

# FISCAL

# YEAR

*in review* 2013

Comptroller  
Kevin Lembo



# FISCAL YEAR 13 OPERATING RESULTS

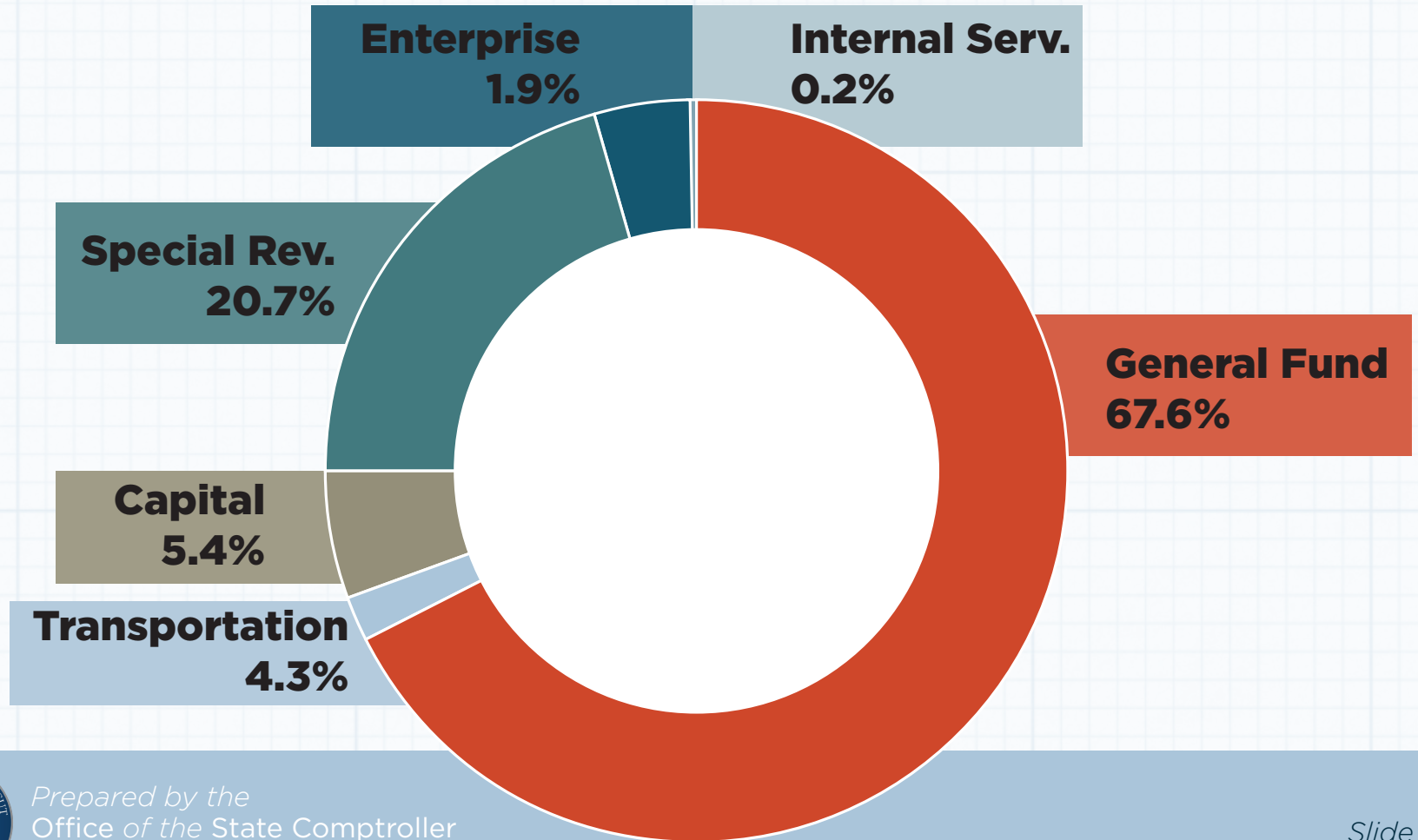
- The General Fund closed the fiscal year with a surplus of \$398.8 million.
- The Transportation Fund's fiscal year surplus was \$18.8 million, leaving the fund with an accumulated balance of \$164.6 million at fiscal year end.
- The General Fund accounts for over 2/3 of all state fiscal activity.



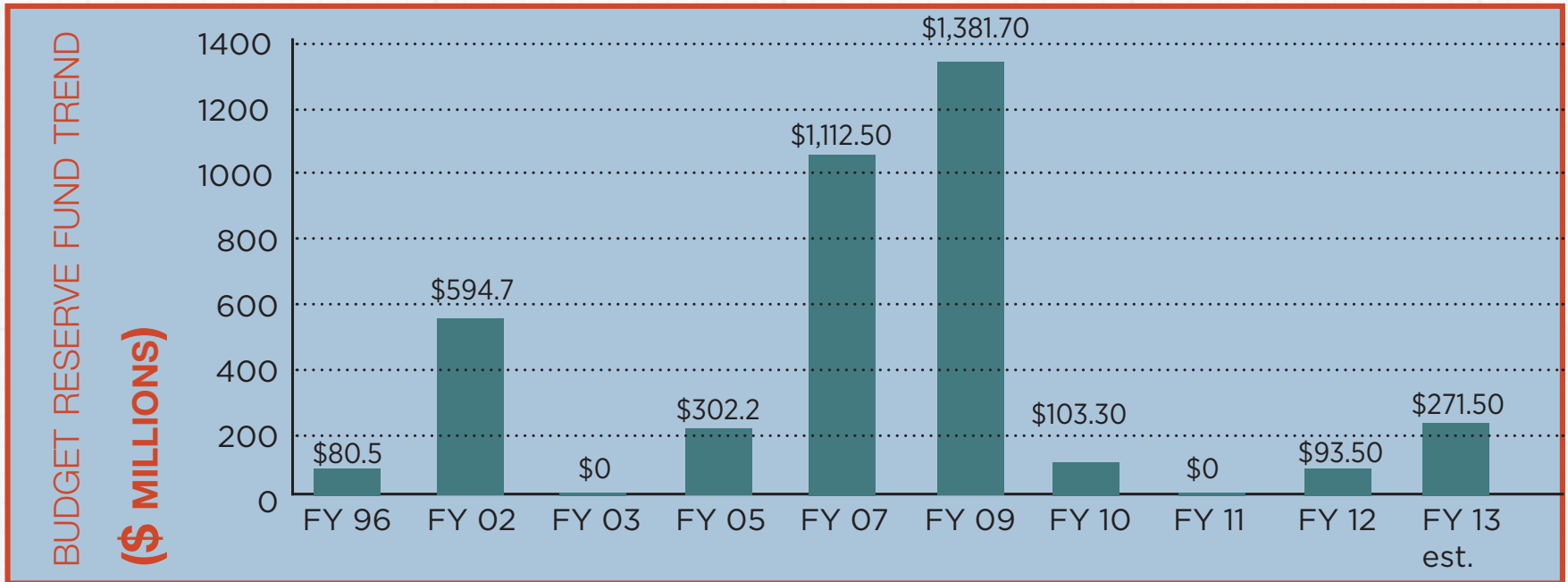


# OTHER FUNDS ACTIVITY -- FY13

- In addition to the General and Transportation Funds, there was close to \$8 billion in fiscal activity within other fund groups. The largest share of the additional spending is within grants and university operating funds, which are special revenue funds.*
- .....



