 - FY '05	4.7%
FY '06 - FY '11	4.2%
FY '12 - FY '15 (rec.)	2.8%

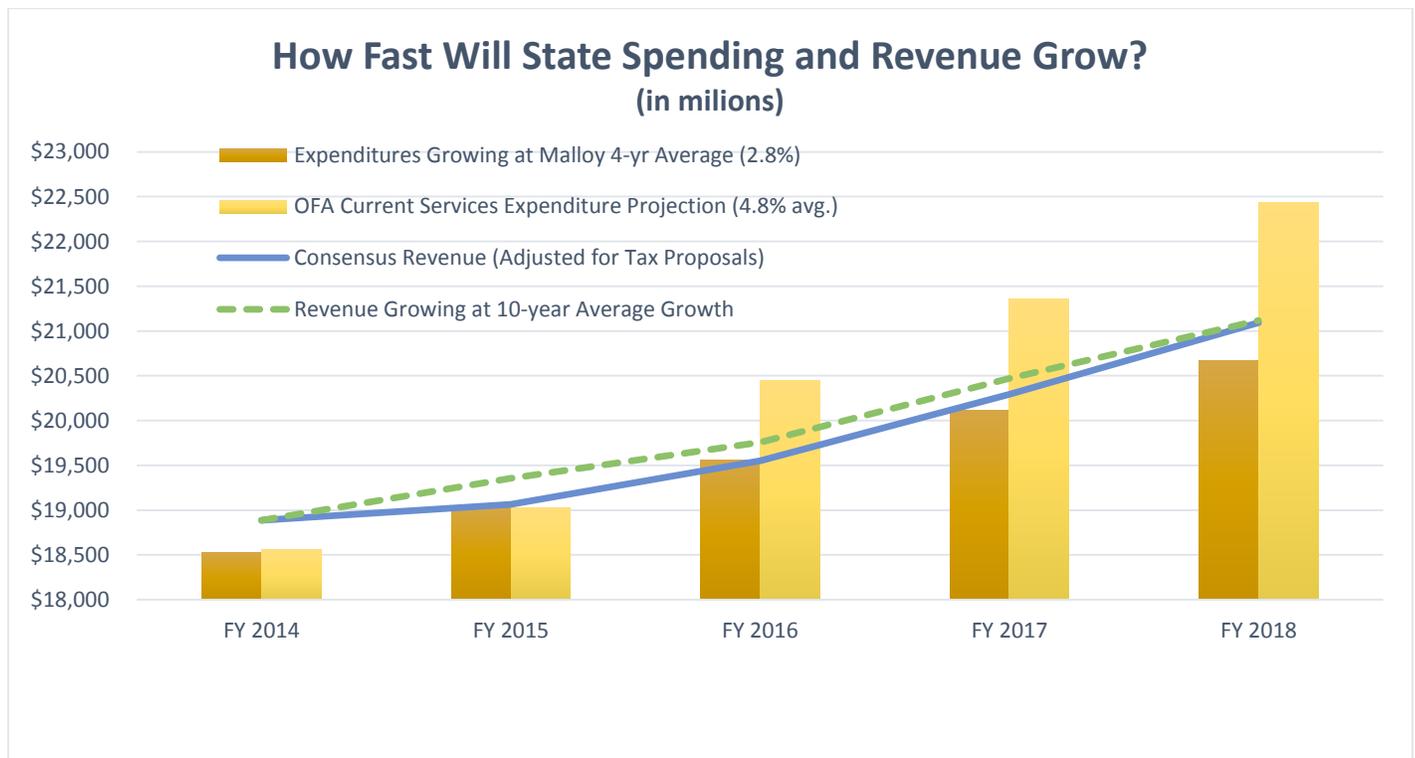
*Note: Totals were adjusted to include only the estimated state share of Medicaid

In particular, the Governor proposes \$51.3 million in new tax cuts in FY 2015, including a phased-in partial exemption for teachers’ pensions, an exemption for over-the-counter medicine, an exemption for municipal health plans from insurance premiums taxes, and an extension of the angel investor tax credit. In addition, the budget presumes that several tax cuts enacted in previous sessions will continue to be implemented, including the exemption on clothing under \$50 and the increase in the Earned Income Tax Credit. All of these changes together amount to over \$200 million per year in permanent tax relief.

The Governor’s budget proposal, including these tax cuts, creates a sustainable budget framework that will enable the state to achieve balanced budgets in the coming years.

There is always uncertainty about future revenues, and no one can easily predict the timing or severity of the business cycle. But the state can continue to control spending in the future, just as it has over the last three years. Rather than resigning us to live with “current services” spending growth of 4 to 5% each year, this budget proposal shows us that we can provide important services while living within our means.

If revenue grows at the conservative rate predicted in the January consensus forecast and, if we maintain Governor Malloy’s current spending trends, we will produce a surplus of over \$400 million by 2018, when considering the proposed new tax cuts.



The choices reflected in this proposal are good choices for Connecticut. They reflect the value we place on living within our means and controlling our debt. At the same time, they honor our commitment to our children’s success, the well-being of our neighbors and our communities, and fairness to those less fortunate.

