The FY 2004-05 Midterm Budget Adjustments Fact Sheet

Liquidating the FY 2003-04 deficit

- The original enacted FY 2003-04 budget called for spending $12.452 billion in the General Fund and $13.521 billion in all funds. It was $356 million under the spending cap and had General Fund revenues in excess of appropriations of $100,000.

- Estimated General Fund expenditures this fiscal year are expected to be $12.562 billion, with all funds being $13.640 billion. These numbers include the appropriation of the $20 million Commission on Arts, Tourism, Culture, History and Film (CATCH-F) revenue intercept to the General Fund, the carryforward (which reduces the lapse) of a one-time Department of Motor Vehicles capital project in the Special Transportation Fund (STF) to avoid issuing debt, and the appropriation of the one-time TANF Bonus money in the General Fund. Thus, General Fund expenditures will end up about $110 million above the budgeted amount, with all fund expenditures about $119 million above budget. Appropriations will end the year $259.9 million below the spending cap.

- Including the CATCH-F adjustment but excluding the two one-time appropriations, all funds growth from FY 2002-03 final numbers will be 3.2 percent. In real terms, spending growth is 1.4 percent. On the same basis as the all-funds calculation, the General Fund growth this fiscal year will be 3.5 percent, or 1.7 percent in real terms.

- While the Office of Policy and Management has reported deficits for the current fiscal year of as much as $85 million, as of February 1 that deficit has reduced to about $41 million. The drop is in large measure due to better-than-anticipated revenues in the month of December and January. The state is currently projecting deficiencies of about $66 million, largely in DSS and DCF.

- The early retirement incentive plan (ERIP) will also save less money than originally projected. In total, the ERIP was budgeted to save $153 million in FY 2003-04. The General Fund savings will be $18.8 million less, in large measure because of lower than anticipated savings in pension calculations.

- It is also anticipated that the budget position will also be short another $5.2 million as a result of surplus adjustments.

- On the reduction end, the Governor implemented $12 million in rescissions in December that will reduce the deficit by that amount.

- On the revenue side, for the first time in several years collections are out-performing what was budgeted. Revenues in the General Fund are up over the original budgeted estimate by about $37 million, offsetting in part the excess expenditures outlined above. While corporate taxes are estimated to be $83 million under the budgeted amount. The income tax is estimated to be $124 million over what was estimated at passage.

- To liquidate the deficit in the current fiscal year, the Governor is proposing acceleration of his FY 2004-05 adjusted budget revenue plan. Tax increases for cigarettes, other tobacco products, and alcohol and the new bottle escheats law would go in effect on April 1. Together with a few other miscellaneous actions, they would raise $41.9 million. The current deficit is $41.1 million, meaning an $800,000 surplus.

The FY 2004-05 adjusted budget

- The enacted FY 2004-05 budget called for spending $12.967 billion in the General Fund and $14.056 billion in all funds. It was $119.2 million below the spending cap and had General Fund revenues in excess of appropriations of $200,000.

- Before the budget adjustments, the current services revenue gap was approximately $123 million in the General Fund. The current services budget was $134.6 million under the spending cap.

- The adjusted General Fund budget Governor Rowland is recommending is $13.154 billion, or $187 million more than adopted. The Governor's all-funds adjusted budget proposal is $14.235 billion, or $179 million more. The adjusted budget proposal recommended by the Governor is projected to be under the spending cap by $58.6 million and has a projected General Fund surplus of $500,000.

- All funds growth from the current fiscal year's estimated will be $596 million. All funds growth adjusted for the CATCH-F re-basing and the one-time expenditures in FY 03-04 will be 4.6 percent, or 3.2 percent in real terms.

- General Fund growth from the current fiscal year to FY 2004-05 will be $592 million. Based on the same adjustments as above, General Fund growth from the current fiscal year would be 4.8 percent, or 3.4 percent in real terms.

- Net technical adjustments (further current services updates for caseload, medical inflation, lost savings due to delays in savings initiatives, inclusion of certain collective bargaining monies, roll out of deficiencies, etc.) added $94.1 million to the original adopted General Fund budget. The STF saw a minimal technical add of $1.5 million. All other funds had minimal total technical changes.

- Reductions options (actual reductions to services and programs) removed $63.5 million from the original adopted General Fund budget. The STF saw net policy reductions of about $8 million. All other funds saw minimal reductions, except the Workers' Compensation Fund, with a reduction of $1 million to the rehabilitation services program.

- Expansion options (actual increases to services and programs) added $74.1 million to the original adopted General Fund budget.

- The adjusted budget reflects the appropriation of $27.1 million for CATCH-F, which was originally budgeted as a $20 million revenue intercept.

- An addback of the $55 million extraordinary rescission lapse impacting municipal aid in the original adopted General Fund.

- On the revenue side, net revenue estimates fell by $28.7 million. The corporate tax was revised downward, while the income tax was revised upward.

- Tax increases of $100.8 million. They are limited to the sin tax areas.

- Delays in tax reductions, the escheats bottle proposal and all other net revenue increases account for $115 million.

- In total, General Fund spending is actually up a net of about $167 million adjusting for the CATCH-F $20 million revenue intercept. For all funds, it is up $159 million with the adjustments.

- The recovery is having a positive impact on General Fund revenues. From an economic growth perspective, General Fund revenues will be up 4.4 percent in the coming fiscal year, from a 2.4 percent expected growth this fiscal year.

- The Governor is proposing no tax increases in the area of the income tax, the state's largest tax generator. The Department of Revenue Services is recommending changes to mandate withholding for non-residents who have earnings from Connecticut LLCs and other like entities. This change raises some minimal revenue in the income tax. As such, the adjusted budget forecasts the income tax to raise $4.871 billion before refunds in FY 2004-05. This is up $75 million from the original budget estimate.

- On the withholding side, which represents about two-thirds of the income tax – the budget assumes a 5.5 percent increase. This compares favorably to the projected personal income growth of 4.7 percent, up from a projected 3.7 percent increase this fiscal year (on estimated personal income growth of 3.1 percent.). The current projection is actually down from the original budget projection of 6 percent.

- As for the estimates and finals component of the income tax side, the budget projects a 5 percent increase, up from an expected 1 percent this fiscal year. Continuing growth in non-earned income filings in this category will also help achieve the 5 percent projection. This assumption is down from the original budget projection of 8 percent growth.

- The Governor is proposing no tax increases in the area of the state's second largest tax generator – the sales tax. However, increases in various sin taxes, the delay in the repeal of the tax on newspapers and magazines, and the change in the funding for CATCH-F will lead to increased collections in the sales tax of about $41 million. In total, the sales tax is expected to generate $3.307 billion next fiscal year. This is up $36 million from the original budget estimate. The budget assumes an economic growth rate of 5.7 percent, up from 3.2 percent expected in the current fiscal year. The rate is a fair assumption given the expected rebound in personal income growth and is down slightly from the original budget assumption.

- Corporate taxes are tracking well below original budget estimates in the fiscal year. Before refunds, the state is currently anticipating receiving $83 million less than the $608 million originally budgeted. There is the possibility that corporations are waiting until final payments in April to pay portions of the corporate tax surcharge, increased fees to file on a combined basis, and increase taxes owed due to a change in interest deductions. But, it is uncertain at this time if the shortfall is related to those issues or economic performance or other forces. As such, the adjusted budget proposal lowers the original budget estimate by $97 million, to $504 million. The assumed rate of growth has been lowered to 4.5 percent.

- The inheritance tax will raise about $162 million in FY 2004-05, about $20 million more than is expected this fiscal year because of the six-month temporary tax put in statute last session. The state General Fund continues to lose federal revenue-sharing because the federal government is phasing out their contribution over a four-year period. By FY 2006-07, our total annual loss will cap out at $200 million.

- Cigarette tax revenue will be up about $91 million from the original budget, exclusively due to the proposed increase in the tax.

- One-time revenues remain a concern. Given the magnitude of spending cuts and tax increases, eliminating the one-time revenues in the FY 2004-05 adopted budget was impractical. On the positive side, one-time revenues as a percentage of the General Fund budget are being reduced from FY 2003-04 to FY 2004-05.