# DISTRIBUTION OF FY 13 GENERAL FUND SURPLUS

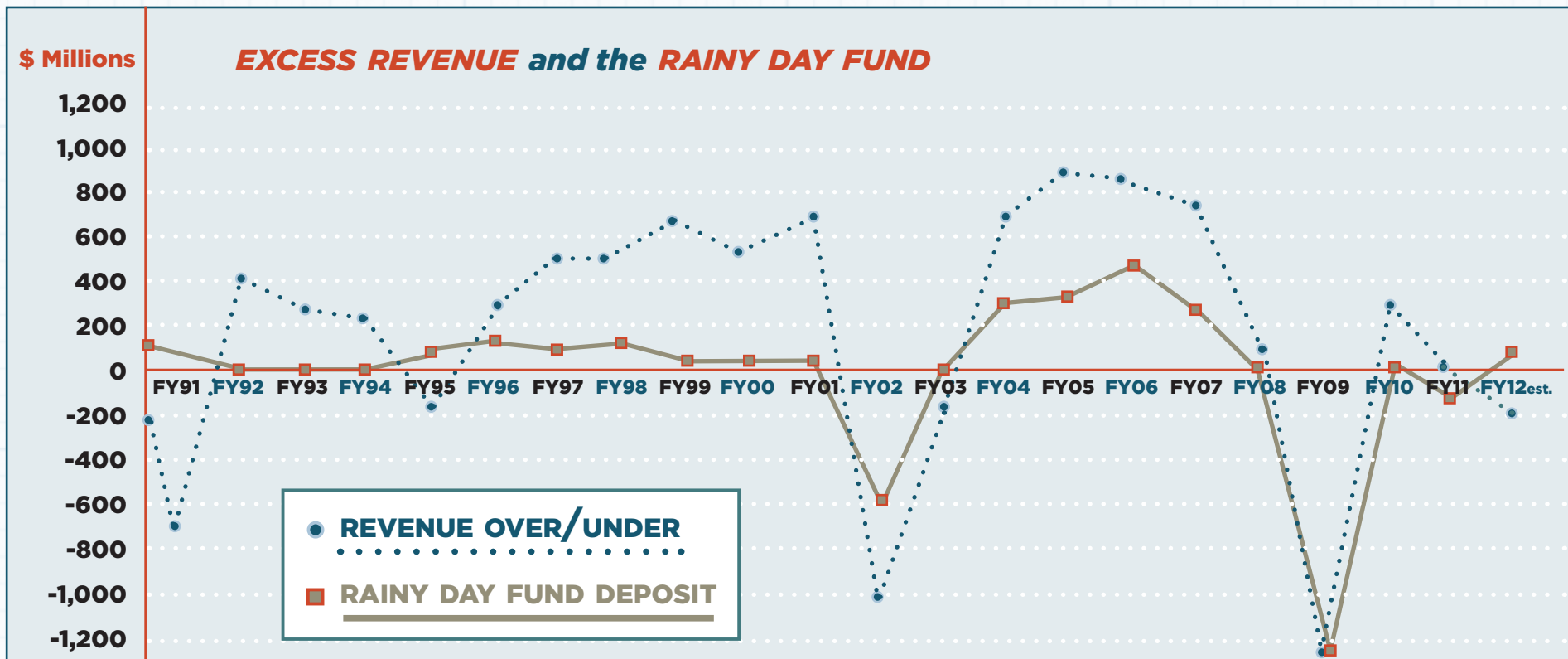


- Of the \$398.8 million surplus, \$220.8 million is reserved for future fiscal years (\$190.8m FY 14; \$30m FY 15).
- The remainder of \$178 million goes to the rainy day fund.



# UNDERFUNDING OF THE BUDGET RESERVE

- In past years, opportunities to fully fund the budget reserve have been missed.
- Since 1990, the General Fund has realized almost \$5 billion in revenue windfalls. Most of this did not go to build reserves.



# GENERAL FUND REVENUE FY13

- Revenues were 4.5% above the FY 12 level. This compares to avg. yearly growth of 6.4% in the 5 years leading up to the 2008 recession.
- The income tax is the state's largest single revenue stream at \$8.7 billion. It grew 4.9% and was \$164.9 million over the original budget estimates.
- However the largest component of the income tax, which is payroll withholding actually declined slightly in FY 13 from the previous fiscal year.





## UNSTABLE REVENUE SOURCES DROVE THE FY13 REVENUE GROWTH

- The income tax growth was largely the result of a strong stock market and a change in the federal capital gains tax rates that pushed future year capital distributions into FY 13.

TAX CATEGORY	% CHANGE	FY13	FY12
PAYROLL WITHHOLDING	-0.9%	\$5,211,104,609.54	\$5,269,999,445.12
ESTIMATED QUARTERLY	17.9%	\$1,673,224,818.52	\$1,419,654,032.66
FINAL PAYMENTS	12.6%	\$1,824,914,544.46	\$1,621,166,629.63

- The inheritance tax also hit an all time high of \$439.5m, growth of almost 130% from the prior fiscal year.



# STOCK MARKET GAINS DROVE FY13 REVENUE GROWTH

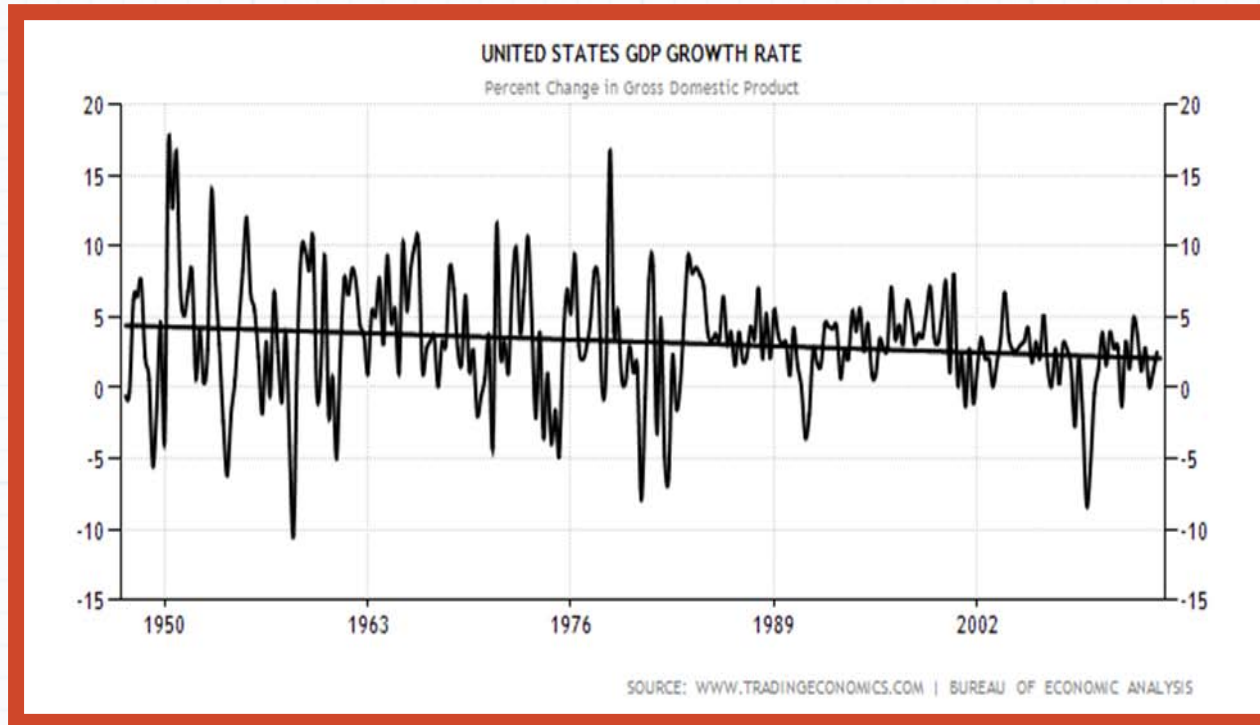
*The DOW has been posting double digit annual increases.*