RESPONSIBLE USE OF SURPLUS

Since hitting bottom in 2010, Connecticut has begun to rebuild budget reserves, reduce overall liabilities, and generate modest budgetary surpluses. Projections for FY 2014 indicate that the state will end with a surplus in excess of \$500 million. Against that backdrop, Governor Malloy is proposing the following uses for this current year surplus:

- A portion of this year's surplus be returned to taxpayers in the form of a **sales and motor fuels tax refund**. The proposal would designate up to \$155 million of the FY 2014 surplus toward refunds to eligible taxpayers. The amount of tax relief will be \$55 for eligible individuals and \$110 for eligible joint filers. Governor Malloy proposes that the refund program would apply to single taxpayers with less than \$200,000 in income and families with less than \$400,000 in income. More than 2.7 million individuals will benefit from this proposal.
- **\$272.6 million to be deposited in the Budget Reserve Fund**, bringing its balance to more than \$543 million. Just three years ago the fund was depleted. The Governor also proposes to raise the maximum size of the fund from 10% to 15% of appropriations.
- Use **\$100 million of the surplus towards the state's pension fund**. Over 20 years at an 8% rate of return this deposit will grow to (and save) taxpayers \$430 million. This isn't just a one-shot proposal. The Governor also proposes that future surpluses be used the same way – to replenish the Rainy Day Fund, to pay some of our long-term liability and return some to our hardworking taxpayers.

TAX CUTS

Connecticut's teachers are vital public servants, but teachers are not covered by the safety net of the Social Security system. Many years ago, Connecticut reduced tax levels on Social Security income. However, teachers could not receive any benefit from those tax changes. **The Governor is proposing to:**

- **Exempt a portion of teachers' pensions from the state's income tax** retroactive to January 1, 2014. For income year 2014, the proposal calls for a 25% exemption, rising to a 50% exemption the following year. This will save these retirees \$23.1 million in FY 2015 and another \$23.7 million in FY 2016.

Other revenue changes include:

- **Exempt non-prescription drugs from the state's sales tax**. This change will save consumers \$16.5 million in FY 2015 and \$17.2 million in FY 2016.
- **Exempt municipal health care policies from the insurance premiums tax**. This change should save municipalities and boards of education \$8.7 million in FY 2015 and \$9.0 million in FY 2016.
- **Extend for two years the angel investor tax credit**, at \$3 million each year. This program provides financial incentives for cash investments in qualified Connecticut small businesses engaged in emerging technologies. Angel investors provide essential early stage funding to Connecticut based entrepreneurs in high technology, innovation sectors. The angel investor tax credit is part of the Governor's comprehensive program to create and retain jobs in the state by leveraging private

investment in bioscience, clean energy, information technology and other emerging, innovative businesses in Connecticut.

- **Reopen to all eligible residents, Tax Relief for Elderly Renters (Renters Rebate) program**, a program which provides assistance to eligible seniors and individuals with permanent disabilities. The Governor’s midterm budget also recommends the return of the Renters Rebate program from the Department of Housing (DOH) to the Office of Policy and Management (OPM) where this program has been successfully run for over thirty years.

Tax Cuts (in millions)		
	Fiscal <u>2015</u>	Fiscal <u>2016</u>
<u>Personal Income Tax</u>		
Phase-in Exemption of Teachers' Pensions (25-50%)	\$ (23.1)	\$ (23.7)
Extend Angel Investor Tax Credit	(3.0)	(3.0)
<u>Sales Tax</u>		
Exempt Clothing Less Than \$50	(11.5)	(148.5)
Exempt Non-Prescription Drugs	(16.5)	(17.2)
<u>Insurance Companies Tax</u>		
Municipal Exemption for Health Care Plans	(8.7)	(9.0)
<u>Licenses, Permits, Fees</u>		
Two-Day State Park Fee Holiday	(0.2)	-
<u>Earned Income Tax Credit</u>		
Restore Earned Income Tax Credit to 30%	(10.1)	(11.0)
<u>Refunds of Taxes</u>		
Tax Refund Program (FY 2014 Surplus)	<u>(155.0)</u>	<u>-</u>
Total Tax Cuts	<u>\$ (228.1)</u>	<u>\$ (212.4)</u>

EDUCATION

Education is key to Connecticut’s future. Governor Malloy is proposing an ambitious multi-pronged approach that will (a) help new parents save for college, (b) make pre-kindergarten available to all of Connecticut’s children, (c) encourage students and former students to finish their degree programs, and (d) strengthen the system operated by the Board of Regents (BOR) so that it better serves its students.

OFFICE OF EARLY CHILDHOOD

Universal Pre-Kindergarten

In FY 2013, Governor Malloy added funding to create 1,000 new pre-kindergarten (pre-K) slots for the neediest districts. The Governor is recommending:

- **Additional funding to provide 1,020 new pre-K slots** in FY 2015, with the ultimate goal of providing universal access to pre-K by the end of FY 2019. This universal access to pre-K will be means-tested, with access phased-in for the state’s low-income children first. Funding includes \$11.5 million for slots and \$2.3 million in startup costs.
- To **increase slot subsidy rates by 3%** and provide \$22,500 per classroom in startup grants. Approximately \$1 million for district and state planning purposes will ensure that the phase-in of universal access to pre-K is done in a thoughtful and efficient manner and includes a thorough analysis of unmet need.