- In FY 2003-04, the General Fund will include 4.6 percent of one-time revenues. In FY 2004-05, despite the presence of the tobacco securitization revenue item, one-time revenues will drop to below 3.9 percent.

- It is also important to note that not all of the items listed as one-time revenues will be unavailable after FY 2004-05. For example, if circumstances warrant, the state could continue intercepting up to $16 million in tobacco funds (earmarked under law for other purposes) and depositing it in the General Fund to support existing programs. It could further delay the repeal of the sales tax on newspapers and magazines to save another $15 million in General Fund revenue. It could continue intercepting a small portion of energy conservation funds to generate $12 million. It could continue to defer the phasedown or phaseout of other taxes to save tens of millions of dollars. All told, one-time revenues that do not necessarily disappear as an option over time total as much as $130 million, dropping the true one-time revenues to below $400 million -- or below 3 percent of General Fund revenues.

- The FY 2004-05 adopted budget includes a $300 million non-recurring revenue related to the securitization of the anticipated revenues from the Master Tobacco Settlement Agreement or other revenue identified by OPM and the State Treasure's Office. In addition to being the largest one-time revenue in the budget, this is arguably the most costly and least beneficial to the state.

- With the state poised to feel the positive effects of an economic recovery, Governor Rowland hopes that our reliance on this particular one-time revenue source can be greatly reduced or eliminated if revenues continue to improve over the next several months. Governor Rowland strongly believes that these revenues, should they appear, ought to be directed to the task of restoring structural balance to the budget and avoiding the inevitable task of having to cut programs or raise taxes in the next biennium in order maintain this balance. Accordingly, as part of his budget package, Governor Rowland is proposing legislation that would replace the current reliance upon $300 million of tobacco securitzed revenue or other revenue with any additional growth in our current revenue sources.

FY 2004-05 tax increases

- The Governor's adjusted budget proposes to boost the tax per pack of cigarettes from the present $1.51 to $2.05, effective April 1, 2004. The tax increase would raise $32.8 million in the current fiscal year, including the floor tax on inventory and additional sales taxes generated because of the increase, and $93.7 million in FY 2004-05, including additional sales taxes generated.

- The Governor's budget also proposes to increase the taxes charged on other tobacco products and snuff effective April 1 as well. The increase in the other tobacco products, which impacts chewing tobacco, cigars, self-roll cigarettes, and pipe tobacco, and the snuff tax would raise a total of $500,000 in FY 2003-04, including increased sales taxes generated. In FY 2004-05, the revenue raised would be $2.4 million, including the increased sales taxes generated. The other tobacco products tax is being increased from 20 percent of the wholesale price to 30 percent, a 50 percent increase. The snuff tax will rise from 40 cents per ounce to 60 cents per ounce, a 50 percent increase as well.

- The adjusted budget proposes to increase the alcoholic beverage taxes by 10 percent on April 1. The additional revenue raised, including floor taxes and increased sales taxes generated, would be $2.1 million in the current fiscal year and $4.7 million in FY 2004-05. The 10 percent increase on rates will move the tax on a six pack of beer from 11 cents to 12 cents; the tax on one gallon of wine from 60 cents to 66 cents or about 1 cent on each standard bottle of wine; and the tax on each gallon of distilled spirits from $4.50 to $4.95.

- As part of the 2003 special session in February, the legislature removed the sales tax exemption on newspapers and magazines. The final adopted biennial budget package makes newspapers and magazines exempt again as of July 1, 2004. Because of the continuing fiscal difficulties, the adjusted budget proposes to delay the tax break until July 1, 2005. This will mean an additional $15 million in sales tax revenue for the general fund next fiscal year.

- Total new tax increases proposed in the adjusted budget amount to $100.8 million – with about $94 million coming exclusively from the 54-cent per-pack increase in the cigarette tax.

- The Governor again is proposing that unclaimed deposits on unreturned beverage containers be escheated to the state. This proposal would become effective on passage, with the first quarterly payment based upon the quarter beginning April 1, 2004 through June 30, 2004. This proposal would bring in an estimated $4.5 million in FY 2003-04 and $20 million in FY 2004-05.

Lower education initiatives

- In an effort to help schools/districts to face the challenge offered by the federal No Child Left Behind (NCLB) act, Governor Rowland's recommended adjusted budget provides a comprehensive plan that offers strategies designed not only to intervene in districts that have been designated as not making "Adequate Yearly Progress", but also to proactively ensure that pre-school children in those districts will be prepared to succeed in school. For those children already in school, additional strategies are also proposed.

- The cornerstone of Governor Rowland's plan is to significantly expand the number of full-day, full-year quality pre-school programs. $14 million in new funding is provided in the adjusted budget for 2,000 additional pre-school slots in the state's Early Childhood Education program. These slots will be targeted to those communities who are the poorest in the state. There are approximately 6,300 slots already in the School Readiness program, which was introduced by Governor Rowland earlier in his tenure. This is in addition to the state's Head Start Enhancement program, which adds to the federal Head Start funding.

- For those children already in school in these poorer districts, expanded pre-school programs will be supplemented with $1 million more for the expansion of the Early Reading Success program for children in grades K – 3, offering reduced class sizes and full-day kindergarten, intensive reading programs, and after-school and summer school programs. In addition, summer school programs will be expanded by $1 million to further assist impacted districts in helping their children become proficient students.

- Targeted state aid of $75,000 per school will be provided for the sixteen schools (from the August, 2003 list) currently designated as "in need of improvement" for failure to make "adequate yearly progress" for at least 2 years. With this designation, the schools are in a five-year (NCLB) program that has increasing levels of sanctions. To help these schools progress academically (and to avoid increasing NCLB sanctions), a needs assessment will be done and immediate prescriptive actions identified. Completion of the needs assessment is a prerequisite for the state funding which must be matched by $25,000 in local funding per school.

- According to NCLB, students in schools that are "in need of improvement" are eligible for public school choice -- and 39 Hartford students did choose this public school option this year. Governor Rowland is broadening this choice option to include non-public schools for students whose schools are having problems meeting the NCLB standards. Students in the 42 elementary and middle schools that did not make "adequate yearly progress" and had whole school academic deficiencies in Math and Reading will be eligible to apply for the newly created Equal Opportunity Scholarships. These scholarships can be used for tuition, books, and uniforms at non-public schools. In addition to current public school choice options, $1.5 million is being added to the adjusted budget for the state share for these scholarships. This will provide approximately 500 children with an additional opportunity for a diverse, high-quality educational experience. The $4,000 scholarships will include a $3,000 state grant supplemented by a $1,000 local contribution. Localities will also be obligated to transport children who take advantage of these scholarships to the school of their choice as lonfg as it is in the student's town or in an abutting town.

- Magnet School funding will increase from $55.7 million in the current fiscal year to $61.6 million in FY 2004-05. This additional funding will increase the number of schools from 36 to 48 and enrollment from about 11,300 to about 15,000, an extraordinary 33 percent increase. Since 1998, when there were only 13 magnet schools and 3,500 students, the number of students in these specialized, interdistrict, racially integrated educational settings has increased over four fold.

- To address the ongoing funding issue for some regional magnet schools, legislation will be proposed to require districts participating in magnet schools to pay a more equitable share of the operating costs. Currently, magnet schools that are operated by Regional Education Service Centers (RESCs), especially those schools in Hartford, do not receive the local funding that is needed to operate them. Each year, there is funding added to support the RESC magnet schools, particularly those in Hartford. This additional funding creates inequities within the magnet school program by rewarding communities who do not pay the costs for their students' education. Therefore, the adjusted budget is proposing that those districts who do not pay an equitable amount for their students in the RESC operated magnet schools will fund any balance remaining after the calculation of the average per pupil cost less the state magnet subsidy. The annual discussion regarding the subsidies for the RESC operated schools will be eliminated and there will be more incentives for these schools to control costs.