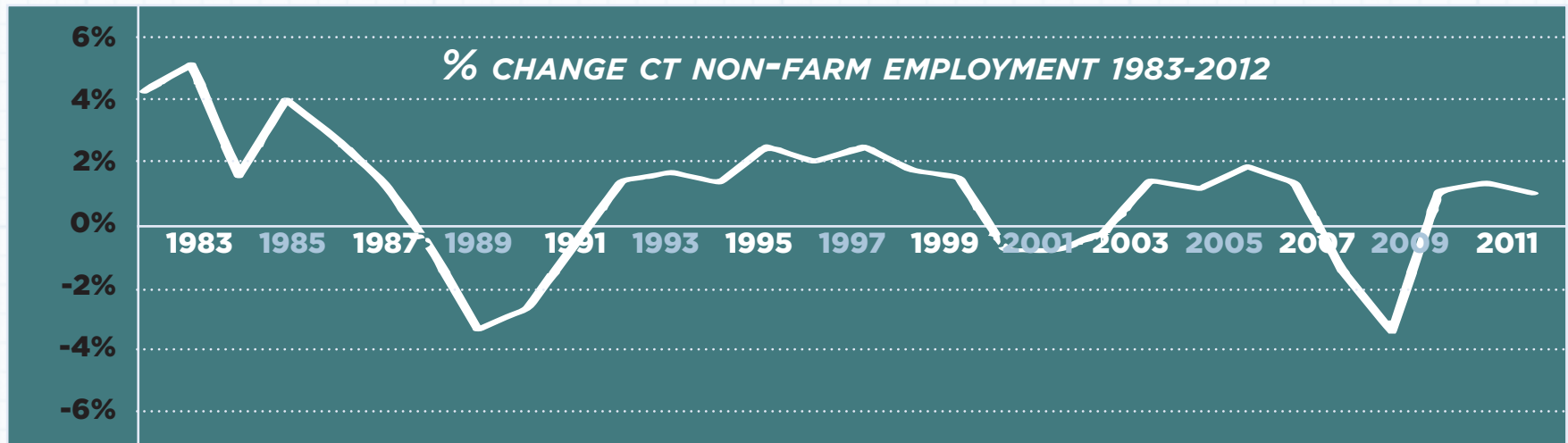
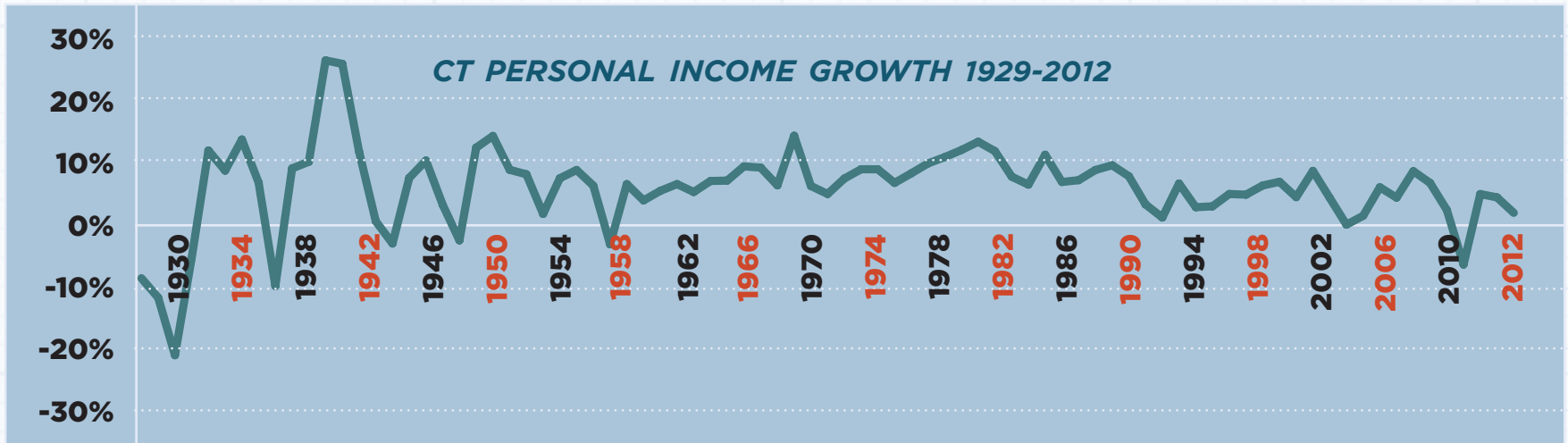


# THE BROADER ECONOMIC FACTORS THAT GENERATE RECURRING REVENUE HAVE BEEN SLOWING

*At both the national and state level, key economic growth indicators have been slowing over time.*