There is an estimated unmet need for pre-K slots for over 4,000 low-income 3 and 4 year olds in priority school, alliance districts and competitive school districts. The Governor is proposing to phase-in:

- An estimated 2,374 slots in Priority School Districts over five years;
- Approximately 1,314 slots in Alliance Districts over three years; and
- An estimated 322 slots in the Competitive (Non-Alliance) Districts over three years.

Universal Access to Pre-Kindergarten Phasing In Universal Access for Low Income 3 & 4 Year Olds					
Number of Slots					
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Priority School Districts (PSD) School Readiness by 2019	475	950	1,425	1,900	2,374
Alliance Districts by 2017	438	876	1,314	1,314	1,314
Competitive Districts (Non-Alliance) by 2017	107	214	322	322	322
Total Slots	1,020	2,040	3,061	3,536	4,010
Total Cumulative Costs	\$11,511,904	\$24,521,171	\$36,613,944	\$43,329,535	\$51,144,742

Implement the Quality Rating and Improvement System and Increase Inspections

It is important that early childhood programs be of high quality. To that end, \$2 million of existing quality enhancement funding will be repurposed, and \$3.3 million of additional funding will be provided, to launch the **Quality Rating and Improvement System (QRIS)**. The new system includes supplemental funding for programs that are linked to QRIS levels and the percentage of high needs children that a program serves. To help improve the quality of care that providers in the Care 4 Kids program offer, scholarships to improve staff skills will be made available for use in accredited programs. And finally, funding will be used to create **Regional Quality Improvement Centers** that will provide for better dissemination of professional development initiatives.

Licensing Improvements

The frequency of child care licensing inspections needs to increase. Currently, child care licensing inspections occur every three years. The Governor is proposing an additional \$1.5 million for 28 staff so **childcare**

inspections can occur on an annual basis. The current system of background checks will be modernized to provide results more quickly and accurately.

STATE DEPARTMENT OF EDUCATION

Sheff Settlement

In 1996, the Connecticut Supreme Court ruled that Hartford children attended racially and economically isolated schools. The court tasked the executive and legislative branches to craft a solution to reduce such isolation.

In order to reach the goals of the 2013 agreement with the Sheff plaintiffs, Governor Malloy recommends \$4 million to continue the commitment that was funded in FY 2014 plus \$3.6 million in FY 2015 to (a) expand opportunities and programming at existing Magnet Schools, (b) establish new Non-Magnet School programs with a Lighthouse School and a gifted and talented school, and (c) continue the summer immersion program at the Montessori Academy that started last summer.

Additionally, \$9.9 million in capital funds are included in order to expand and implement these programs.

Add Funds for Staff at the Connecticut Technical High School System

In an effort to bolster the health and safety conditions at the technical high schools, the Governor is adding \$1.7 million for 56 full-time positions. These funds will support:

- 24 custodial positions and funding for maintenance supplies;
- 5 school nurses;
- Continuation of 15 positions moving from durational status to full time;
- 10 special education instructors to support Common Core State Standards; and
- 2 English Language Learner instructors to support Common Core State Standards.

TRANSFORM CSCU 2020

To bolster the operations of the community-technical colleges, state universities and Charter Oak State College, the Governor's budget makes a one-time revenue transfer of \$60 million from resources of the General Fund in FY 2015 to the proposed Board of Regents (BOR) – President's Office Operating Fund.

Transform CSCU 2020 is a multi-phase plan to strengthen the colleges and universities of the Board of Regents, increase enrollments and prepare tomorrow's workforce. Phase One of the **Transform CSCU 2020** plan provides both capital and operating resources to develop the strategic vision for the system and enhance the student learning experience for current students. Components of this vision include:

- **Establish the Go Back to Get Ahead initiative** which will encourage Connecticut residents who have some college credits, but have not attained either an associate's or bachelor's degree, to return to the state universities, community-technical colleges or Charter Oak State College to complete their degrees. These funds will enable the BOR to identify and contact the targeted students and provide

resources to give each student a customized road map for degree completion. This program will support the Tuition Incentive Program to boost BOR enrollments and degree completions, enhancing Connecticut's workforce.

- The Governor wants to encourage students to return to college and complete their degrees. In coordination with the Governor's Go Back to Get Ahead initiative, the Governor proposes establishing the **Tuition Incentive Program for students returning to the BOR colleges and universities**. Students who have been out of school for 18 months would receive up to three free classes at BOR colleges and universities, to match up to three classes for which they pay. This will increase enrollment throughout the BOR system, encourage degree completion and prepare the workforce with the knowledge and skills they need to succeed in the twenty-first century.
- Provide planning funds to **expand the Early College Experience** to offer community college courses to high school students. This will increase the educational attainment of students at risk of placement in developmental education courses and decrease the time toward degree completion.
- Enhance **support services for veterans** returning from service and pursuing higher education. These funds will provide additional financial aid and counseling support and enhance the capacity to evaluate credits based on experiential learning.
- **Ensure seamless transfer and articulation across BOR institutions** which will reduce time to degree completion and reduce student costs. These funds will provide one-time faculty stipends of \$2,500 to develop the transfer and articulation plans.
- The Governor is committed to ensuring that all students enrolled at BOR colleges and universities have the **developmental education** resources and support they need to succeed. Since 2012, the Board of Regents has operated a variety of pilot programs to provide developmental programs and support to students. Funding will continue these programs and implement best practices to provide the developmental education tools students need to succeed

TRANSFORM CSCU – CAPITAL COMPONENT

Governor Malloy is also proposing that Transform CSCU 2020 subsume, extend and augment the current CSUS 2020 capital investment program to allow the BOR to begin making system-wide capital investments at all of its higher education institutions.