- The enrollment for charter schools is projected to grow in the budget, from about 2,280 to 2,460 next year. Charter school subsidies received a one-year bonus of $250/student in FY 2003-04, bringing the total subsidy per student to $7,500. Under statute, the permanent per student subsidy is $7,250, which is the funding level in the original and recommended FY 2004-05 budget. Charter school funding will increase to $17.8 million in FY 2004-05, from $17 million in the current fiscal year.

- OPEN Choice, another voluntary public school choice option, provides both education and transportation subsidies to encourage (primarily) urban students to attend (usually) suburban schools. Enrollment in OPEN Choice is scheduled to increase over 400 students, from 1,560 to 1,980 in fiscal year 2005. Funding will increase to $10.6 million in FY 2004-05, from $9.1 million in the current fiscal year.

- Regular local education aid in the original adopted budget for FY 2004-05 was largely frozen at the FY 2003-04 adopted levels because of the state's fiscal crisis. The adjusted budget recommendations do not reduce any of these line items of local school aid. However, the original budget for FY 2004-05 also included a $55 million extraordinary municipal aid rescission that would have meant major midyear local aid cuts if the budget did not stay in balance. To ensure that local school budgets have certainty and do not face major cutbacks in the middle of a school year, Governor Rowland has eliminated the municipal rescission lapse to protect local school systems. Indeed, local school aid could have been cut by as much as $87 million. That possible cut no longer hangs over school districts' heads.

Higher ed initiatives

- The original biennial budget called for aggressive Early Retirement Incentive Program savings of about $150 million per year. While many agencies saw very aggressive refill targets, the biennial budget called for much greater flexibility for the higher education units in terms of refills. Further, the budget capped the amount of savings that could be taken from the block grants at 50 percent of total retirement savings. Thus, while many agencies saw their budgets swept much more, higher ed block grant units were able to keep 50 percent of the savings in their block grant to reinvest in their systems.

- The adjusted budget makes no reductions to the original adopted block grant appropriations and, as was the case in the current fiscal year, only sweeps from the block grant the 50 percent allowed in statute for the early retirement lapse. The actual block grants are reduced for the block grant unit's share of the statewide ERIP lapse. The statewide ERIP lapse has gone away and the savings has been incorporated in each state agency's PS account and in the associated central fringe accounts.

- Total savings in the four higher ed units from ERIP was $46.1 million; the units kept $23.1 million and $23 million was reduced from block grant accounts per law. Units will still receive fringe benefits based on the $23 million retained. The units had a total of 675 retirements.

- After the ERIP reduction, Governor Rowland is recommending some slight increases to three public units in recognition of some inequities and errors when the original block grants were set for FY 2004-05 during the 2003 session. For Connecticut State University, $2 million is added; $1 million is added for the Regional Community-Technical Colleges; and $1 million is added for the University of Connecticut Health Center.

- After the ERIP reduction, the four units received block grant funding this fiscal year of $520.5 million. In FY 2004-05, the four units were scheduled to receive $518.4 million after the ERIP adjustments. The new recommended level is $522.7 million, or $4.3 million more than the original FY 2004-05 budget and $2.2 million more than estimated in the current fiscal year after ERIP savings.

- While funding growth for the public higher education units has slowed during the recent recession, it is important to remember that, since1995, Governor Rowland has increased General Fund and Bond funding for the constituent units of higher education by over $400 million, or almost 72 percent. In good times, as costs rose, so did state support. The University of Connecticut saw a 66 percent increase, while the CSU system saw a 71 percent increase and the community colleges almost saw their funding double. The health center saw an almost 50 percent increase, not counting $20 million in one-time transition aid it received several years ago. When looking at just general funding of operating expenses, both CSU and UCONN have enjoyed about a 40 percent increase in their general fund support under Governor Rowland's tenure. None of these figures include fringe benefits, which have increased far more dramatically.

- The adjusted budget does not change the tuition aid monies in the adopted budget for the Capitol Scholarship Program, for CAPCS or for CICSG.

- Governor Rowland is proposing no changes to the UCONN 2000 or 21st Century UCONN capital plans. He is adding $10 million for the UCONN Law School. For FY 2004-05, a total of $100 million is authorized for the regular capital programs.

- Governor Rowland continues his commitment to the other higher ed units as well. As no bond package was passed for FY 2003-04, Governor Rowland is proposing a mini-bond package to be passed in February. The bulk of that package is promised funding for the CSU and CTC systems. Both systems had some FY 2003-04 funding already authorized due to the advanced funding during the 2002 session to ensure the state stayed below the 90 percent bond cap. CSU had about $40 million authorized and the CTC system about $70 million. But additional funding was needed for the current fiscal year to keep critical projects on schedule. For FY 2003-04, Governor Rowland is proposing about $70 million more. In the case of CSU, almost $87 million more is being recommended. For FY 2004-05, the Governor's bond package includes about $80 million for CSU and about $70 million for the CTCs.

- Since he came to office, Governor Rowland has ensured that almost $3.3 billion in higher education capital authorizations have been passed through the 2003 session. Total capital dollar commitments for higher education signed into law under his tenure will be almost $3.9 billion. Higher education authorizations will total $366.7 million for FY 2003-04 and $260.7 million in FY 2004-05 in Governor Rowland's proposals are adopted.

- Higher ed allocations have also been at record levels under Governor Rowland as each of the constituent units aggressively renovates campuses or is relocating them. Since Governor Rowland came to office and through the end of calendar 2003, total allocations for higher education have totaled $1.85 billion.

Human services changes

- Governor Rowland is proposing no changes to the cash or medical sides of the SAGA system as adopted in the original FY 2004-05 budget. The hospital portion of the medical side was implemented January 1, 2004. Due to start up delays and the greater level of coordination required, the non-hospital restructuring is expected to be implemented no later than July 1, 2004.

- Efforts are continuing by the Department of Social Services to redesign the Medicaid program for individuals who receive benefits through both fee-for-service and managed care to more closely resemble commercial insurance plans. Governor Rowland continues to believe substantial restructuring is necessary in the Medicaid program and has directed DSS to prioritize their efforts and have in place by January 1, 2005, a restructured benefits program under Medicaid. The waiver it is filing with the federal government would create various programs based on need and migrate many recipients to health plans that better match private sector benefits, premiums and cost-sharing. This initiative is expected to result in savings of $5.6 million in FY 2004-05 and $15.0 million in FY 2005-06.

- The Governor proposes restructuring the existing managed care system, leading to a better coordinated, more efficient managed health care system, and which should result in significant savings over time. This restructuring, which will coincide with the anticipated October 1, 2004 managed care contract renewal, will result in distinct pharmacy, dental, and behavioral health services for the approximately 300,000 individuals enrolled in managed care under the HUSKY program.

- The state had to offer HMOs a 4 percent rate increase as of October 1, 2003 in order to preserve the program and ensure adequacy of the networks. To assure viability of the health plans participating in managed care, the Governor proposes a 2 percent rate increase effective October 1, 2004, at a cost in FY 2004-05 that is projected at approximately $9.9 million.

- In an effort to ensure that our state's general hospitals receive the resources they need to provide vital services, Governor Rowland is proposing to adjust reimbursement levels over a four-year period, beginning in the current fiscal year. Four hospitals with dire financial situations (Windham, New Britain, Waterbury and St. Mary's) and in need of immediate relief received rate adjustments this fiscal year. The Department of Social Services has reviewed these hospitals' financial records and, in accordance with DSS regulations, established an appropriate level of financial relief. Approximately $2.0 million in deficiency funding is earmarked in FY 2003-04 to assist these four hospitals. The FY 2003-04 adjustment only assists some immediate problems. Recognizing that many of Connecticut's hospitals are in need of financial relief over the longer term, Governor Rowland is proposing additional adjustments to hospital inpatient rates over the next three years. Beginning on October 1, 2004, general hospital inpatient Medicaid rates will be revised to create a floor, and hospitals with discharge rates below this level will receive rate increases. In FY 2004-05, the cost per discharge will increase to no less than $3,750 effective October 1, 2004, at a cost of $2.27 million. The second year, the cost per discharge will be increased to no less than $4,000 effective October 1, 2005, at a cumulative cost of $5.0 million. The third year, the cost per discharge will be increased to $4,250 effective October 1, 2006, at a cumulative cost of $8.0 million. Hospitals with rates that exceed the floor will continue to be reimbursed at the higher level. Total hospital rate increases, including annualization of the current fiscal year increase and the new rate added for FY 2004-05, will be $4.8 million next fiscal year. The adjusted budget does not change the original adopted amounts for the regular uncompensated care program ($63.7 million) and urban hospital uncompensated care ($31.6 million).