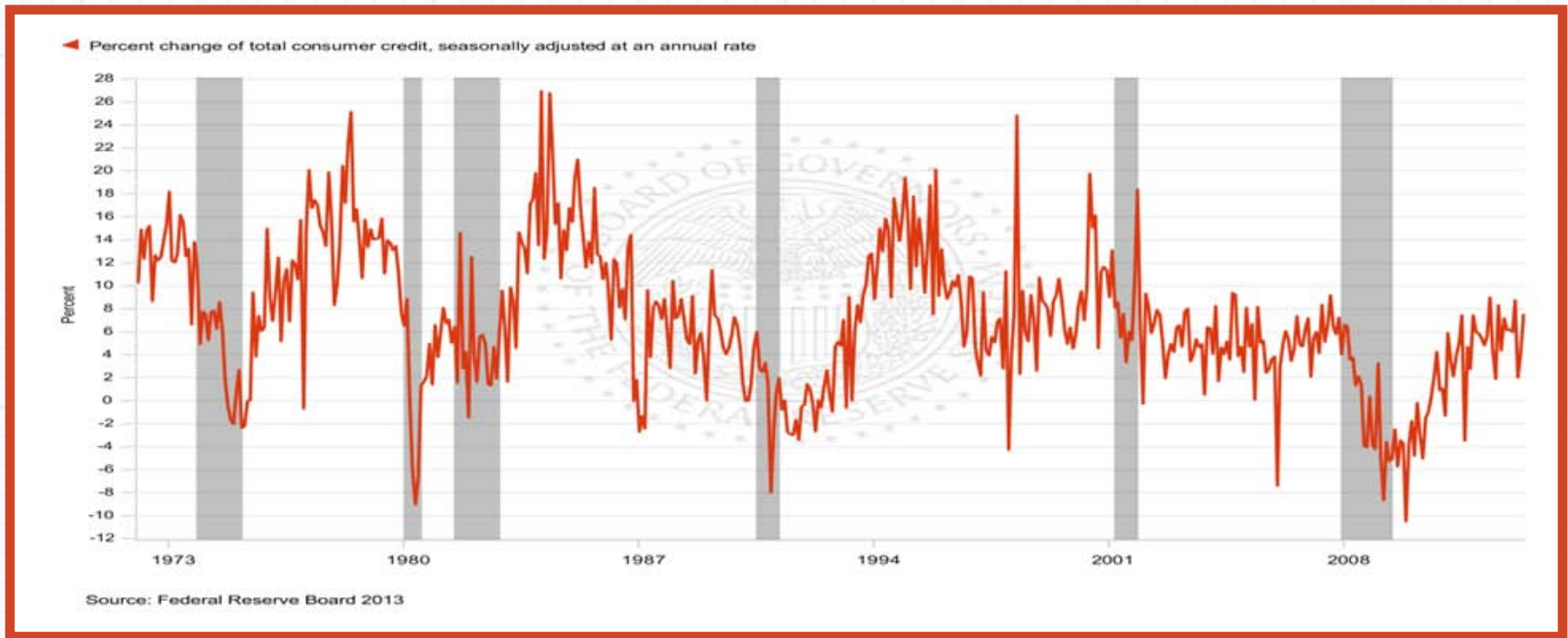


# CT INCOME AND JOB GROWTH TRENDS



# CONSUMER CREDIT TRENDS

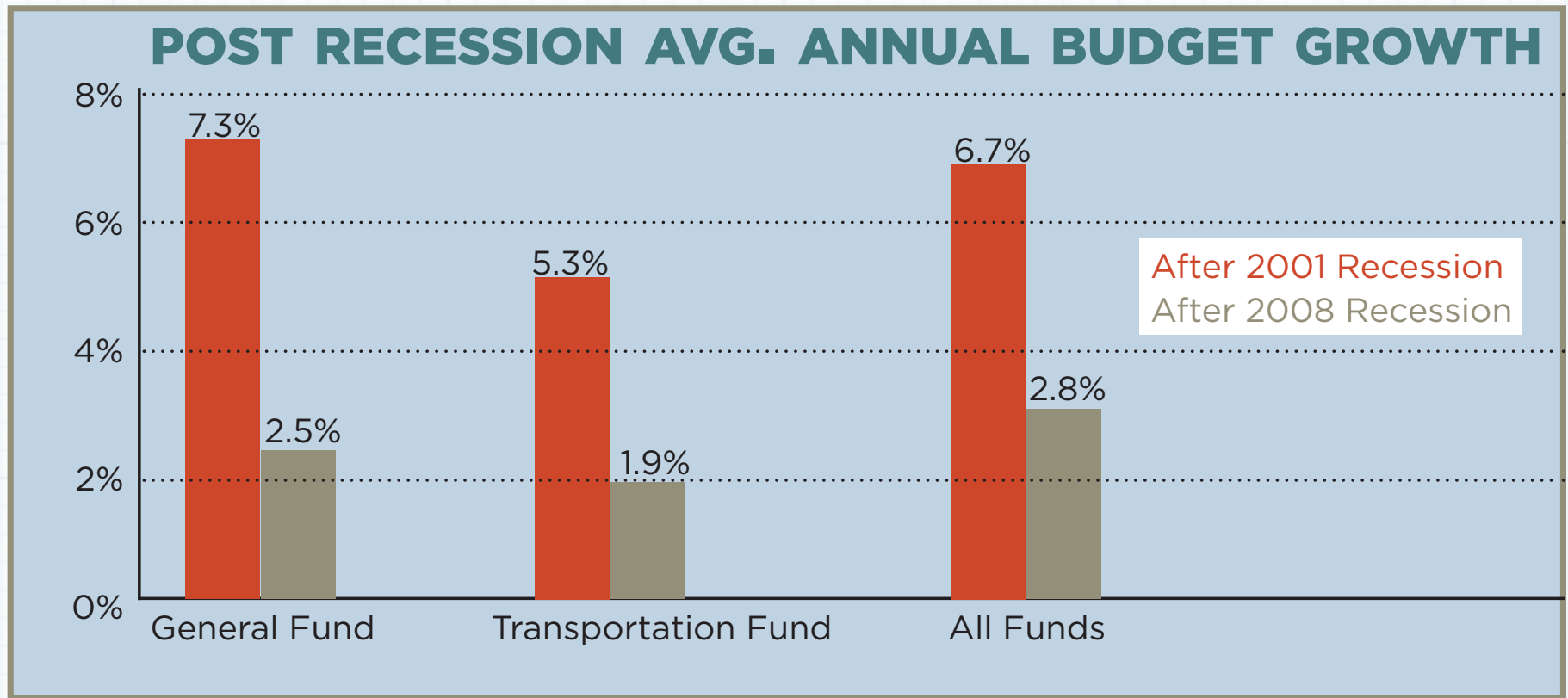
*Consumer spending accounts for about 70% of overall economic activity. Consumers have been expanding their credit at a slower pace coming out of the 2008 recession.*



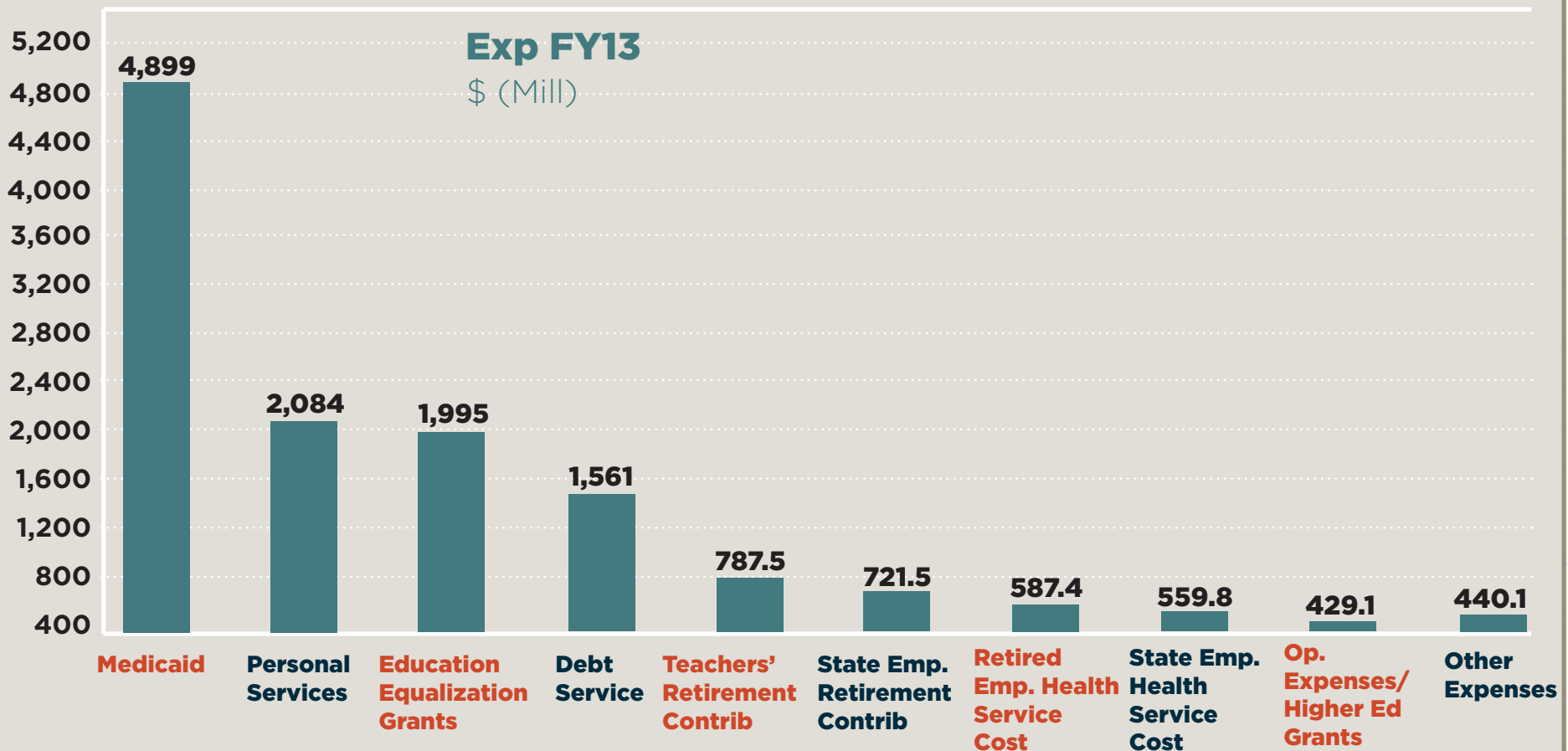


# THE SLOW RATE OF ECONOMIC GROWTH CONSTRAINED SPENDING

*General Fund spending growth in FY 13 was held to 1.3%.  
This is well below the historical annual growth rate.*