The Governor's proposal increases capital funding for the BOR by \$60 million in FY 2015 to:

- Begin to upgrade and consolidate student and financial information systems to provide for unified and simplified admissions, financial aid, registration and financial reporting system;
- Improve the student learning environment with smart classroom technology;
- Develop a system-wide master plan;
- Implement deferred maintenance projects across the system's campuses; and
- Construct a new Advanced Manufacturing Center at Asnuntuck Community College in Enfield.

The proposed capital adjustments will transfer \$20 million of previously authorized capital funding for the Community College System for equipment, technology and deferred maintenance into this capital investment program to allow the BOR to more swiftly implement the improvements outlined here. Other adjustments to the capital investment program include reprogramming projects at Central Connecticut State University for construction of a new engineering building, renovations to Barnard Hall for the School of Education, and renovations to Kaiser Hall.

COLLEGE AFFORDABILITY

Encourage Families to Save for College

Governor Malloy proposes to build on the success of the state's 529 college savings plan, the Connecticut Higher Education Trust (CHET), because he believes all of Connecticut's children should be able to attend college and it should be easier for families to start planning early.

The Governor's budget establishes the **CHET Baby Scholars Program** which is capitalized with \$12 million from a portion of the assets of the defunct Connecticut Student Loan Foundation and potential contributions from taxpayers through a proposed income tax refund check-off.

The CHET Baby Scholars program will provide a one-time incentive of \$100 to families of Connecticut children who open a CHET 529 savings account by the child's first birthday, or within the first year after adoption. Families who make a contribution of \$150 within four years of the child's birth or adoption will receive a one-time match of \$150. If this investment were done in the child's first year of life, a \$400 total contribution in an interest-bearing CHET account could grow to \$1,350 by the time the child reaches age 18 and is ready to pursue higher education.

Governor Malloy wants to make it easier for families to contribute to their children's CHET accounts and for families to direct their income tax refunds to their CHET accounts. Families should not be penalized for investing in their children's future, especially the neediest families. That is why Governor Malloy is proposing that assets in a CHET plan be disregarded when determining eligibility for certain public assistance programs and not count against a student's eligibility for institutional need-based financial aid at our state colleges and universities.

Increase Funding for Governor's Scholarship Program

Governor Malloy understands the financial challenges college students and their families face. That is why he is providing an **additional \$2 million to the Governor's Scholarship program** to help needy Connecticut students and to recognize and encourage academic achievement. These funds will be awarded to Connecticut students attending in-state public and private colleges and universities and will provide both merit and need-based aid.

JOBS

HELPING THE LONG-TERM UNEMPLOYED

As the Connecticut employment landscape gradually improves, too many of our residents remain unemployed, at times even beyond the duration of their unemployment benefits. To address their needs, the Governor's budget provides \$3.6 million in the Department of Labor for a **state-wide program designed to provide training and subsidized employment opportunities as a gateway to workforce re-entry**. The program is anticipated to support 500 individuals statewide who have exhausted their unemployment benefits.

Veterans' Opportunity Fund

In addition to addressing the needs of the long-term unemployed, Governor Malloy's budget recognizes the need to provide opportunities to those who have sacrificed the most in service to our country. To assist veterans in their transition back into the civilian workforce, the Governor's budget provides \$600,000 in support of a **Veterans' Opportunity Pilot** that will provide grants to housing agencies to hire employment specialists and job developers to seek job opportunities for veterans. As the current network of employment services for veterans is scattered, funding will also be used to support a statewide coordinator dedicated to ensuring that veterans receive the highest quality of services they deserve.

CAPITAL INVESTMENTS

Governor Malloy is proposing a total of \$445.5 million in net adjustments to the FY 2015 capital program focusing on funding projects and programs that create and retain jobs in the state. These adjustments emphasize capital investments that improve the performance of state operated and state-funded programs and transportation infrastructure.

The Governor's proposed midterm adjustments include:

- An additional \$60 million for capital investments by the Board of Regents for Higher Education, as detailed in the section on education;
- An additional \$30 million for capital improvements for nonprofit human service providers to address unmet demand;
- An additional \$25 million for capital investments in information technology to continue enhancing the efficiency and effectiveness of state agencies and programs;
- An additional \$10 million to continue the successful STEPUP job creation subsidy and training program;
- New funding of \$1.4 million to match a federal grant to finance code improvements for the Department of Veterans Affairs in Rocky Hill, as well as \$500,000 to study the feasibility of additional housing for veterans on the campus;
- New funding of \$1 million for information technology upgrades at the Office of Governmental Accountability;
- New funding of \$10 million for additional school security infrastructure grants to include charter schools, Regional Education Service Centers and the technical high school system;
- An additional \$100 million to continue business expansion and retention programs;