- Due to the financial difficulties of some other Medicaid providers, Governor Rowland is proposing some additional targeted rate increases. A 2.0 percent cost-of-living adjustment for Chronic Disease Hospitals effective July 1, 2004 has been included in the adjusted budget. This will have a new cost of about $1 million in FY 2004-05. Because of the financial distress of the state's largest CDH, Hospital for Special Care, rate relief of $2 million was given this fiscal year and $2 million in additional dollars for annualization of the FY 2003-04 rate adjustment was added in the FY 2004-05 adjusted budget as well. Thus, the total added in the adjusted budget was $3 million.

- A 5.0 percent cost of living adjustment, effective October 1, 2004, is included in the adjusted budget for private Intermediate Care Facilities that serve the mentally retarded. In adding these dollars, Governor Rowland recognizes the difficulties faced by these providers in treating these vulnerable populations as the facilities struggle with rising costs, changing case mix, hard to serve clients and specialized health care staff. In FY 2004-05, this adjustment amounts to just over $2 million.

- The state's human service private providers which account for about $1 billion in state expenditures in numerous state agencies, did not receive a COLA increase in the current fiscal year. The original adopted budget provided for $7.8 million in provider increases. The Governor's adjusted budget calls for retaining that amount of money and providing a 1 percent rate increase effective October 1, 2004. The dollars included in the budget could have also been used to provide a full year 0.75 percent increase. While the 1 percent would be effective October 1, it provides for a higher base of ongoing funding in the outyears and is the preferred option for allocating the funding.

- With the generic substitution and prior authorization programs now on line, the administration is actively implementing the new preferred drug list legislation that was passed. A Medicaid Pharmaceutical and Therapeutics Committee has been set up. Per statute, the program will be phased in this fiscal year, with the implementation of this initiative targeting three classes of drugs by early FY 2004-05. The first of the drugs, proton pump inhibitors, will be on line during the last quarter of this fiscal year, with the two other drugs coming on line late this fiscal year and early next fiscal year. The implementation of the preferred drug list for the three classes of drugs will save the state $12.5 million in FY 2004-05. The savings are in part the result of the ability of states to demand supplemental rebates from drug makers. Federal courts have recently recognized the federal governments ability to allow states to demand rebates beyond the normal federal Medicaid rebates. The implementation of all of these initiatives will save the state over $40 million in expenditures in FY 2004-05.

- In order to further curtail the high cost of prescription drugs, Governor Rowland is also proposing to reduce the dispensing fee for chain, independent and long term care pharmacy providers to $3.00, from the current $3.30. Even with this reduction, Connecticut's pharmacies will still be relatively well compensated. Dispensing fees paid by commercial health insurers are often well below $3.00, with "highly competitive" fees ranging from $1.25 to $1.95, "competitive fees" in the $1.80 to $2.00 range, and fees from $2.20 to $2.75 considered "below competitive." Further, the adjusted budget calls for reducing the average wholesale price reimbursement paid to pharmacy providers to minus 14 percent. The current reimbursement rate is minus 12 percent. Based on historical data, pharmacies will continue to make a profit on sales to public assistance recipients. Recent reports from the Office of Inspector General for the federal Department of Health and Human Services have found that pharmacies tend to purchase their brand name drugs for 22 percent below the average wholesale price, with generics purchased at 66 percent below AWP. This is based on surveys in a number of states. In Connecticut, generic drugs are already governed by a maximum allowable cost reimbursement. These two steps save $9.6 million in FY 2004-05.

- The adjusted budget is proposing to scale back adult dental services that are optional under federal Medicaid rules. Services that will no longer be covered include basic dental coverage such as routine checkups, evaluations, cleanings, filling, crowns, root canals and prophylaxis. DSS will, however, continue to provide emergency dental service including dentures, x-ray, limited oral evaluation, emergency treatment of dental pain, and extractions. Under this proposal, DSS will amend its Medicaid state plan to restrict dental coverage for adults age 21 and over. Eliminating optional Medicaid services for non-critical dental services in the Department of Social Services is expected to save $4.7 million in FY 2004-05, but cost $1 million in DMR to ensure that full dental coverage is available to DMR clients.

- Consistent with the imposition of nominal co-payments on drugs and other medical services, the Governor proposes to implement a mandatory $2.00 co-payment for non-emergency medical transportation services. This proposal is similar to a change implemented by Delaware, whereby providers are allowed to charge co-payments as a condition for providing transportation. Delaware's plan was approved by the Centers for Medicare and Medicaid Services (CMS) last year, and it is anticipated that Connecticut's proposal would also be approved. The FY 2004-05 budget assumes savings of $1.23 million as a result of this initiative.

- The original 1 percent rate hike for nursing homes effective January 1, 2005 is maintained in the adjusted budget, at a cost of almost $5 million. Over time, the state plans on bidding for Medicaid nursing home beds.

- Governor Rowland proposes that Connecticut move forward to modify the ConnPACE program in FY 2004-05 by making it a wrap around benefit coinciding with the first phase of the new Medicare program – the Medicare drug discount card. By creating a wrap-around drug benefit under ConnPACE, Connecticut can assure that ConnPACE, with its generous state-funded benefits, is taking advantage of federal funding available through the new Medicare prescription drug program and not footing the bill alone. Also, as a wrap around, the process will be seamless to the client. The federal government will subsidize some benefits immediately for those up to 135 percent of poverty. The state will mandate that those on ConnPACE at or below 135 percent of poverty also enroll in the free drug discount card, which will reduce our costs by $17.5 million in FY 2004-05.

- On September 23, 2003, the U.S. Department of Health and Human Services announced that Connecticut was the beneficiary of an $11,745,032 TANF High Performance Bonus. The bonus funds were awarded to Connecticut for its success in employment and other program achievements during FY 2000-01. The state may use these funds for purposes that meet the basic goals of the original federal welfare reform legislation passed in 1996. Toward that end, the Governor seeks, as mandated by federal rules, to appropriate these available funds for use in FY 2004-05 and FY 2005-06. Some funding can begin to be spent in the current fiscal year.

- The Governor has directed the Department of Social Services to reopen the Priority Group 4 portion of the "Care 4 Kids" program effective April 1, 2004. By reopening the program now, an estimated 1,800 working families now on the waiting list will have access to help in paying for child care by the end of FY 2004-05. $6 million in TANF and $6 million in new General Fund monies will be spent on this initiative.

- In addition to expanding home care, assisted living and congregate housing in the budget, the Governor has added $2.2 million to the budget to increase the personal care assistance waiver for the disabled from about 500 to 700 people. We are currently maxed out on the waiver.

DMR initiatives

- Governor Rowland is proposing the initiation of a five-year plan to address the needs of a significant number of the individuals on the DMR waiting list. The Governor's proposal adds $4.6 million in new funding for residential services in FY 2004-05 to address the waiting list. This funding will be utilized to serve 150 people from the waiting list at an average cost of approximately $50,000 per year. This number includes 120 individuals currently at home, and 30 individuals under-served in existing residential settings. This is the first phase of a five-year plan to serve 750 people who are on the waiting list with the full range of residential supports they need. This will be accomplished by the end of FY 2008-09 with a comparatively small net cost to the state due to revenue maximization in other areas and federal financial participation on the waiting list clients.

