

**SUPPLEMENT TO THE OFFICIAL STATEMENT  
OF THE STATE OF CONNECTICUT**

**Dated November 6, 2012**

**\$175,215,000 General Obligation Bonds (2012 Series G)**

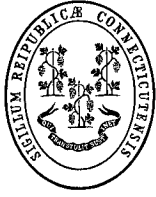
**November 15, 2012**

The following information supplements the information included in **Part II** and **Part III** of the November 6, 2012 Official Statement under the heading **STATE GENERAL FUND**. The information in this Supplement is subject to change without notice, and investors should not assume that there have been no other changes in the affairs of the State since the date of the Official Statement.

**Fiscal Accountability Report.** The Secretary of the Office of Policy and Management and the director of the legislative Office of Fiscal Analysis, on November 15, 2012, each submitted a fiscal accountability report for the current fiscal year and the next ensuing three fiscal years. The Office of Fiscal Analysis projected, on a budgetary basis, a General Fund deficit of \$320.7 million for fiscal year ending June 30, 2013, and General Fund deficits for fiscal years ending June 30 of 2014, 2015, and 2016 of \$1,138.1 million, \$1,016.4 million, and \$934.1 million, respectively. The Office of Policy and Management in its report projected, on a budgetary basis, a General Fund deficit of \$365.0 million for fiscal year ending June 30, 2013, and General Fund deficits for fiscal years ending June 30 of 2014, 2015, and 2016 of \$1,080.0 million, \$858.6 million, and \$807.1 million, respectively. The projections in each report were based on current services and certain other assumptions. The State has a balanced budget requirement and an expenditure cap as discussed at **Page III-6** under the heading **The Budgetary Process – Balanced Budget Requirement**. As such, budgets adopted for the future fiscal years will need to comply with those requirements. The Office of Policy and Management projected these current services estimates to exceed the State's expenditure cap by \$1,242.0 million, \$1,814.8 million, and \$2,238.1 million in fiscal years ending June 30, 2014, 2015, and 2016, respectively. The Office of Fiscal Analysis similarly projected these current services estimates to exceed the State's expenditure cap by \$1,361.9 million, \$2,014.7 million, and \$2,406.2 million in fiscal years ending June 30, 2014, 2015, and 2016, respectively. Thus, significant expenditure reductions will be needed to remain below the expenditure cap. Factoring in only those total expenditures allowed by the expenditure cap, as opposed to expenditures based on the costs of continuing current operations in accordance with current law, the Office of Policy and Management projected, on a budgetary basis, for fiscal years ending June 30, 2014, 2015, and 2016 General Fund surpluses of \$100.0 million, \$829.4 million, and \$1,275.2 million, respectively. As a result, the figures included in these reports do not represent a projection of the actual financial results that might be expected, but instead serve as planning tools. The projections of the Office of Policy and Management and the Office of Fiscal Analysis are only estimates and the information in each of the fiscal accountability reports contain only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or actions of the General Assembly will not indicate changes in the final result of such fiscal years.

*This Supplement is an integral part of the November 6, 2012 Official Statement. Investors should read this Supplement together with the November 6, 2012 Official Statement to obtain information essential to making an informed investment decision.*

**NEW ISSUE**



**\$175,215,000**  
**State of Connecticut**  
**General Obligation Bonds**  
**(2012 Series G)**

**RATINGS:**

Moody's: Aa3  
S&P: AA  
Fitch: AA  
Kroll: AA  
(See RATINGS herein)

Dated: **Date of Delivery**

Due: **October 15**, as shown on inside front cover

The \$175,215,000 General Obligation Bonds (2012 Series G) (the "Bonds") will be general obligations of the State of Connecticut (the "State") and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. See **THE BONDS - Nature of Obligation** herein. Interest on the Bonds will be payable on April 15, 2013 and semiannually thereafter on October 15 and April 15 in each year until maturity or earlier redemption, as applicable. Interest will be calculated on the basis of a 360-day year of twelve 30-day months at the annual rates set forth on the inside front cover. **The Bonds are subject to optional redemption prior to maturity as more fully described herein.**