- New funding of \$25 million to create an Advanced Manufacturing Fund to encourage the creation of new businesses or the relocation of existing businesses to Connecticut and to provide existing Connecticut companies with assistance in developing advanced precision and additive manufacturing technology and workforce development training to meet the demand;
- An additional \$9.9 million for ongoing start-up costs for interdistrict magnet schools in compliance with Sheff v. O’Neill as detailed in section on education;
- An additional \$10 million to replicate high performing school models statewide and meet common core requirements as detailed in section on education;
- New funding of \$25 million for the Shoreline Resiliency Fund to provide low-interest loans for state residents whose property is vulnerable to coastal flooding and to meet new requirements to elevate their homes and flood-proof their businesses;
- An additional \$20 million for port improvements and dredging projects; and
- An additional \$49.75 million in special tax obligation bonds to increase funding for transportation initiatives including improvements to rail stations on the New Haven Line, complete the design of stations for the upcoming New Haven to Springfield commuter rail service, and to increase funding for the local bridge grant program. Ten million dollars of this funding is for the design of a comprehensive asset management plan, mandated by the federal highway legislation Moving Ahead for Progress in the 21st Century (MAP 21) to enable effective utilization and allocation of resources in preservation, operation and improvements of transportation infrastructure. This capital allocation supplements an operating funding recommendation of \$925,000 in the Department of Transportation for ongoing consultant and software requirements.

CONTINUE INVESTMENT IN REGENERATIVE MEDICINE

Currently scheduled to sunset on June 30, 2015, Governor Malloy proposes **continuing the state’s commitment to leading edge biomedical research** by extending the current ten-year investment in stem cell research an additional two years and by dedicating an additional \$20 million over the FY 2016-2017 biennium to support research in regenerative medicine. This investment will be enhanced through the creation of a Regenerative Medicine Research Fund. Under the administrative oversight of Connecticut Innovations, Inc., this initiative will promote scientific research aimed at identifying the means of creating living, functional tissues to repair tissue or organ function decline due to age, disease, damage, and congenital defects.

HELPING TOWNS AND CITIES

PROPERTY TAX RELIEF

Throughout his term in office, one of Governor Malloy’s budget priorities has been to shield towns and cities and their property tax payers from cuts in aid to municipalities that would have the effect of increasing property taxes or harming local services. In his first budget – and despite the \$3.4 billion budget gap he faced, the Governor increased the state’s contribution to local schools by \$270 million to make up for a loss of federal stimulus funding.

Without the Governor’s increase, property taxpayers would have had to shoulder over \$1 billion in additional costs for local education over a four-year period – or increase class sizes, which would have impacted our kids.

Despite the challenges of a slow economy, the Governor has largely maintained funding for grant programs benefitting our communities and has actually increased education aid by \$237 million; most of it targeted to our neediest school districts.

The Governor's proposed budget continues his efforts on behalf of property taxpayers:

- (a) **Increasing Education Cost Sharing grants by \$40 million**, as called for in the biennial budget passed last year;
- (b) **Increasing funding for payments-in-lieu-of-taxes (PILOT) for private colleges and hospitals by \$8 million**; and
- (c) **Saving towns almost \$9 million** by exempting them from the state's health insurance premium tax.

Taken together, these budget measures will save property taxpayers \$57 million next fiscal year.

LOCAL INFRASTRUCTURE INVESTMENT

Governor Malloy continues his investments in local infrastructure, proposing another \$10 million for the Local Bridge Program which was rejuvenated last year, and continuing the planned investments in Urban Act (\$50 million), the Small Town Economic Assistance Program (\$20 million) and the Local Capital Improvement Program (\$30 million).

Towns and cities are subject to many cost drivers that put pressure on local mill rates. As a former mayor, Governor Malloy knows firsthand that the state can help local budgets by providing relief from these mandates.

END THE STATE ASSESSMENT FOR MOTOR VEHICLE ENFORCEMENT

The Department of Motor Vehicles (DMV) helps municipalities collect tens of millions of dollars by operating a program that blocks registration of motor vehicles by people who are delinquent in paying property taxes. Several years ago, the state began charging municipalities for that service. The Governor is proposing to end that assessment, **saving local governments over \$800,000 each year** beginning July 1, 2015.

To make this system work better for citizens who have paid their taxes, the Governor proposes that the DMV may suspend the service for municipalities that do not regularly update the list of delinquent taxpayers the towns send to DMV. This requirement will mean fewer taxpayers will have trouble registering vehicles when their property taxes are fully paid.

REVALUATION RELIEF

State law requires municipalities to revalue property according to a statutorily prescribed schedule. But the real estate market and homeowners are still struggling with the remnants of the 2008 recession.

For this reason, the Governor is proposing to **allow municipalities that are scheduled to implement revaluation in FY 2015 the option of postponing that implementation for up to two years**. This delay will allow time for the real estate market to stabilize and homeowners' pocketbooks to recover as Connecticut's economy does.

REPEAL THE HEALTH-INSURANCE TAX ON MUNICIPALITIES

The cost of providing health insurance puts a strain on local budgets. Municipalities that purchase health insurance policies presently pay a 1.75 percent tax to the state.

The Governor is proposing to **eliminate the tax for municipal governments, saving them almost \$9 million** that can be used to provide local services or property tax relief.

UNNECESSARY REPORTING REQUIREMENTS

Local officials are often overwhelmed by a plethora of smaller mandates. One requires that towns and cities tell the Connecticut Siting Council the location of cellular antennas in their communities. In many instances the towns comply with the requirement by checking the Siting Council's map and sending the same information back. The Governor proposes to end this, requiring reports only for newly erected facilities.