- So as not to add these populations to the waiting list and potentially disrupt the funding of the new waiting list initiative, Governor Rowland proposes funding for new high school graduates needing services in FY 2004-05 and for those aging into DMR's care during FY 2004-05. These dollars were not previously in the adopted budget. A total of $5.4 million is being added for these two purposes. This initiative will support 175 new high school graduates beginning on September 1, 2004 at a proposed moderate placement cost of $19,000 per year per individual. This will also support about 86 individuals aging into DMR's care — about 34 individuals requiring residential care at an average annual cost of $66,600, and 52 individuals requiring day services at an average annual cost of $24,000. Because many of these individuals will qualify for waiver services, federal reimbursement will help make this initiative affordable.

Behavioral health and alternatives-to-incarceration initiatives

- In August 2001, the Departments of Children and Families (DCF), Mental Health and Addiction Services (DMHAS), and Social Services (DSS) formed the Connecticut Behavioral Health Partnership to plan and implement an integrated system for financing and delivering public behavioral health services and programs for children and adults. The primary goal of the partnership is to improve access, quality, and individual outcomes through a more complete, coordinated and effective system of community-based behavioral health services and supports. The agencies have agreed to coordinate the clinical management and administration of behavioral health services covered under Medicaid fee-for-service, the HUSKY A and HUSKY B programs, the DCF Voluntary Services Program, and the DMHAS General Assistance Behavioral Health Program (GABHP). The integration of behavioral health services covered under the HUSKY program will require that these services be carved out of the existing HUSKY managed care arrangements. The partnership will contract with an Administrative Service Organization (ASO) to manage certain administrative functions. These services will include eligibility verification, utilization management, intensive care management, quality management, coordination of medical and behavioral health services, network management, recipient and provider services, and reporting. The ASO will operate under a single contract with all three Departments, and is expected to be fully operational by October 1, 2004. Administrative costs associated with the ASO will be covered by existing administrative resources (such as HUSKY capitation payments and GABHP administrative costs), and would be subject to negotiations once an ASO contractor is selected. A new account will be established within each agency to fund services that are intended to be under the partnership. Having a single, flexible account within each agency will allow the agencies to shift expenditures between grant and fee-for-service components. $248 million is being reallocated in the agencies to the BHP accounts.

- The adjusted budget assumes $2.4 million in additional revenue due to implementation of mental health group homes and substance abuse residential services under the adult rehabilitation option. Per statute, up to $3 million of revenue from the rehab option is dedicated to continuing services created by the Community Mental Health Strategy Board. The administration also intends to seek statutory language regarding DMHAS certification of providers, for which we believe we have a legislative commitment. At this point, the adjusted budget could not identify funding to continue some of the more important services funded from the original mental health board monies. While the rehab option money will fund some of the critical components, more services deserve ongoing funding. The administration will work closely with the legislature to identify funding for these services. One idea: with approved Behavioral Health Partnership and certification language, a management and administrative structure would be in place to potentially expand the rehabilitation option to other services. The administration would be committed to dedicating all of this money to increasing adult mental health services, with the lion's share going to support other critical strategy board services.

- In an effort to begin the process of expanding innovative, community-based services in the state and alleviate some of the gridlock in the mental health system, $3 million dollars of DMHAS early retirement funding was released to allow DMHAS to develop and augment programs.

- The adjusted budget is proposing to save $4.2 million in DMHAS through the annualization of several service system restructuring initiatives begun in FY 2003-04 at the time of statewide rescissions.

- The adjusted budget is proposing to save $275,498 in general fund appropriations by eliminating state support to Regional Action Councils (RACs). Sufficient federal funding through the Substance Abuse Prevention and Treatment Block Grant is available to sustain needed activities by the RACs.

- The Governor is recommending to maintain the $3.9 million in new alternatives to incarceration funding for FY 2004-05. In addition, the Governor is augmenting that funding with over $4.2 million in federal funding.

- About $3 million has been added in the adjusted budget in the Department of Correction's FY 2004-05 to roll out the FY 2003-04 deficiency in the Inmate Medical Services account. These additional funds will allow UCONN Health Center's Correctional Managed Health Care to continue to provide an acceptable level of medical and mental health services to the state's prison population. In addition, $1.4 million has been added in the adjusted budget to the account in FY 2004-05 to allow the Department of Correction to consolidate resources in order to improve mental health services and be more cost effective over time in the provision of health services.

DCF initiatives

- Despite concerns about the viability of the Exit Plan, the Governor's adjusted budget demonstrates the administration's commitment to this endeavor. In an attempt to meet the challenging timetables and requirements of the court-ordered Exit Plan, substantial action and significant resources are required. To this end, the adjusted budget recommends an approximate $60 million increase from the amount originally budgeted and available for the current fiscal year, and about $40 million more than estimated expenditures this fiscal year and what was originally adopted for FY 2004-05.

- After some reallocations of funding to other agencies, there is actually a net of $51 million in additional funding added to the original FY 2004-05 budget. The number is a net number as it is reduced for internal reallocations of monies from lower priority programs to new ones designed to meet the Exit Plan measures.

- To meet the caseload measure of the Exit Plan, about $11 million is added for 145 new social work-series positions and associated costs in FY 2004-05. Those positions were added in the current fiscal year. In addition, the service requirements in the Exit Plan require a reduction in the level of vacancies experienced in DCF.

- Additional funding is provided to reflect operating costs associated with these personnel increases and other costs. Operating funds are also increased to cover costs for the fuel cell at the Connecticut Juvenile Training School. Much of this increase is attributable to the rise in costs for natural gas, which is used as a fuel source for the fuel cell. About $2 million is added for these purposes.

- Almost $16 million is added for residential placement needs over originally budgeted amounts in the biennium. While the percentage of DCF clients requiring residential placements has remained fairly constant, the recent growth in the department's caseload has resulted in an increased number of children requiring intensive residential services.

- $3.7 million is also included to pay for Single Cost Accounting System rate increases for residential providers required by the legislature but not funded in the FY 2003-04 budget.

- About $5.9 million is added to fund anticipated growth in foster and adoptive care. The adjusted budget assumes 150 additional foster care beds and an increase of 520 adoption and subsidized guardianship stipends over the anticipated FY 2003-04 service levels.

- About $3.4 million is added for workers' compensation over-runs.

- $1 million is added to continue providing dollars for flexible funds for family emergency needs.

- $8.5 million is recommended for new or expanded initiatives to allow the state to meet the outcome measures contained in the Exit Plan beyond the caseload mandate.

- About $6.4 million in federal monies and $3.7 million in new general funds will go toward enhancing girls' juvenile justice treatment programs.

Economic and work force development initiatives

- Governor Rowland proposes a new 5-year Next Generation Manufacturing Competitiveness Program to sharply improve the ability of Connecticut's small and medium sized manufacturers to create a sustainable operating business model to compete in the world economy. This will include: continuing to expand the use of progressive manufacturing techniques and advanced technology; engaging world leading practitioners to help identify offshore opportunities and the best strategies to participate in those markets; gaining market intelligence and developing joint international business development programs; "skilling up" their workforce; and creating a virtual center to assist clusters in their product design and development efforts. Governor Rowland is proposing to modify the Manufacturing Assistance Act bond act to allow the Next Generation Manufacturing Competitveness Program to be eligible for funding under its umbrella. Annual funding is expected to be up to $5 million.

- Governor Rowland is also proposing that the DECD, OPM, the Governor's Council on Economic Competitiveness and Technology, and the State Treasurer's Office develop two new private professionally managed capital funds: (1) a $100 million seed capital fund for early stage companies in bioscience and technology; and (2) a $25 million inner city equity investment. The private sector would be the principal investors in these funds, although public funds could be deposited in the funds. $200,000 in general fund monies will be carried forward this fiscal year for DECD to hire a consultant to assess the viability of establishing these funds and pursue investors.

- The Governor's recommended adjustments include $200,000 in carryforward funding for the Department of Economic and Community Development to build upon the successful National Foundation for Teaching Entrepreneurship's (NFTE) entrepreneurial training initiative in Connecticut.