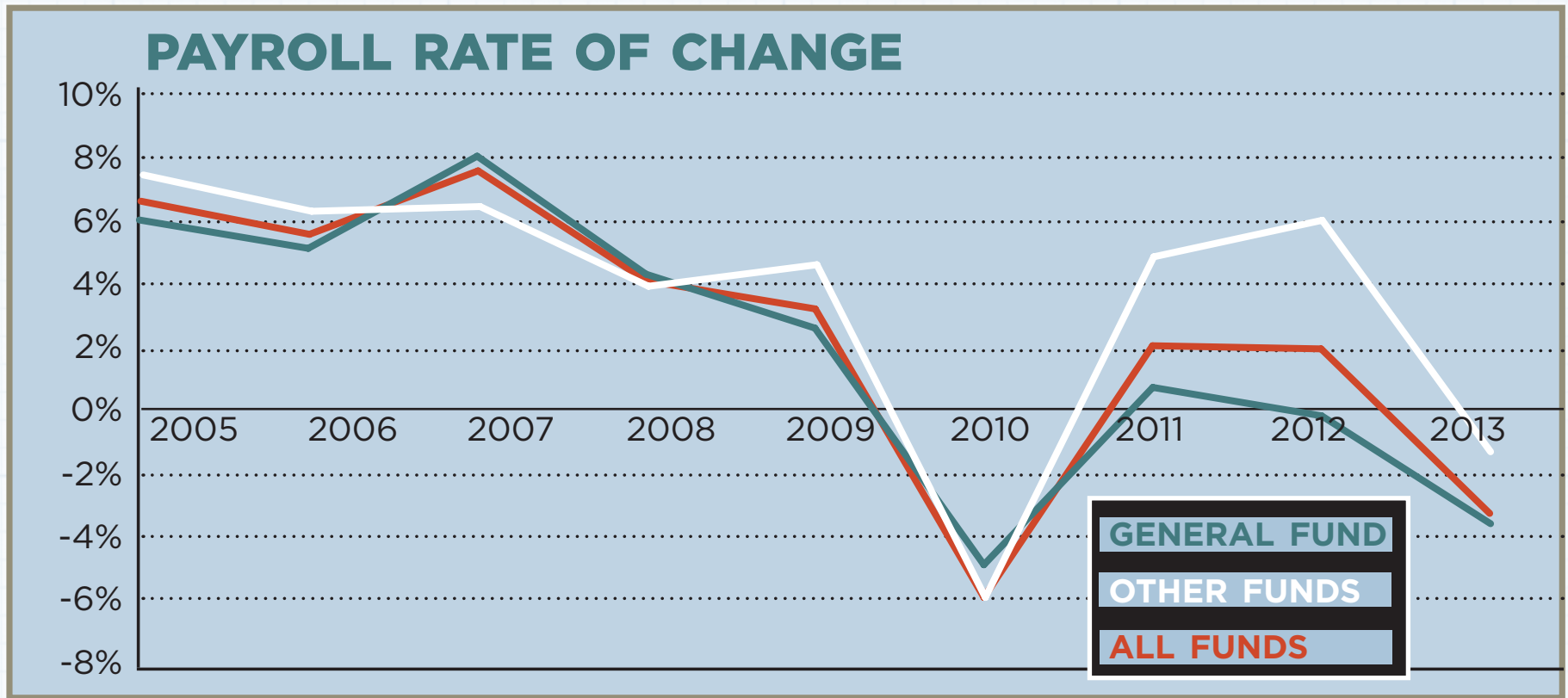


# TEN LINE ITEMS ACCOUNT FOR 3/4 OF GENERAL FUND SPENDING



# REDUCTION IN PAYROLL

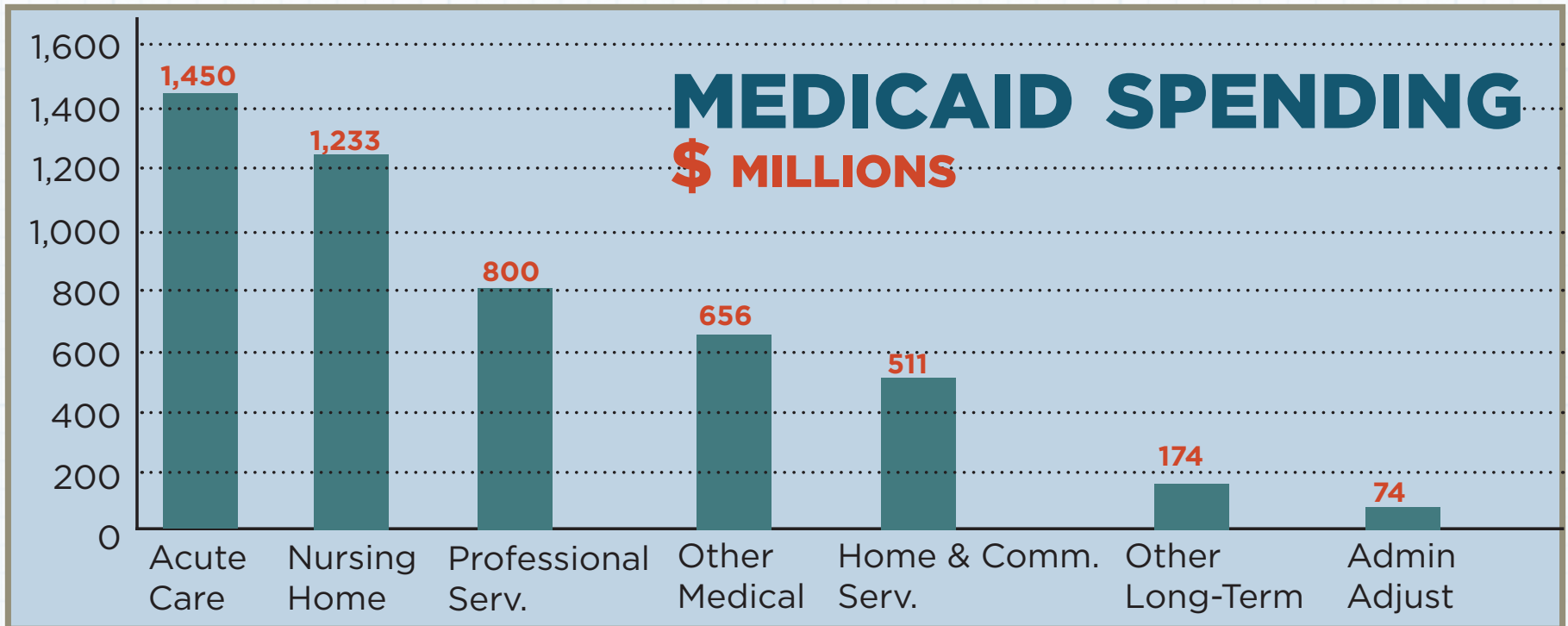
- In FY 13, payroll was declining across all fund groups.
- In FY 13, General Fund payroll hit its lowest dollar spending level since FY 06.