**(See inside front cover for maturities, interest rates and prices or yields.)**

The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of \$5,000 or any integral multiple thereof. When issued, the Bonds will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds. So long as Cede & Co. is the registered owner, as nominee of DTC, reference herein to the Bondowner or owner shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See **THE BONDS - Book-Entry-Only System** herein. Principal of and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, as Paying Agent, at its corporate trust office in Hartford, Connecticut, so long as DTC or its nominee, Cede & Co., is the Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

*In the opinion of Bond Counsel and Tax Counsel, rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), under existing law, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in computing the federal alternative minimum tax, as described under **TAX EXEMPTION OF THE BONDS** herein.*

*In the opinion of Bond Counsel and Tax Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax. See **TAX EXEMPTION OF THE BONDS**.*

The Bonds are offered when, as and if issued and received by the Underwriters, subject to approval as to legality by Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel. Certain legal matters will be passed upon for the State by its Tax Counsel. Certain legal matters will be passed upon for the Underwriters by Underwriters' Counsel. The Bonds are expected to be available for delivery through the facilities of DTC in New York, New York, on or about November 28, 2012.

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**Honorable Denise L. Nappier**  
Treasurer of the State of Connecticut

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**Morgan Stanley**

**Ramirez & Co., Inc.**

**BofA Merrill Lynch**

**J.P. Morgan**

**Robert W. Baird & Co.**

**Stifel, Nicolaus & Company, Inc.**

**The Williams Capital Group, L.P.**

**Fidelity Capital Markets**

**Loop Capital Markets LLC**

**Roosevelt & Cross, Inc.**

**TD Securities (USA) LLC**

**M.R. Beal & Company**

**Janney Montgomery Scott LLC**

**Prager & Co., LLC**

**Siebert Brandford Shank & Co., L.L.C.**

**William Blair & Company**

Dated: **November 6, 2012**

**\$175,215,000**  
**State of Connecticut**  
**General Obligation Bonds (2012 Series G)**

<u>Maturity</u> <u>October 15,</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <sup>1</sup>
2013	\$25,000,000	1.50%	0.20%	101.143%	20772JLB6
2022	215,000	3.00	2.00	108.923	20772JKZ4
2023	6,400,000	4.00	2.22*	115.712	20772JKR2
2023	8,600,000	5.00	2.17*	125.043	20772JLC4
2024	7,000,000	4.00	2.42*	113.809	20772JKS0
2024	23,000,000	5.00	2.27*	124.038	20772JLD2
2025	5,000,000	4.00	2.61*	112.034	20772JKT8
2025	10,000,000	5.00	2.33*	123.440	20772JLG5
2026	10,000,000	4.00	2.70*	111.205	20772JKU5
2026	5,000,000	5.00	2.40*	122.747	20772JLH3
2027	10,000,000	4.00	2.77*	110.565	20772JKV3
2027	5,000,000	5.00	2.47*	122.058	20772JLJ9
2028	10,000,000	4.00	2.85*	109.839	20772JKW1
2028	5,000,000	5.00	2.55*	121.276	20772JLK6
2030	2,500,000	3.00	3.07	99.040	20772JLA8
2030	5,000,000	4.00	2.97*	108.761	20772JLN0
2030	7,500,000	5.00	2.67*	120.115	20772JLP5
2031	5,480,000	3.00	3.10	98.576	20772JKX9
2031	5,000,000	4.00	3.03*	108.226	20772JLE0
2031	4,520,000	5.00	2.70*	119.826	20772JLL4
2032	7,500,000	3.00	3.16	97.649	20772JKY7
2032	2,500,000	4.00	3.09*	107.694	20772JLF7
2032	5,000,000	5.00	2.73*	119.539	20772JLM2

(plus accrued interest, if any)

- \* Priced at the stated yield to the October 15, 2022 optional redemption date at a redemption price of 100%; however, any such redemption is at the optional election of the Treasurer. See **THE BONDS – Optional Redemption** herein.