- The Governor is proposing to designate the Office of Workforce Competitiveness as the agency with the responsibility for the employment and training initiatives required to support Connecticut's position in the knowledge economy. A Council of Advisors on Strategies for the Knowledge Economy will be established. The Council will be chaired by the Director of OWC, with participation from the Secretary of OPM, the commissioners of DECD, DOL, DHE and SDE, and private industry. The council will advise on the development and implementation of knowledge economy strategies in the state.

- The Governor is proposing to create an "Innovations Competitiveness Grants Program." Higher education institutions and vocational technical schools can compete for new program development funding, with preference given to new programs involving consortium of higher education institutions and employers working together in partnership. Availability of industry matching funds, commitments to pay tuition of students or to hire students as interns and full-time workers upon graduation should be among the key criteria in selecting applicants. Grants would be awarded by the new council outlined above. Grants would consist of both capital and operating dollars. Funding is anticipated to be made available in the FY 2005-07 biennium and it is anticipated that the council will set up criteria and develop the program in the coming fiscal year.

- The Governor's proposed budget includes start-up funding for an initiative to dramatically increase Connecticut's share of funding under the federal Small Business Innovation Research (SBIR) program. $250,000 is being provided in carryforward funding to begin this program of technical assistance. Capital dollars can be used as well to provide matches to federal requirements.

- Governor Rowland is proposing to carryforward $1 million from the current fiscal year to continue the activities of the Jobs Funnel program.

- The Governor's adjusted budget recommends carrying forward $800,000 from the current fiscal year to continue the Connecticut Career Choices program.

- The state's investment in the Connecticut Education Network (CEN) will produce significant returns for students throughout the K-20 system. The CEN will connect all Connecticut colleges, universities, public elementary, middle and high schools and libraries together in a high-speed broadband digital network. The CEN will literally bring world-class educational programming and research to the fingertips of every student and adult learner in the state. The Governor's adjusted budget also includes $5 million in capital funds to continue the build out. Additionally, Connecticut just received preliminary approval for $3.5 million in federal matching funds through the ERATE program in support of the CEN build out, increasing the number of sites connected to the CEN to 102 from the 50 originally planned for this year as well as allowing all the regional vocational-technical schools to be connected. In addition, the CEN will be the central component to the developing *Northeast Research and Education Network* (NEREN), which will link the finest universities, museums and hospitals in the seven Northeastern States together into a single, robust digital superhighway for advanced research and education. The combined impact of CEN and NEREN will make the region one of the strongest competitors in the knowledge economy in the entire world.

- Governor Rowland will continue his efforts to attract business and revitalize urban communities. While no new MAA money is being proposed, over $55 million will be available for business development. The urban act has about $46 million in unearmarked funds and the Governor is calling for a new bond authorization of $50 million in OPM (an old DECD authorization of $7 million is being cancelled). The state will also have $5 million in biotechnology monies for next fiscal year. Further, the adjusted budget proposes $5 million for the Small Town Economic Assistance Program and $10 million for housing development and redevelopment.

- The Governor is proposing to make the amendment to the R&D tax credit exchange permanent. These amendments allow corporations that pay the $250 minimum tax or capital base tax to nevertheless qualify for the tax credit exchange. The purposes are to: increase the level of R&D, innovation and entrepreneurship in Connecticut; encourage more start-up companies to begin and expand in-state; and regain one of Connecticut's few competitive advantages compared to most high tech regions in the country.

- The state's Urban Reinvestment Tax credit program has thus far saved and created hundreds of jobs. To make this tool more attractive for small scale development in urban centers, the Governor is proposing to amend the act to drop the required capital investment threshold from $20 million to $5 million.

- Regional economic development revolving loan funds are an important tool to support local economic development and business. During the next fiscal year, the Governor proposes to use existing bond authority to recapitalize and enhance new and existing regional loan funds.

Transportation initiatives

- The Governor's proposed adjusted budget uses TSB account monies to continue the original Section 16 TSB projects, including extended rail and bus services, as well as develop and plan service enhancements on the New Haven branch lines. TSB account and capital dollars will also be used to expand incident management activities.

- Due to the rapidly increasing costs associated with the provision of bus and rail services, the Governor is recommending that rail fares be increased by 5.5 percent on July 1, 2004 and the planned bus fare for January 1, 2005 be accelerated to July 1, 2004 to offset the increasing subsidies necessary to provide these services. These changes will generate approximately $8.0 million in FY 2004-05 and $5.5 million annually thereafter, offsetting an increase in the subsidy.

Homeland security and public safety initiatives

- To continue to enhance Connecticut's homeland security, Governor Rowland's adjusted budget calls for significant new capital investments totaling over $70 million, including:

    - $2.4 million to properly equip Connecticut's new Urban Search and Rescue (USaR) team affiliated with the Department of Public Safety's Division of Homeland Security. Federal Byrne funding is also scheduled to continue to support USaR training and stipends for the Statewide Anti-terrorism Task Force.
    - Funding for Phase III expansion and improvements at DPS' Forensic Lab. With the lab's DNA and Computer Crimes Units expecting to significantly expand their casework, and general lab and office space in short supply, $7.9 million is recommended for full funding for this critical project.
    - $300,000 for capital equipment funding for the Military Department to enhance its emergency operations center, and $800,000 to the Department of Public Health to provide essential equipment and instrumentation for the state public health lab to develop a radiologic testing capacity, equipment for the Disaster Medical Assistance Team and improvements to their emergency operations center.
    - The purchase of a 100-bed mobile and surge hospital and equipment, which could support disaster response, provide surge capacity in any location of the state during a mass casualty event, or provide isolation care for any type of infectious disease. Within the $10 million figure are grants to support the HEPA filtration of 65 isolation rooms in emergency rooms across the state. Combined with the mobile hospital, these initiatives will bring the number of beds that comply with CDC guidelines for isolation care to 165 from the current 6 statewide. Bond authorizations total $10 million.
    - $45 million in additional funding for a new Public Health lab with Level 3 capacity, capable of detecting any bioterrorism agents thereby greatly aiding in the rapid response of the public health community to any incident. This amount will be combined with the $5 million currently authorized. Deliberate planning for this state of the art facility continues.

- The adjusted budget provides continued support toward the implementation of the Connecticut Justice Information System (CJIS), an initiative aimed at using the benefits of technology to bring greater cohesion and improved effectiveness to our criminal justice system. To date, a total of $38.4 million in bond funds have been authorized for the projects and it is anticipated that some projects will be brought to completion and many others will be in progress during the next fiscal year. Included in the governor's adjusted capital budget is a request for $11.3 million for CJIS projects. When combined with anticipated support from federal homeland security dollars for CJIS projects, this request represents a final installment to completing the vision of the major projects associated with CJIS.

- The Governor has added almost $2.6 million in his adjusted budget to ensure maintenance of staffing through a trooper training class so as to continue effectiveness of services and to safeguard the protection and safety of the public. The size of the class is predicated on the outcome of the deferrals. The class could range in size from 23 to 56 depending on how many of the individuals who deferred their retirements actually retire or choose to rescind their retirement papers.

- In support of the DNA collection mandate passed by the legislature, Governor Rowland is making available over $1 million in federal Byrne funds. About $340,000 in funding is being provided in the current fiscal year to purchase Buccal Swab Evidence Collection Kits and staff necessary to collect the samples.

- During the last legislative session, DOC obtained statutory permission to increase the number of prisoners it can ship out of state by 2,000 more through June 30, 2005. The Department of Correction will seek proposals from public and private contractors for the care and custody of up to 2,000 additional offenders in out-of-state facilities. The delay in the passage of the budget last year pushed back the time line to begin sending inmates out of state. That has prompted the Governor to look to revise statutory language to allow the Commissioner of Correction to contract with a governmental or private vendor for up to 2,500 prisoners permanently, thus making the out of state placement option a permanent statutory authorization.

State work force and general government initiatives

- All told, between the layoffs and ERIP, the state work force will be down at least 4,350 positions. Total savings in the general fund and transportation fund will be almost $246 million, about $65 million less than the original estimate. At least 1,227 of the employees who were laid off or otherwise separated in FY 2002-03 when the state failed to get concessions from the union coalition have been reemployed as of January 2004. This represents approximately 50 percent of the 2,431 employees who were laid off or otherwise separated.