HELPING TOWNS AND CITIES

- Eliminate the Health Insurance Premium Tax on municipalities -- **\$8.7 million savings**
- Allow up to a **two-year delayed implementation of revaluation**
- **End the state charge to municipalities** for DMV's program to block registration of motor vehicles by people with delinquent property taxes
- **\$40 million increase in ECS aid** (per existing budget)
- **\$8 million increase in PILOT for Private Colleges and Hospitals**
- Benefits to manufacturing companies locating in **towns with traditional dependence on manufacturing**
- Initiative for **Universal Pre-Kindergarten**
- **\$10 million for additional school security infrastructure grants**
- **\$9.9 million** ongoing start-up costs for interdistrict magnet schools in compliance with Sheff v. O'Neill settlement
- **\$10 million** additional funding for **Local Bridge Program**
- **\$50 million for Urban Act** projects (per existing budget)

HEALTH AND HUMAN SERVICES

GOVERNOR MALLOY'S MENTAL HEALTH INITIATIVE

Since the tragedy at Sandy Hook, the Governor continues to focus significant attention and resources toward improving the mental health system for all of Connecticut's residents. This budget invests additional resources into areas that weren't addressed in last year's gun bill. The Governor proposes to:

- Address stigma as a significant barrier to individuals and families seeking help. The budget includes \$250,000 in the Department of Mental Health and Addiction Services (DMHAS) for an **anti-stigma campaign** intended to promote an accepting environment where those impacted by serious mental illness will not be ashamed to seek treatment.
- Dedicate \$1.75 million in FY 2015 (\$5 million, when fully annualized) to **improve mental health services** for underserved populations. Among other things, this funding will support residential and transitional services for high risk populations, especially young adults.
- Provide \$2.2 million in new funding for 110 dedicated Rental Assistance Program vouchers (RAPs) to support **housing and services for individuals served by DMHAS**. These supportive housing vouchers will provide individuals the stability and services they need to succeed in their recovery.
- Require that all **new state and local law enforcement candidates receive specialized crisis intervention training** so they can better respond to situations involving individuals with mental illness. This training will also be a requirement for active law enforcement personnel as part of their re-certification process. This training teaches law enforcement officials to use effective verbal intervention skills to help recognize and de-escalate potentially violent situations involving distressed persons with serious mental illness.
- Provide \$2 million in the Department of Children and Families (DCF) to expand **community-based services for children and youth with complex behavioral needs** augmenting departmental initiatives that have led to a significant reduction in the number of children and youth in congregate care settings during Governor Malloy's tenure. For example, there were 150 children ages twelve and younger in congregate care settings in July 2011; there were 35 during FY 2013. The use of in-home services, rather than more expensive residential models, results in better outcomes and is generally far less expensive. A total of \$5.4 million will be saved in FY 2015 through rightsizing the capacity of group homes, safe homes and short term assessment and respite homes.

Many of the investments in the health and human services agency budgets further ongoing initiatives that are expected to result in better health outcomes while eliminating disparities and improving quality and experience at a lower cost.

HEALTHCARE REFORM

STATE INNOVATION MODEL (SIM)

Although Connecticut residents are among the healthiest in the nation, our state's significant economic disparities affect multiple health areas, including diabetes, prenatal care, low birth weight and fetal and infant mortality. While the state performs well on certain quality metrics, the state underperforms on other measures such as hospital readmissions, appropriate use of emergency department services, and timeliness of treatment. In addition, Connecticut ranks third highest among all states for health care spending per capita (\$10,470) and, over the past several years, growing health care spending has outpaced the growth of the economy, leaving fewer resources available to support other state needs.

Under the leadership of Lieutenant Governor Nancy Wyman, Connecticut received a planning grant from the federal Center for Medicare and Medicaid Innovation (CMMI) in March 2013 to develop a **State Healthcare Innovation Plan** to address these concerns. The state's plan, submitted in December 2013, lays out strategies for achieving three important goals for everyone in Connecticut: (1) better health while eliminating health disparities; (2) improved health care quality and experience; and (3) lower health care costs.

The goal is to align all payers (Medicaid, state employees' plan, commercial plans, self-funded plans and Medicare) around a common approach to value-based payment. Rather than simply paying for volume of services provided, the proposed value-based payment approach will reward providers who offer higher quality care, while lowering the total cost of care. The state will introduce pay for performance payments that reward provider performance for meeting quality and care experience targets. The state plans to migrate to a shared savings program, which includes accountability for the overall cost of care for a panel of patients and the ability to share in savings when a practice provides more effective and efficient care at lower cost. The plan identifies a range of care delivery and health improvement initiatives. It would support primary care practices that wish to become advanced medical homes. This spring, Connecticut will apply to CMMI for a five-year implementation grant of \$40-\$60 million to implement the State Healthcare Innovation Plan.

The budget includes the resources necessary to advance this important project – with or without federal funding. If the federal grant is received, it will allow Connecticut to proceed more rapidly with implementation.