<sup>1</sup> Copyright, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the State and are included solely for the convenience of the holders of the Bonds. The State is not responsible for the selection or use of these CUSIP numbers, does not undertake any responsibility for their accuracy, and makes no representation as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. All quotations from and summaries and explanations of provisions of laws of the State contained in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof. All references to the Bonds and the resolutions and proceedings of the State Bond Commission relating thereto are qualified in their entirety by reference to the definitive forms of the Bonds and such resolutions. This Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose, except as specifically authorized by the State. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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## SUMMARY

*This Summary does not constitute a part of the Official Statement for the issuance and sale by the State of Connecticut of its \$175,215,000 General Obligation Bonds (2012 Series G) (the "Bonds"). This Summary is for informational purposes only and is subject in all respects to a more complete discussion contained in the Official Statement.*

Security	The Bonds will be general obligation bonds of the State of Connecticut, and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due.
Tax Exemption of the Bonds	In the opinion of Bond Counsel and Tax Counsel, rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), under existing law, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in computing the federal alternative minimum tax, as described under <b>TAX EXEMPTION OF THE BONDS</b> herein.
State of Connecticut Tax Exemption of The Bonds	In the opinion of Bond Counsel and Tax Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.
Interest Payment Dates	Interest on the Bonds will be payable on April 15, 2013 and semiannually thereafter on October 15 and April 15 in each year until maturity or earlier redemption, as applicable. Interest is calculated on the basis of a 360-day year of twelve 30-day months at the annual rates set forth on the inside front cover.
Principal Payment Dates	Principal of the Bonds is payable on October 15 in the years and in the amounts shown on the inside front cover.
Denominations	The Bonds will be issued only in registered book-entry form, without coupons, in denominations of \$5,000, or any integral multiple thereof.
Redemption	The Bonds are subject to optional redemption prior to maturity at the election of the Treasurer as specified in the final Official Statement. See <b>THE BONDS – Optional Redemption</b> .
Delivery and Clearance	The Bonds are expected to be available for delivery through the facilities of DTC in New York, New York, on or about November 28, 2012.
Paying Agent	U.S. Bank National Association, 225 Asylum Street, Hartford, Connecticut 06103, is the State's Paying Agent.
Legal Counsel	Day Pitney LLP of Hartford, Connecticut is Lead Bond Counsel; Hawkins Delafield & Wood LLP of Hartford, Connecticut, Lewis & Munday, A Professional Corporation of New York, New York, Robinson & Cole LLP of Hartford, Connecticut, Shipman & Goodwin LLP of Hartford, Connecticut, and Squire Sanders (US) LLP of New York, New York, are Bond Counsel with respect to certain series of the Bonds. Wiggin and Dana LLP of New Haven, Connecticut, and Hardwick Law Firm, LLC of Kansas City, Missouri, are Co-Underwriters' Counsel. Day Pitney LLP is Lead Disclosure Counsel and Finn Dixon & Herling LLP of Stamford, Connecticut and Soeder & Associates LLC of Hartford, Connecticut, are Co-Disclosure Counsel. Robinson & Cole LLP is Lead Tax Counsel and Finn Dixon & Herling LLP and Soeder & Associates LLC are Co-Tax Counsel.
Additional Information	Additional information may be obtained upon request to the Office of the State Treasurer, Denise L. Nappier, Attn: Sarah K. Sanders, Assistant Treasurer for Debt Management, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3288.

**OFFICIAL STATEMENT**

**\$175,215,000**

**STATE OF CONNECTICUT**

**GENERAL OBLIGATION BONDS (2012 SERIES G)**

**INTRODUCTION**

This Official Statement, including the cover and inside cover pages, this Introduction, Part I, Part II and Part III and the Appendices thereto, of the State of Connecticut (the “State”) is provided for the purpose of presenting certain information relating to the State in connection with the sale of \$175,215,000 aggregate principal amount of its General Obligation Bonds (2012 Series G) (the “Bonds”).

Part I of this Official Statement, including the cover and inside front cover page and the Appendices thereto, contains information relating to the Bonds. Part II of this Official Statement contains information which supplements, as of its date, certain information contained in the most recent Annual Information Statement of the State. Part III of this Official Statement, including the Appendices thereto, is the most recent Annual Information Statement of the State and contains certain information about the State as of its date. The cover page, inside cover page, this Introduction, and Parts I, II and III and the Appendices thereto should be read collectively and in their entirety.