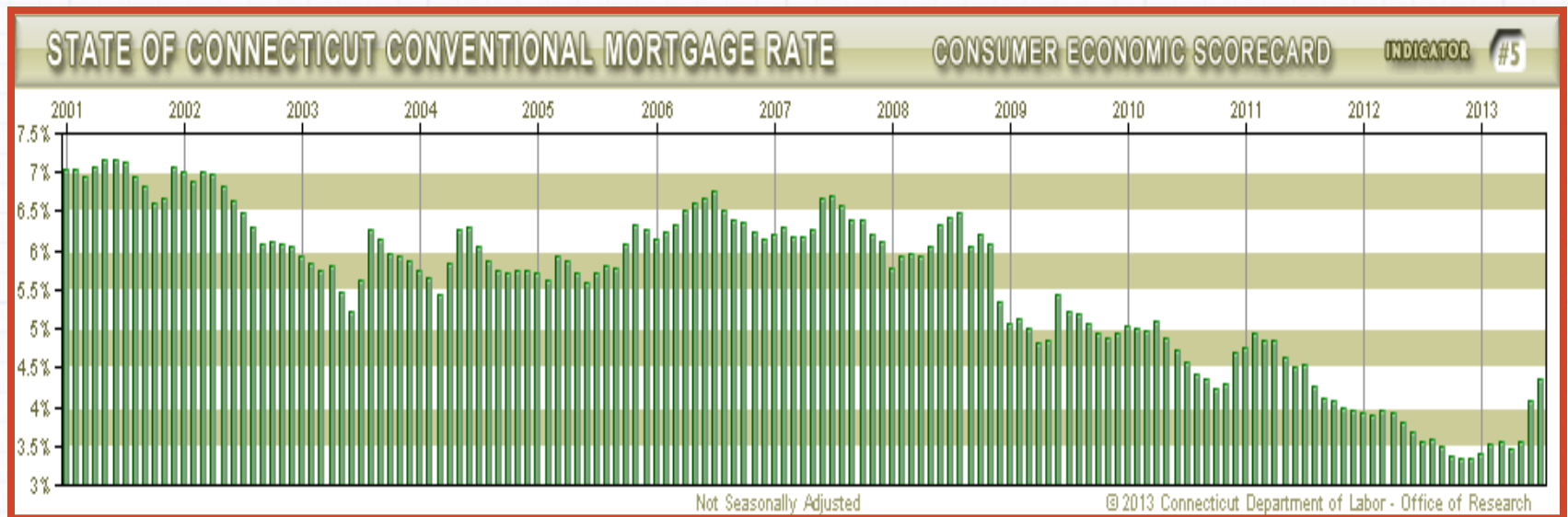
# SLOWER SPENDING GROWTH IN SOCIAL SERVICES

- Spending by the Department of Social Services (DSS) grew by 2% in FY 13 following growth of over 7% in the two preceding fiscal years.
- DSS is the largest state agency in dollar terms. Medicaid represents 83% of DSS spending.



## LOW INTEREST RATES HELD DEBT SERVICE COST DOWN

- General Fund debt service spending was \$50 million or 3.1% below the FY 12 level. This is despite a payment of \$175 million to Economic Recovery Notes (ERNs).
- The ERNs balance outstanding at the end of FY 13 was \$573 million.



## LONG-TERM DEBT A CONTINUING FISCAL CHALLENGE

- By the end of FY 13, Connecticut's bonded debt had increased by \$439 million to \$17.7 billion outstanding.
- Over the past 10 years, annual growth in bonded debt has averaged about 5%.
- School construction and other municipal grants and loans experienced the largest dollar increases in FY 13. This debt, for the most part, does not add any offsetting assets onto the state's books.





# OTHER LONG-TERM LIABILITIES

- The state has significant long-term liabilities beyond bonded debt.

Category	\$ (bill)
ST. EMPLOY HEALTH -- OPEB	\$17.9
ST. EMPLOY PENSION	\$13.3
TEACHER RETIR. FUND	\$11.1
TEACHER RETIREE HEALTH -- OPEB	\$3.0
WORKERS' COMP	\$0.6
VACATION ACCRUAL	\$0.5
OTHER	\$0.1
<b>total</b>	<b>\$46.5</b>

- The total per capita debt obligation in Connecticut (bonded and other liabilities) is approaching \$18,000.
- Reducing these debt levels is a vital state challenge moving forward.



# ACTUARIAL DATA AS OF JUNE 30, 2012

- The unfunded actuarial accrued liability (UAAL) for SERS is almost \$13.3 billion.
- SERS Funded Ratio: 42.3 percent.
- For Fiscal Year Ending June 30, 2014 – The Annual Required Contribution (or ARC) = \$1.269 Billion.
- Of that total, \$250 million or 19.7 % represents the contribution for normal cost.
- \$1.019 Billion or 80.3% represents the State's contribution for unfunded liability.