- In FY 2002-03, nearly all of the higher education units reopened contract negotiations on their current contracts in order to provide concessions during the state's fiscal crisis. Only two higher education units did not provide concessions: State Technical College Faculty and the University of Connecticut Health Center Non-faculty Professionals. Higher ed units offering concessions have a total of 5,341 employees and a total payroll of $336 million. Those not offering concessions have a total of just over 2,000 employees and a total payroll of just less than $100 million.

- Thus far, in FY 2003-04, there have been three contracts that have been ratified by the unions which provide for wage freezes and delays in their Annual Increments (AIs). The Administrative Clerical, the Judicial Employees and the Judicial Professional Employees contracts each provide for an absolute wage freeze in the first year of their contracts and 3 percent General Wage Increases (GWI) and delays in AIs by six months in the second and third years of their contracts.

- The Social and Human Services arbitration award provides AIs but no GWI in the first year of the contract, a 2.5 percent GWI and a delay in AIs for six months in the second year of the contract and a 3% GWI and a three month delay in AIs in the third year of the contract.

- The Corrections Supervisors award, however, is an award that the administration cannot endorse. It is unaffordable for taxpayers. This award provides for no wage freezes, and also has a provision in it that changes the line supervisor schedule to five days on and three days off, which the Department of Correction believes will result in the need for considerable additional staff. All told, this award would cost the state an additional $7.7 million over the FY 2003-05 biennium beyond what would have occurred if the award had been along the line of the agreement reached with the Administrative Clerical and two judicial bargaining units. While a relatively small unit of 325 employees, the cost to the state over the biennium will amount to almost an additional $23,700 per current employee beyond what it would cost if a settlement similar to the three recently negotiated agreements was implemented. The cost is

$11,200 more per employee than the clerical pattern in FY 2004-05 for the general fund, compared with the $838 per employee difference in the Social and Human Services award.

- In summary, all unions that offered concessions or have an arbitration award that the state is supporting have employees totaling 15,250 and a total payroll of over $800 million. All unions that have settled or unsettled contracts but have yet to offer concessions have total membership of 27,211 and a total payroll of about $1.4 billion.

- Almost $36 million was added to the Reserve for Salary Adjustment in the adjusted budget submission to cover collective bargaining increases. This increase will fund ratified contracts that the administration supports, which include the Social and Human Services arbitration award, the Clerical agreement, the Judicial Non-professional Employees agreement and the Judicial Professionals agreement. Again, no funding is provided for the corrections supervisors unit.

- This adjusted budget begins the process of centralizing the approximate 600 unionized workers as DOIT employees. Management employees had already become DOIT employees, but DOIT continued to charge agency OE accounts for management services. In the adjusted budget, positions and funding for unionized employees and funding for managers is transferred from most agencies to the central DOIT account. The DOIT position count is increased by a requisite number. Revolving fund activity will go down considerably with most employees now budgeted in DOIT's general fund. A limited number of IT employees' wages and benefits remain in agencies due to the nature of their funding stream. In these cases, a DOIT position count has been set up in these agencies for IT employees.

- $4.4 million is transferred from agencies and a new $4 million in funding is provided for the implementation of the CORE-CT financial system.

- The adjusted budget continues the merger of the Department of Consumer Protection and the Department of Agriculture effective July 1, 2004. The new organization will focus on the two new bureaus – the Bureau of Agriculture and the Bureau of Consumer Protection.

- The new Connecticut Commission on Arts, Tourism, Culture, History and Film is off to a good start. After some delays in setting up in the new financial system, the new agency, the successor to the Arts Commission, Historical Commission, and Tourism and Film Bureaus of DECD, has begun making grants to both tourism districts, other attractions listed in the special act statute, and arts grants. The one change proposed in this adjusted budget is that the agency will now be subject to appropriation rather than funded through an intercept. This change ensures that the agency is subject to as much scrutiny as other agencies. Further, an appropriation ensures that funding can go out in a timely fashion to entities relying on funding each year. Under current law, funds will not be able to go out until October at the earliest of each fiscal year because hotel tax receipts are not credited until that time. While just $20 million in funding was intercepted for CATCH-F in the adopted budget, Governor Rowland's adjusted budget makes $26 million available to CATCH-F, with an additional $1.1 million budgeted on behalf of the agency in fringe benefit accounts.

- The adjusted budget includes nearly $244,000 for staff and program costs to continue the Waterbury Community Court previously paid from federal Byrne funding. The "community court" concept is a restorative justice project where "quality of life crimes" are adjudicated and high visibility and meaningful community service projects are completed under the supervision of the court. Funding will support two positions within the court and support services provided directly to project participants, supervised community work crews and anger management through community-based contracts. The adjusted budget includes $200,000 to support 5 expiring federal positions, which are critical to preventing closure of the Public Defender Services Commission's Stamford Juvenile Field Office.

- The adjusted budget adds over $600,000 for staff and system costs to continue development and implementation of an integrated Case and Document Management system. Recently, the Governor supported the allocation of Judicial technology bond funds to enable the purchase of computer hardware and necessary network modifications. The first phase of this project will be electronic filing for certain civil cases, allowing attorneys and litigants access to court files and the official court record. Implementation of these cases is expected July 2004.

- The Governor is sponsoring legislation to increase judges' salaries to levels that more closely match commissioners in the executive branch, certain directors in the legislative branch and compensation more in line with federal judges and the private sector, such as partners in law firms within the state. The Governor proposes to increase salaries for judges over the next three years by 8 percent annually. Superior court judges would increase from $125,000 to $135,000 effective July 1, 2004; to $145,800 on July 1, 2005; and to $157,464 on July 1, 2006. Magistrates will also receive commensurate increases. These increases will also impact salaries of family court magistrates, retired judges that continue to serve in different capacities and workers' compensation commissioners. A total of about $2.5 million is added for these increases in both the Judicial Branch and the Workers' Compensation Commission.

- It is anticipated that the State will achieve $3.75 million in savings during FY 2004-05 in the executive branch agencies and the Judicial Branch from its spend management initiative. Any savings derived by the higher ed units will be retained and not be deducted from block grants. This is included as a lapse at the foot of the budget.

- In order to effect efficiencies in the state's fleet operations, the Department of Administrative Services conducted a study of the use of the state vehicles. Based on this evaluation, Fleet Services recalled 650 underutilized vehicles. In addition, requests for vehicle purchases were reviewed and reduced. This effort saved approximately $2.5 million. These savings were removed from each agency in the adjusted budget. In addition, the DAS is proceeding with its efforts to outsource fleet maintenance and daily motor pool operations. By using contractors to perform these services, it is estimated that an additional $2.5 million can be saved annually. These savings are included as a lapse at the foot of the budget.

- As with many other agencies statewide, the Elections Enforcement, Ethics and Freedom of Information Commissions were negatively affected by layoffs, the Early Retirement Incentive Program and other legislative changes in the biennial budget passed by the General Assembly. The Governor has recognized that these position and funding changes will restrict each commission from performing its daily operations and statutory missions and has committed to fully restore positions and funding to the actual levels of FY 2002-03. Addbacks began in the current fiscal year and are annualized into the adjusted budget. In addition, the remaining position in the FOIC is added back as of July 1, 2004. In addition, an Accountant Trainee is added in the Elections Enforcement Commission.

- As agreed in the 2003 budget negotiations, funding was found to continue the services of the Executive Director of the Council on Environmental Quality during the current fiscal year. The agency budget has formally been reinstated as part of the adjusted budget. A funding arrangement similar to the one that is being used in the current fiscal year is recommended. A three-way split between the General Fund, federal funds and private sources is anticipated – $50,000 from each funding source.