**PART I  
INFORMATION CONCERNING THE BONDS**

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**PART I**  
**INFORMATION CONCERNING THE BONDS**  
**\$175,215,000**  
**STATE OF CONNECTICUT**  
**GENERAL OBLIGATION BONDS (2012 SERIES G)**

**THE BONDS**

**Description of the Bonds**

The State of Connecticut (the “State”) is issuing \$175,215,000 General Obligation Bonds (2012 Series G) (the “Bonds”) comprised of the following issues:

\$ 2,915,000 General Obligation Bonds (2012 Series G-1)  
\$ 8,435,000 General Obligation Bonds (2012 Series G-2)  
\$ 45,965,000 General Obligation Bonds (2012 Series G-3)  
\$107,900,000 General Obligation Bonds (2012 Series G-4)  
\$ 10,000,000 General Obligation Bonds (2012 Series G-5)

The Bonds will be dated the date of delivery, and will bear interest from their date payable on April 15, 2013 and semiannually thereafter on October 15 and April 15 in each year, until maturity or earlier redemption, as applicable, at the rate or rates indicated on the inside front cover page of this Official Statement.

Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable to the registered owner as of the close of business on the last business day of March and September in each year. The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of \$5,000 or any integral multiple thereof.

The Bonds will mature on the dates and in the years and in the principal amounts set forth on the inside front cover of this Official Statement.

The Bonds will be general obligation bonds of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. The Bonds will be issued pursuant to the State general obligation bond procedure act (Section 3-20 of the General Statutes of Connecticut, as amended), resolutions adopted by the State Bond Commission, and other proceedings related thereto, including a Certificate of Determination of the Treasurer. See **THE BONDS - Nature of Obligation** herein.

Principal of and interest on the Bonds will be paid directly to The Depository Trust Company (“DTC”) by U.S. Bank National Association, as Paying Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. See **THE BONDS - Book-Entry-Only System** herein.



The Bonds are being issued for various projects and purposes and are authorized by the bond acts listed in **Appendix I-A**. Bonds of each series will mature on October 15 in the years and in the principal amounts set forth in the following table:

**\$175,215,000 Bonds**

<u>Maturity</u> <u>October 15,</u>	<u>Series</u>					<u>Total</u>
	<u>2012 G-1</u>	<u>2012 G-2</u>	<u>2012 G-3</u>	<u>2012 G-4</u>	<u>2012 G-5</u>	<u>2012 Series G</u>
2013	\$2,915,000	\$8,435,000	\$13,650,000			\$ 25,000,000
2022			215,000			215,000
2023			15,000,000			15,000,000
2024			17,100,000	\$ 12,900,000		30,000,000
2025				15,000,000		15,000,000
2026				15,000,000		15,000,000
2027				15,000,000		15,000,000
2028				15,000,000		15,000,000
2030				15,000,000		15,000,000
2031				15,000,000		15,000,000
2032				5,000,000	\$10,000,000	15,000,000
<b>TOTAL</b>	<b>\$2,915,000</b>	<b>\$8,435,000</b>	<b>\$45,965,000</b>	<b>\$107,900,000</b>	<b>\$10,000,000</b>	<b>\$175,215,000</b>

**Optional Redemption**

The Bonds maturing after October 15, 2022 will be subject to redemption, at the election of the Treasurer, on or after October 15, 2022 at any time, in whole or in part prior to maturity. The redeemed Bonds may be in such amounts and in such order of maturity and in such Series and bear such interest rate or rates (but by lot among bonds bearing the same interest rate within a maturity of a Series) as the Treasurer may determine. The redemption price (expressed as percentages of the principal amounts of bonds to be redeemed) is set forth in the following table, to which will be added interest accrued and unpaid to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
From October 15, 2022 and thereafter	100%

Notice of redemption shall be mailed not less than twenty (20) nor more than sixty (60) days prior to the redemption date to the registered owner of such Bond at such Bondowner's address as it appears on the registration books of the State. So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to DTC.

**Book-Entry-Only System**

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered Bond certificates will be issued for each maturity and interest rate of a given series of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act

of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on, and redemption premium, if any, with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail

information from the State or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been provided by DTC. The State and the Underwriters take no responsibility for the accuracy thereof.

### **Nature of Obligation**

Each Bond when duly issued and paid for will constitute a contract between the State and the owner thereof.