The Governor's budget includes:

- \$3.2 million in the Office of the Healthcare Advocate to fund staff and vendors to consult on quality measurement, performance transparency, health, improvement, workforce development efforts, stakeholder and employer engagement, evaluation, and project management;
- \$65,000 in the Office of the State Comptroller for a health care analyst; and
- \$1.9 million in capital funding for health information technology.

PRIMARY CARE PHYSICIAN RATES

The Affordable Care Act required states to **increase Medicaid reimbursement for primary care providers** to Medicare levels for calendar years 2013 and 2014. The additional costs are fully reimbursed by the federal government for services provided through December 31, 2014, after which enhanced federal support for the

increased rates is no longer available. Given the need to ensure adequate access to services under the state's expanded Medicaid program, the Governor's proposed budget provides the funding necessary to maintain the higher reimbursement levels for primary care services – \$30.2 million (\$15.1 million after federal reimbursement) in FY 2015. This will cost \$72.4 million (\$36.2 million after federal reimbursement) when fully annualized.

COMMUNITY FIRST CHOICE OPTION

To increase consumer choice and control, the Governor is proposing that the state take advantage of the **Community First Choice Option** under the Affordable Care Act, which offers states a 6% increase in the federal match rate on personal care assistance services if the program meets certain criteria. By providing access to self-directed personal care assistance as a Medicaid state plan service for individuals at nursing home level of care, beneficiaries will have access to the highest level of self-direction and the broadest range of services that can be assigned.

EXPAND CT HOME CARE PROGRAM FOR ADULTS WITH DISABILITIES

The Connecticut **Home Care Program for Adults with Disabilities** is a program that allows up to 50 persons in the community who are not Medicaid eligible, but who meet nursing facility level of care and have a degenerative, neurological condition such as multiple sclerosis or Parkinson's disease, to receive the same services that are provided under the state-funded home care program for the elderly.

Because the program is capped at 50 participants, there are 103 persons on the waiting list, some going back as far as October 2010. While applicants for this program have limited income and assets, most have assets over the \$1,600 Medicaid limit. However, due to their serious health issues, they are at risk of institutionalization and often end up in a nursing home and on Medicaid within a month or two of their admission. Expanding the number of slots under this program will prevent nursing home placement for individuals who would quickly access Medicaid as a payment source for their nursing home stay.

The Governor's budget includes \$1.2 million in new funding (\$600,000 after federal reimbursement) in FY 2015, and \$1.6 million (\$800,000 after federal reimbursement) when fully annualized, to expand the program by an additional 50 slots.

EXPAND KATIE BECKETT WAIVER

The Katie Beckett waiver provides **Medicaid services to approximately 200 children with significant physical disabilities**. Because the program is capped, a waiting list has developed. Under the current program when a slot opens, DSS is able to offer services to children who were referred in August 2007. Funding of \$1.5 million (\$750,000 after federal reimbursement) in FY 2015, and \$3.0 million (\$1.5 million after federal reimbursement) when fully annualized, is included in the Governor's budget to allow an additional 100 children to be served. While this expansion will not eliminate the waiting list, it will allow more medically fragile children to access services in a timely manner. In addition, this expansion will help to prevent the institutionalization of medically fragile children into costly alternative settings and will appropriately support parents as the primary caregiver of these children.

STATE-FUNDED MEDICAL ASSISTANCE FOR HALFWAY HOUSE RESIDENTS ON COMMUNITY RELEASE

The Affordable Care Act provides **new opportunities for Medicaid reimbursement for individuals involved in the criminal justice system**. As an early adopter of the Medicaid expansion, the state has already taken advantage of some of these opportunities. Acute care services received by inmates are being reimbursed under Medicaid and a concerted effort has been ongoing to assist individuals leaving corrections or the courts in obtaining benefits under the Medicaid program for low-income adults so they have immediate access to medications and community-based treatment that will assist them in making a better transition to the community and thereby reduce recidivism.

Beginning this spring, the Department of Correction (DOC) population will be served by the administrative services organization (ASO) that manages health benefits for the entire Medicaid population. This will allow management of each Medicaid recipient's health care whether they receive medical services in the community or in prison. This is expected to reduce duplication in testing and services, resulting in better care. Because of a gap in Medicaid eligibility for the average 90 days that individuals are placed on community release in halfway houses, the Governor is supporting a state-funded medical assistance benefit so that these individuals can immediately access community providers instead of having to return to prison to access health care. These initiatives are expected to result in better health with fewer disparities and improved quality and experience of care, at lower costs. Savings of almost \$700,000 is reflected in the DOC inmate medical account to reflect reduced pharmacy costs. While funding of \$4.3 million is provided in the Department of Social Services (DSS) to support this initiative, it is expected that costs for this population will decrease over time as their care becomes better managed.

REALIGN IMMUNIZATION SERVICES FROM GENERAL FUND TO INSURANCE FUND

The proposed budget reallocates the appropriation for immunization services from the General Fund to the Insurance Fund in recognition of the assessment upon health insurers that offsets 100% of these costs. It provides that the assessment will be consistent with expenditures. The funding primarily supports the Connecticut Vaccine Program, which distributed almost 1.1 million doses of fourteen vaccines in 2013, an increase of 233,505 doses (or 27.4%) from 2012. Connecticut continues to maintain one of the highest immunization rates in the country for its two year old population and is one of only two states to meet the national standard for pertussis (whooping cough) – 90% coverage or better for 19-35 month olds.