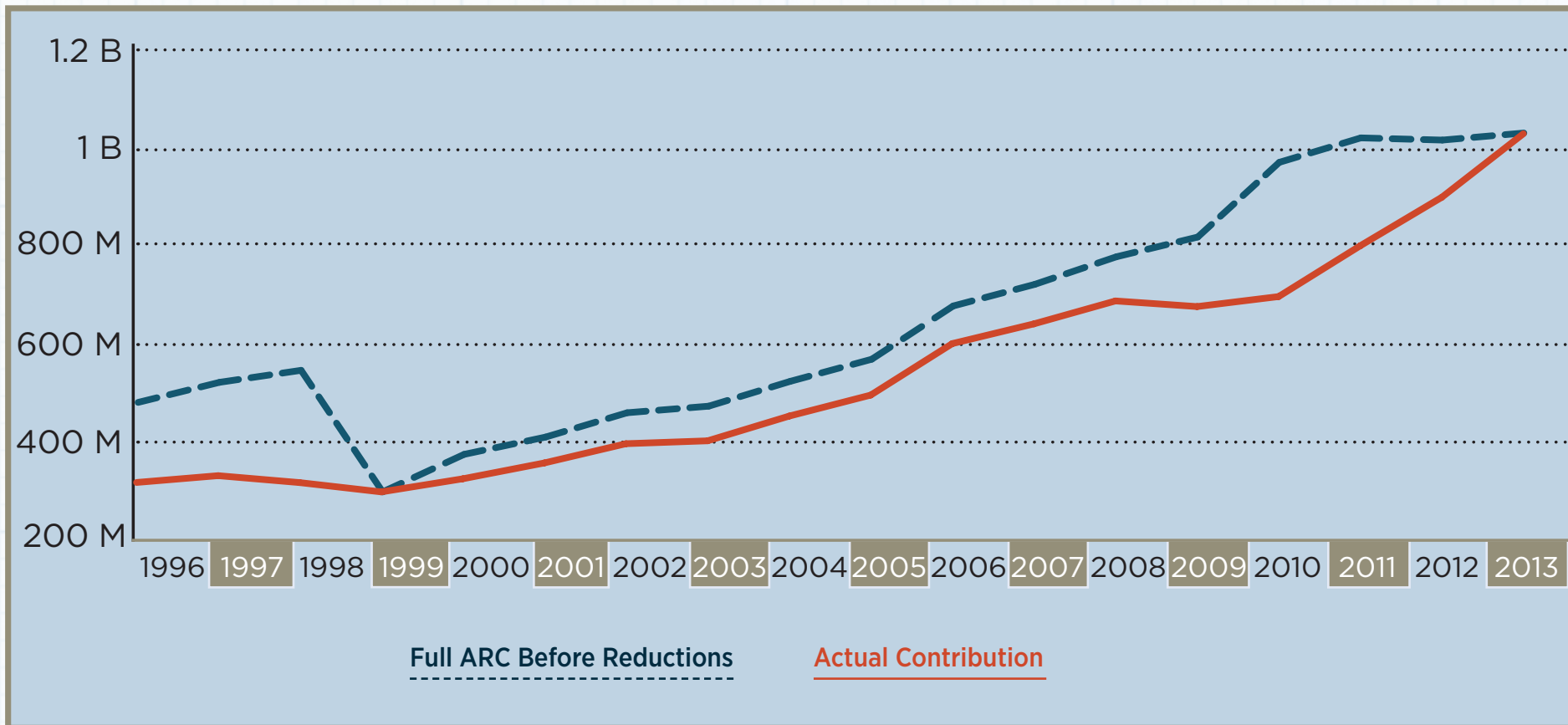


# HOW DID WE GET HERE?

- The short-term budget relief strategies Connecticut has used over the years have had a negative cumulative effect on the health of SERS pension fund.
- The SERS unfunded liability was to be amortized over a 40-year period beginning July 1, 1991.
- Over the first 20 years of that schedule, however, the situation has gotten significantly worse.
- Major factors include deferring ARC payments toward the unfunded liability and offering multiple retirement incentive programs over the years.

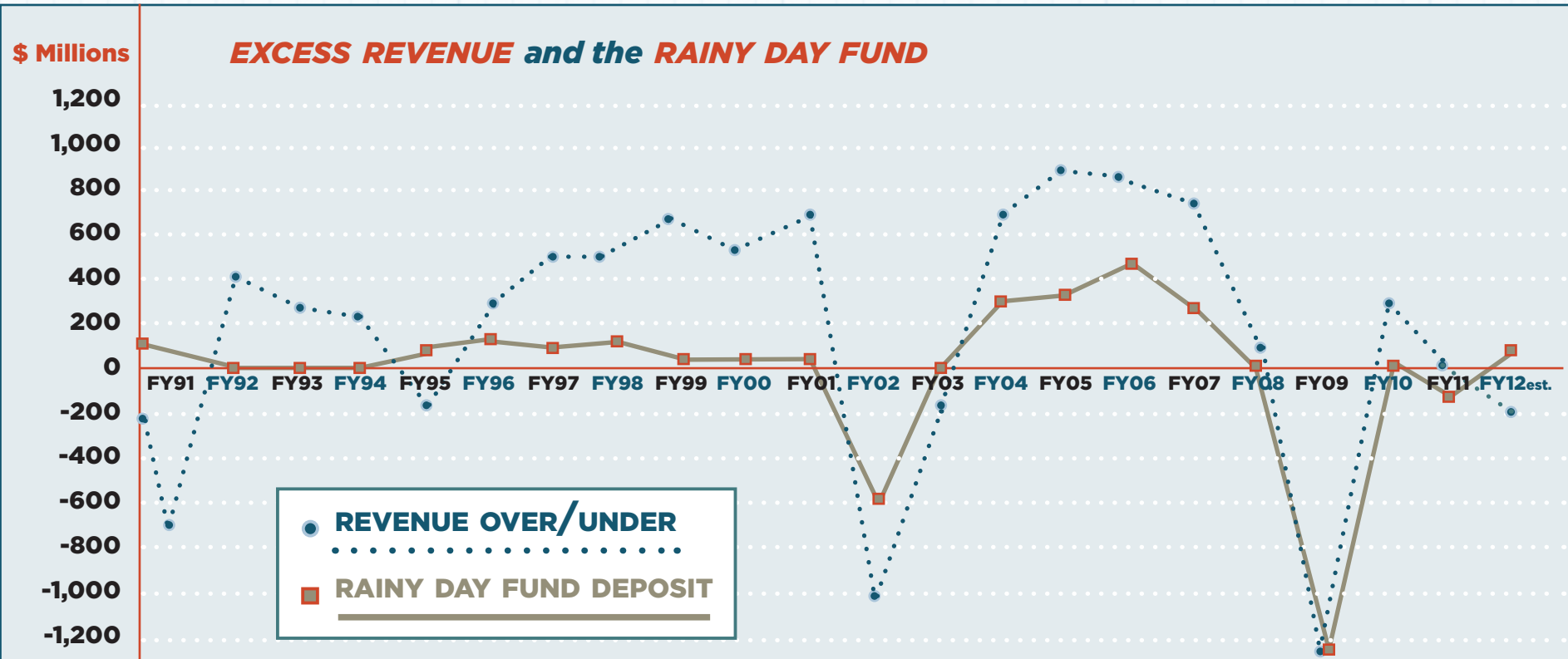


# COMPARISON OF SERS PENSION REQUIREMENTS BEFORE REDUCTIONS AND ACTUAL PENSION CONTRIBUTIONS (1996-2013)





# THE RAINY DAY FUND



## QUOTE FROM SERS VALUATION AS OF JUNE 30, 1990:

“

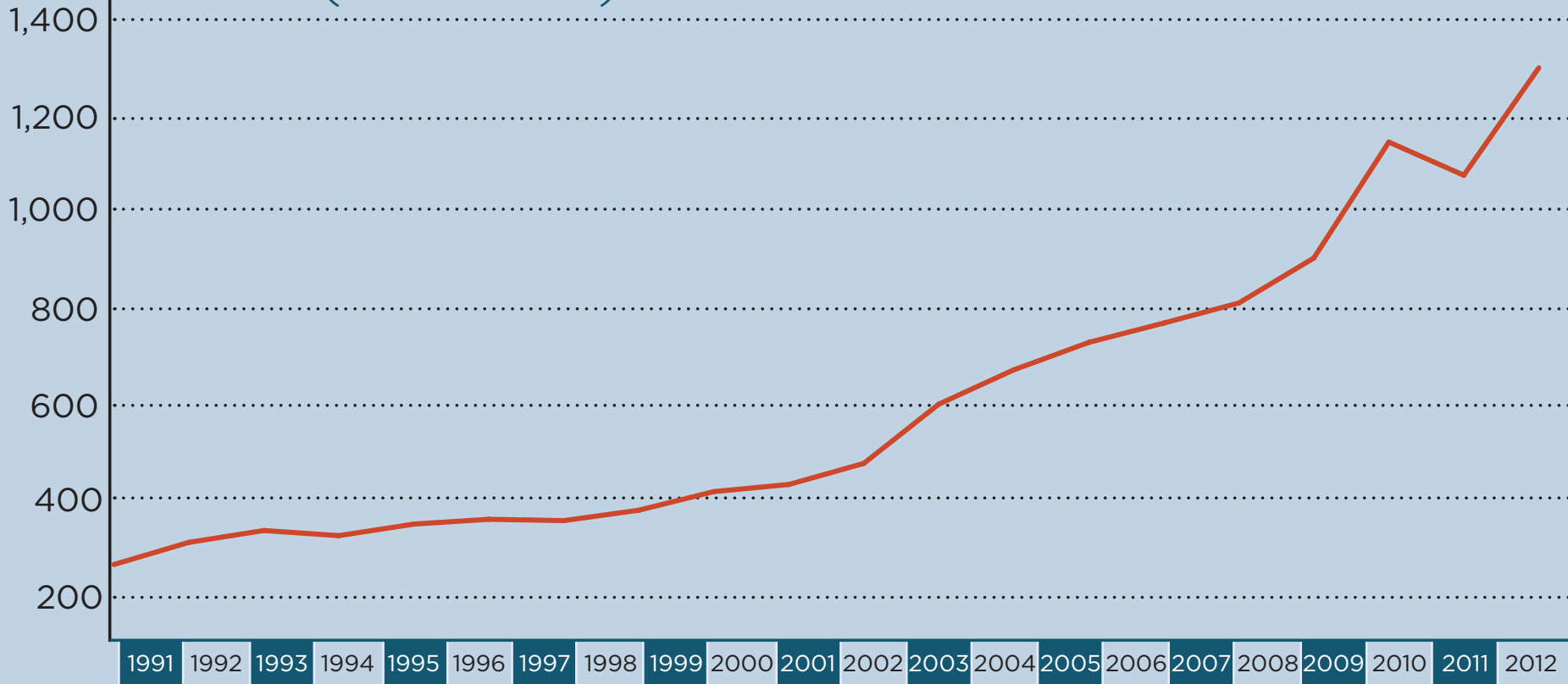
....(T)he unfunded actuarial liability, and therefore the amortization payment, increased again this year. The principal cause of the increase was the contribution shortfall of \$134.2 million. This is a disturbing circumstance that could lead to spiraling costs. Each year that contributions are missed, cost requirements for subsequent years are increased in order to “make up” the missed contribution.