The State general obligation bond procedure act pursuant to which the Bonds are issued provides that the Bonds shall be general obligations of the State and that the full faith and credit of the State are pledged for the payment of the principal of and interest on said Bonds as the same become due. Such act further provides that, as part of the contract of the State with the owners of said Bonds, appropriation of all amounts necessary for the punctual payment of such principal and interest is made, and the Treasurer shall pay such principal and interest as the same become due.

The doctrine of governmental immunity (the right of a state not to be sued without its consent) applies to the State but legislation gives jurisdiction to the Connecticut courts to enter judgment against the State founded upon any express contract between the State and the purchasers and subsequent owners and transferees of bonds and notes issued by the State, including the Bonds, reserving to the State all legal defenses except governmental immunity.

In the opinion of Bond Counsel, the above provisions impose a clear legal duty on the Treasurer to pay principal of and interest on the Bonds when due and, in the event of failure by the State to make such payment when due, a bondowner may sue the Treasurer to compel such payment from any monies available.

For the payment of principal of or interest on the Bonds, the State, acting through the General Assembly, has the power to levy ad valorem taxes on all taxable property in the State without limitation as to rate or amount. The State does not presently levy such a tax.

The State has never defaulted in the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

**Sources and Uses of Bond Proceeds**

Proceeds of the Bonds are to be applied as follows:

Sources:	
Par Amount of Bonds .....	\$175,215,000.00
Net Original Issue Premium.....	<u>23,515,270.45</u>
Total Sources .....	<u>\$198,730,270.45</u>
Uses:	
Project Fund Deposit .....	\$175,215,000.00
Money Available to State .....	22,026,162.45 <sup>1</sup>
Costs of Issuance .....	675,000.00
Underwriters' Discount.....	<u>814,108.00</u>
Total Uses .....	<u>\$198,730,270.45</u>

<sup>1</sup> Includes capitalized interest on the Bonds and funds to be used to pay other interest payments due in fiscal years 2012-13 and 2013-14.

**LEGALITY FOR INVESTMENT**

Under existing State law, the Bonds are legal investments for the State and for municipalities, regional school districts, fire districts, and any municipal corporation or authority authorized to issue bonds, notes or other obligations, State chartered or organized insurance companies, bank and trust companies, savings banks, savings and loan associations and credit unions, as well as executors, administrators, trustees and certain other fiduciaries. Subject to any contrary provisions in any agreement with noteholders or bondholders or other contract, the Bonds also are legal investments for virtually all public authorities in the State.

The Bonds may be accepted by the Comptroller as a substitution for amounts paid as retainage under any State contract or subcontract.

**RATINGS**

Moody’s Investors Service (“Moody’s”), Standard & Poor’s Rating Services (a division of the McGraw-Hill Companies, Inc.) (“S&P”), Fitch Ratings (“Fitch”) and Kroll Bond Rating Agency, Inc. (“Kroll”) have assigned their municipal bond ratings of Aa3, AA, AA and AA, respectively, to the Bonds. Moody’s, S&P, Fitch and Kroll have assigned a “stable” credit outlook on the State’s general obligation debt. Each such rating and credit outlook reflects only the views of the respective rating agency, and an explanation of the significance of such rating and credit outlook may be obtained from such rating agency. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agency if in the judgment of such rating agency circumstances so warrant. A downward revision or withdrawal of any such rating may have an adverse effect on the market prices of the Bonds.

**TAX EXEMPTION OF THE BONDS**

**Opinion of Bond Counsel and Tax Counsel - Federal Tax Exemption**

In the opinion of Bond Counsel and Tax Counsel, under existing law, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in computing the federal alternative minimum tax.

Bond Counsel's and Tax Counsel's opinions with respect to the Bonds will be rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Code establishes certain requirements that must be met at and subsequent to the issuance of the Bonds in order that interest on the Bonds be and remain excluded from gross income of the owners thereof for federal income tax purposes. Failure to comply with the continuing requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of their issuance irrespective of the date on which such noncompliance occurs. In the Tax Compliance Agreement and the Tax Certificate, which will be delivered concurrently with the issuance of the Bonds, the State will covenant to comply with certain provisions of the Code and will make certain representations designed to assure compliance with such requirements of the Code.