Capital initiatives

- In FY 2002-03, due to the state's fiscal crisis, a number of GO bond authorizations were deferred to the current fiscal year because of bond cap limitations. About $480 million was on the books at the beginning of the fiscal year, not including the long-term UCONN authorizations. The legislature failed to pass a complete bond package last fiscal year, but did supplement GO authorizations and pass a STO package. New GO authorizations for school construction, and the tax administration and CORE-CT system amounted to about $530 million, bringing total FY 2003-04 authorizations to about $1.1 billion, including UCONN 2000 authorizations.

- The Governor is proposing to supplement the FY 2003-04 authorizations with a small number of high-priority projects. Total additional GO authorizations recommended are about $160 million. The recommendations are almost exclusively for the CSU and community college systems. All told, total GO bond authorizations for the current fiscal year would be about $1.27 billion. Previously authorized STO bonds amounted to about $250 million.

- Just $27 million was authorized in GO bonds during the 2003 session for FY 2004-05. Those were the two financial administration systems noted above. $100 million under the two UCONN capital programs is also in law.

- Governor Rowland is recommending net additional GO authorizations in FY 2004-05 of about $784 million. Including UCONN and the previously authorized projects for FY 2004-05, total GO authorizations would be a net $911 million.

- This $911 million in GO authorizations is after about $225 million in GO bond cancellations.

- The Governor is also recommending $195 million in STO authorizations for the state's transportation program.

- School construction authorizations for FY 2004-05 will be $623 million, up from $485 million. The increase is tied to the continued demand at the local level, especially in large urban centers and the magnet school program as well as the impact from the school construction financing conversion noted above. The school bonds amount to over two-thirds of the total net requested GO authorizations for the coming fiscal year. This compares with authorizations in the early to mid 1990s of between $73 million and $130 million annually.

- Total education-related authorizations are $884 million, or 97 percent of total net authorizations being recommended in FY 2004-05.

- Other projects included in the bond package:

    - Almost $16 million for affordable housing programs.
    - $10 million to repair a building at UConn Law School.
    - A net of $43 million for Urban Act
    - $10 million for the Small Town Economic Assistance Program.
    - $15 million for needed improvements at the Veterans Home and Hospital. These funds will match over $27 million in federal funds and mean critical improvements at the campus and a new health facility over time.
    - $5 million for the Connecticut Education network.
    - A myriad of homeland security projects, including the state health lab, mentioned in an earlier section.

- While no new open space authorizations are being proposed, about $20 million will be available for allocation.

- The General Fund Debt Service requirement in the adopted budget is reduced by $4.78 million. The issuance of five-year economic recovery notes that will extinguish the FY 2002-03 deficit and the General Assistance lag claim costs is projected to cost the state approximately

$29 million in FY 2004-05. These costs were not originally budgeted for FY 2004-05, but are more than being absorbed. Savings achieved from lower than budgeted interest rates, premium savings, refunding savings, and a change in the projected issuance schedule more than offsets the economic recovery note costs.

- A reduction to the Special Transportation Fund Debt Service account in the amount of $6.1 million has been made for FY 2004-05. Savings have been achieved from refunding and new money sales that have taken place in the current fiscal year.

Municipal aid initiatives

- State aid will increase slightly from the adopted budget – by about $6.5 million. Overall, statutory formula grants in aid will increase in the adjusted budget by $26 million from estimated expenditures this fiscal year.

- As a further gesture, the Governor has worked tirelessly to find resources to remove the $55 million extraordinary rescissions in the original adopted budget. Given recent cutbacks throughout state government, that rescission would have had to be used almost entirely against municipal aid if it remained in the budget as a budget-balancing tool. That would have subjected towns to as much as $55 million in midyear aid cuts, an unpalatable situation for local budgets already faced with flat funding in most areas. The Governor's move to strip the rescission from the budget provides greater certainty to towns as they begin the process of formulating their own budgets.

- The vast majority of major school grants are level-funded, except for increases in categorical grants outlined in the education section of this document. The vast majority of non-education grants are level-funded as well.

- The Governor is proposing no changes to either the Distressed Municipalities/Enterprise Zone reimbursement program or the PILOT-Manufacturing Equipment program.

- The adjusted budget proposes to eliminate the Payment-in-lieu of Taxes and Tax Abatement for housing authorities for a savings of $4.8 million. These grants, funded in the Department of Economic and Community Development, help compensate some towns for the loss of taxes on non-profit developments and housing authorities. These programs are proposed for elimination mostly because of inequitable distribution of benefits among towns since not all towns benefit from the grants.

- The Drug Enforcement program is being eliminated in the adjusted budget, for a savings of $850,000. The program provided support for drug law enforcement, anti-drug education, and crime prevention activities in municipalities. This fiscal year, 5 municipalities were funded.

- Towns will receive their full allotment of LOCIP funds in FY 2003-04. Although LOCIP authorizations have been sporadic over the past few years, the adjusted budget makes it clear that towns are able to draw down all their annual allotments for the past several years.

- As a way of shoring up municipal revenue during these lean local aid times, during the 2003 session the legislature increased the local conveyance tax from 0.11 percent to .25 percent in every community through June 30, 2004. In addition, certain distressed communities, most notably the targeted investment communities, were given the option to increase their local conveyance tax further from 0.25 percent to 0.5 percent for that period of time. This additional allowance was from March of 2003 through June 30, 2004. Towns' legislative bodies had to affirmatively vote to do so. The Governor's adjusted budget recommends that the increase in all towns to 0.25 percent be sunsetted, but that distressed communities permanently be allowed be allowed to have their rate at 0.36% if desired.

A more accountable and responsible government

- Governor Rowland is proposing the following budget reform initiatives:

  - Requiring the Secretary of the Office of Policy and Management and the Director of the Office of Fiscal Analysis to prepare status reports on the state budget each November and to present them to the Appropriations and Finance, Revenue and Bonding Committees. These reports would include thorough looks at the current biennium and outyears.
  - Requiring that legislative fiscal notes reflect all of the costs and revenue impacts of legislation, including those that do not occur until future fiscal years;
  - Mandating the transfer of $50 million a year to the Rainy Day Fund anytime the balance in the fund drops below five per cent.
  - Preventing the General Assembly from acting on all other bills if a state budget has not been passed fourteen days before the mandatory adjournment deadline in odd numbered years and seven days before the deadline in even numbered years.
  - The Governor is also proposing legislation to require the Secretary of the Office of Policy and Management to develop and implement a federal revenue maximum program, which would include monitoring pharmacy costs and developing strategies to contain them.

- Governor Rowland is proposing the following collective bargaining reform initiatives on the municipal front:

  - Give towns the ability, through a vote of its legislative body, to suspend collective bargaining for up to three years on any open contract as long as the current wage and benefit package and other work rules remain in effect.
  - Require in both MERA and TNA that arbitrators disregard the presence of a fund balance at any level in determining a town's ability to pay for contract increases.
  - Require in both MERA and TNA that arbitrators consider, at the town's request, the town's high effective tax rate as published by OPM.
  - Require in both MERA and TNA that when a town legislative body rejects a first arbitration award that the contract go back for a full arbitration hearing and that the arbitrator must give great weight and deference to the stated reasons for the rejection.
  - Strengthen the ability of towns to seek court relief from arbitration awards if arbitrators do not give the appropriate weight or consideration to financial capability issues when rendering awards.

- Governor Rowland is proposing the following collective bargaining reform initiatives on the state front:

  - Instruct arbitrators that funds in the Rainy Day Fund cannot be considered as financial wherewithal for issues being arbitrated if such funds are less than or equal to 10 percent of the General Fund Appropriations for the fiscal year in progress.
  - Instruct arbitrators to consider the lack of funds or deficient funds in the Rainy Day Fund in determining the state's ability to pay.
  - Instruct arbitrators that the ability of the employer to pay is the primary consideration.
  - Instruct arbitrators that the state spending cap shall be a consideration as to the state's ability to pay.
  - Strengthen ability of the state to seek court relief if financial capability is not considered.
  - Interest on awards will no longer accrue while approval is awaited.
  - Require that state collective bargaining contracts and arbitration awards be approved by both houses of the General Assembly in order to become effective.