FUNDING FOR TWO AUTISM WAIVERS

In order to maximize federal reimbursement for services being provided at 100 percent state cost, the Department of Developmental Services (DDS) developed a **home and community-based services waiver for individuals with autism** spectrum disorder. The budget provides over \$340,000 to support the annualized cost of FY 2014 placements and partial year placements anticipated during FY 2015. Funds are being reallocated from DSS to DDS to annualize the 30 slots in the new waiver for children ages three and four with autism spectrum disorder and very significant adaptive deficits.

CRACKING DOWN ON FRAUD

The adopted FY 2015 budget assumes \$104 million in savings through enhanced efforts to curtail fraud directed against state programs. In November 2013, a contractor was engaged to create and implement a state-of-the-art fraud detection system to identify patterns of fraud, waste and abuse perpetrated against state programs such as Medicaid. Because the \$104 million savings target is a challenging goal, the Governor is seeking to enhance relevant state resources and laws to deter fraud and maximize savings and recovery targets. One such strategy is **expanding the scope of the False Claims Act (FCA)** to make it consistent with the scope of work included in the new anti-fraud contract. The proposed amendment would extend the application of the FCA to all health and human services agencies and programs, and extend it to state payments made for state employee and retiree health and state-paid Workers' Compensation medical claims.

OTHER INITIATIVES

SCHOOL SECURITY

Connecticut's public schools should have the latest and best school security infrastructure. The state has already provided \$21 million in school security to communities across the state. The Governor proposes to add an additional \$10 million in funding for school security measures and expand eligibility to the state's technical schools, regional education services centers and charter schools.

PUBLIC SAFETY AND EMERGENCY SERVICES

The Governor's recommended budget for the Department of Emergency Services and Public Protection (DESPP) includes:

- \$300,000 for a consulting team to help develop plans for **automating and improving processes and research** through information technology. In conjunction with the agency, they will assess DESPP's current capacity to collect, retrieve and utilize data within and across divisions and other state agencies, and maximize use of the current system while creating capacity to meet anticipated needs; and
- Two positions and funding dedicated to **assist crime victims and survivors of natural and other disasters**. These positions will work with an advisory board and other stakeholders to assess current policies and practices and analyze the services being provided to these victims.

FREE PARK ADMISSION WEEKEND

To commemorate the 100th anniversary of the first meeting of the State Park Commission and the creation of the first Connecticut state parks, Governor Malloy is proposing to allow Connecticut residents to be admitted to our state parks for free for one weekend this summer. There are over 100 state parks that offer myriad activities for the public to enjoy. A state resident will save up to \$13 per vehicle from the free admission. The complimentary weekend will be announced in conjunction with other centennial celebration activities.

ANTI-DERAILMENT INITIATIVE

Since the May 17, 2013 train derailment on the New Haven Line in Bridgeport, Governor Malloy has taken steps to prevent similar events and to ensure that the safety of Connecticut's citizens is given utmost priority.

To that end, Governor Malloy is recommending **\$1.5 million in new funding for the Department of Transportation (DOT) to determine what is necessary to reinforce the integrity of railways and to plan a comprehensive infrastructure improvement program for the state’s rail system.**

CONCLUSION

Governor Malloy is proposing an all funds budget of \$19.0 billion for FY 2015, \$37.2 million above the adopted budget for FY 2015 and 2.7 percent above the estimated level of FY 2014 expenditures. The recommended budget is \$8.1 million below the spending cap for FY 2015.

Appropriated Funds of the State			
(In Millions)			
	<u>FY</u>	<u>Enacted FY 2015</u>	<u>Recommended Revised FY 2015</u>
General Fund	\$ 17,108.2	\$ 17,497.6	\$ 17,496.2
Special Transportation Fund	1,243.2	1,322.3	1,322.4
Mashantucket Pequot & Mohegan Fund	61.8	61.8	61.8
Soldiers, Sailors, and Marines Fund	3.1	-	-
Regional Market Operation Fund	0.9	0.9	1.0
Banking Fund	26.6	27.8	28.8
Insurance Fund	30.7	32.0	68.0
Consumer Counsel and Public Utility Fund	24.9	25.4	25.4
Workers Compensation Fund	23.2	24.8	26.2
Criminal Injuries Compensation Fund	3.4	2.8	2.8
Grand Total	<u>\$ 18,526.0</u>	<u>\$ 18,995.4</u>	<u>\$ 19,032.6</u>

Note: FY 2014 General Fund does not include additional proposed \$100 million pension contribution.

GENERAL FUND

The recommended revised General Fund budget includes a \$22.3 million operating surplus and is \$1.3 million below the adopted budget for FY 2015. Governor Malloy is proposing a number of initiatives which are accommodated within the adopted level of funding for FY 2015 and which are supported by the level of revenues projected in the January consensus forecast. These initiatives include the first phase of universal pre-kindergarten, significant investments in higher education, and tax reductions.

The January consensus revenue forecast by OPM and the Office of Fiscal Analysis (OFA), which forms the basis for the revenues in this budget, is projected at \$17,685.4 million in FY 2015. The tax and revenue proposals contained in this budget are anticipated to result in FY 2015 revenue totaling \$17,518.5 million, a 0.5 percent decrease compared to estimated FY 2014 revenue.