Pursuant to Section 3-20 of the General Statutes of the State, as amended, the State covenants that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds will not be included in the gross income of the owners thereof for federal income tax purposes, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

No other opinion is expressed by Bond Counsel or Tax Counsel regarding the federal tax consequences of the ownership of, or the receipt or accrual of interest on, the Bonds.

### **Original Issue Discount**

The initial public offering prices of certain maturities of the Bonds (the "OID Bonds") are less than their stated principal amounts. Under existing law, the difference between the stated principal amount and the initial offering price of each maturity of the OID Bonds to the public (excluding bond houses and brokers) at which a substantial amount of such maturity of the OID Bonds is sold will constitute original issue discount ("OID"). The offering prices relating to the yields set forth on the inside front cover page of this Official Statement for the OID Bonds are expected to be the initial offering prices to the public at which a substantial amount of each maturity of the OID Bonds are sold. Under existing law OID on the Bonds accrued and properly allocable to the owners thereof under the Code is not included in gross income for federal income tax purposes if interest on the Bonds is not included in gross income for federal income tax purposes.

Under the Code, for purposes of determining an owner's adjusted basis in an OID Bond, OID treated as having accrued while the owner holds the OID Bond will be added to the owner's basis. OID will accrue on a constant-yield-to-maturity method based on regular compounding. The owner's adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of an OID Bond. For certain corporations (as defined for federal income tax purposes) a portion of the OID that accrues in each year to such an owner of an OID Bond will be included in the calculation of the corporation's federal alternative minimum tax liability. As a result, ownership of an OID Bond by such a corporation may result in an alternative minimum tax liability even though such owner has not received a corresponding cash payment.

Prospective purchasers of OID Bonds should consult their tax advisors regarding the calculation of accrued OID, the accrual of OID in the case of owners of the OID Bonds purchasing such Bonds after the initial offering and sale, and the state and local tax consequences of owning or disposing of such OID Bonds.

### **Original Issue Premium**

The initial public offering prices of certain maturities of the Bonds (the "OIP Bonds") are more than their stated principal amounts. An owner who purchases an OIP Bond must amortize bond premium as provided in applicable Treasury Regulations, and amortized premium reduces the owner's basis in the OIP Bond for federal income tax purposes. Prospective purchasers of OIP Bonds should consult their tax advisors regarding the amortization of premium and the effect upon basis.

## **Other Federal Tax Matters**

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to certain taxpayers, including without limitation, taxpayers eligible for the earned income credit, recipients of Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, certain insurance companies, certain S corporations with excess net passive income, and foreign corporations subject to the branch profits tax. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability and impact of such consequences. Prospective purchasers of the Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

## **State Taxes**

In the opinion of Bond Counsel and Tax Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Interest on the Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Accrued original issue discount on a Bond is also excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Owners of OID Bonds or OIP Bonds should consult their tax advisors with respect to the determination for state and local income tax purposes of original issue discount or original issue premium accrued upon sale or redemption thereof, and with respect to the state and local tax consequences of owning or disposing of OID Bonds or OIP Bonds.

Owners of the Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the Bonds and the disposition thereof.

## **General**

The opinions of Bond Counsel and Tax Counsel are rendered as of their date and Bond Counsel and Tax Counsel assume no obligation to update or supplement their opinions to reflect any facts or circumstances that may come to their attention or any changes in law or the interpretation thereof that may occur after the date of their opinions.

Legislation affecting state and municipal bonds is regularly under consideration by the United States Congress. For example, the President of the United States has submitted proposals to Congress that would, among other things, limit the value of tax-exempt interest for higher-income taxpayers. Such proposals, or other proposals, could affect the tax exemption of interest on, or the market price or marketability of tax-exempt bonds, such as the Bonds. No assurance can be given with respect to the impact of future legislation on the Bonds. Prospective purchasers of the Bonds should consult their tax and financial advisors regarding such matters.

The discussion above does not purport to address all aspects of federal, state or local taxation that may be relevant to a particular owner of a Bond. Prospective owners of the Bonds, particularly those who may be subject to special rules, are advised to consult their tax advisors regarding the federal, state and local tax consequences of owning and disposing of the Bonds.