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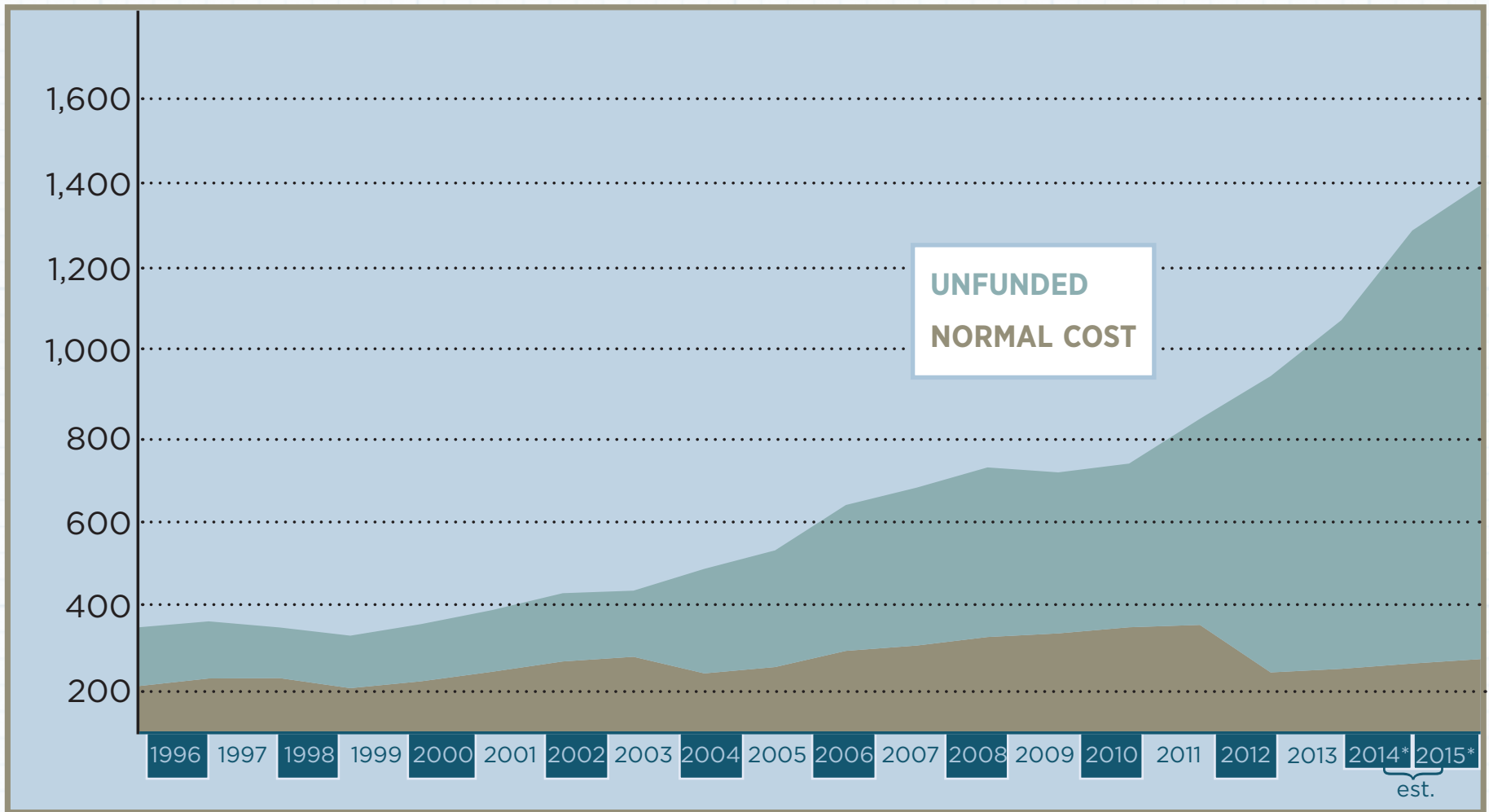


# GROWTH IN UNFUNDED LIABILITY

SERS UNFUNDED ACTUARIAL ACCRUED LIABILITY  
(IN MILLIONS)



# DISTRIBUTION OF SERS CONTRIBUTIONS (NORMAL COST AND UNFUNDED LIABILITY)





# RECENT DEVELOPMENTS

- More recently, the Governor and State employee unions agreed to eliminate SEBAC IV and V reductions to ARC payments.
- The ARCs for FY 2013 and FY 2014 have increased mostly due to larger contributions toward the SERS unfunded liability.
- Additional SEBAC 2011 changes, including new retirement tiers and increasing retirement age will help going forward.



# HEALTH

## YEAR *in* REVIEW





# MEDICAL TRENDS FY13

- Modest cost growth in the Active Plan
- Cost Reduction in the Retiree Plan

ACTIVE STATE EMPLOYEE PLAN				
	TOTAL ENROLLMENT	TOTAL SPEND	OVERALL TREND	PMPY TREND
FY12	128,079	\$853,054,551	7.5%	10.1%
FY13	128,552	\$887,557,325	4.0%	3.7%

PMPY = PER MEMBER/PER YEAR

RETIREE PLAN				
	TOTAL ENROLLMENT	TOTAL SPEND	OVERALL TREND	PMPY TREND
FY12	73,846	\$620,243,181	8.3%	2.8%
FY13	75,080	\$577,120,501	-7.0%	-8.5%

Health care costs nationally estimated to increase 7.5% in 2013\*

\*Price Water House Coopers



# HEALTH ENHANCEMENT PROGRAM

## HEP YEAR 2

- Almost universal participation and compliance

HEP AUGUST 1, 2013 COMPLIANCE & ENROLLMENT*			
	COMPLIANT	NON-COMPLIANT	NOT ENROLLED
ACTIVES	50,679	561	516
RETIREES	2,755	22	61
TOTAL	53,434	583	577

\* 126,800 covered lives are in these compliant households.

- Increased utilization of preventive services
- Improved chronic disease medication adherence
- Lower ER utilization





# EMERGENCY ROOM VISITS

- ER Utilization Down Slightly for Active Employees (subject to HEP)  
– Continues to Rise for Retirees