## CONTINUING DISCLOSURE AGREEMENT

The General Statutes of Connecticut give the State the specific authority to enter into continuing disclosure agreements in accordance with the requirements of Securities and Exchange Commission Rule 15c2-12 (the “Rule”). The State will enter into a Continuing Disclosure Agreement with respect to the Bonds for the benefit of the beneficial owners of the Bonds, substantially in the form attached as **Appendix I-C** to this Official Statement (the “Continuing Disclosure Agreement”), pursuant to which the State will agree to provide or cause to be provided, in accordance with the requirements of the Rule: (i) certain annual financial information and operating data, (ii) in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of certain events with respect to the Bonds, and (iii) timely notice of a failure by the State to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement. The Underwriters’ obligation to purchase the Bonds shall be conditioned upon their receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement.

To its knowledge, in the last five years the State has not failed to comply in any material respect with its undertakings pursuant to a continuing disclosure agreement executed by the State in connection with the sale of any other bonds except the State recently discovered that it inadvertently did not file notices of certain bond insurer rating downgrades in 2008, which downgrades caused the ratings on the bonds insured by such bond insurers to be downgraded. The State has since filed all such notices.

## DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

### State Treasurer’s Certificate

Upon delivery of the Bonds, the State shall furnish a certificate of the Treasurer, dated the date of delivery of the Bonds, stating that the Official Statement, as of its date, did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and that there has been no material adverse change (other than in the ordinary course of the operations of the State) in the financial condition of the State from that set forth in or contemplated by the Official Statement. In providing such certificate, the Treasurer will state that she has not undertaken independently to verify information obtained or derived from various publications of agencies of the Federal government and presented in **Appendix III-B** to this Official Statement under the caption **STATE ECONOMY**.

### Absence of Litigation

Upon delivery of the Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no controversy or litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of monies to the payment of the Bonds. In addition, such certificate shall state that, except as disclosed in this Official Statement, there is no controversy or litigation of any nature now pending by or against the State which, in the opinion of the Attorney General, will be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially adversely affect its financial condition or the power of the State to levy, collect and enforce the collection of taxes or other revenues for the payment of its bonds.

### Approving Opinions of Bond Counsel and Opinions of Disclosure Counsel, Tax Counsel and Underwriters’ Counsel

The State Treasurer, with the approval of the Attorney General of the State of Connecticut, has appointed the following firms to serve as Bond Counsel with respect to the Bonds, and delivery of the Bonds will be subject to the approving opinions of Bond Counsel as follows:

- (a) Hawkins Delafield & Wood LLP with respect to the \$2,915,000 General Obligation Bonds (2012 Series G-1);
- (b) Lewis & Munday, A Professional Corporation with respect to the \$8,435,000 General Obligation Bonds (2012 Series G-2);
- (c) Robinson & Cole LLP with respect to the \$45,965,000 General Obligation Bonds (2012 Series G-3);
- (d) Shipman & Goodwin LLP with respect to the \$107,900,000 General Obligation Bonds (2012 Series G-4); and
- (e) Squire Sanders (US) LLP with respect to the \$10,000,000 General Obligation Bonds (2012 Series G-5).

The opinion of each Bond Counsel with respect to the series of the Bonds indicated above will be substantially in the form included as **Appendix I-B** to this Official Statement. Certain Bond Counsel have served as underwriters' counsel in connection with other State bond issues.

Certain legal matters will be passed upon for the State by its Disclosure Counsel, Day Pitney LLP of Hartford, Connecticut. In addition, the firms of Finn Dixon & Herling LLP of Stamford, Connecticut and Soeder & Associates LLC of Hartford, Connecticut, serve as Co-Disclosure Counsel.

Certain legal matters will be passed upon for the State by its Tax Counsel, Robinson & Cole LLP of Hartford, Connecticut. In addition, the firms of Finn Dixon & Herling LLP and Soeder & Associates LLC serve as Co-Tax Counsel.

Certain legal matters will be passed upon for the Underwriters by their co-counsel, Wiggin and Dana LLP of New Haven, Connecticut, and Hardwick Law Firm, LLC of Kansas City, Missouri.

#### **FINANCIAL ADVISOR**

The State has appointed Acacia Financial Group, Inc. and A.C. Advisory, Inc. to serve as co-financial advisors to assist the State in the issuance of the Bonds.

#### **UNDERWRITING**

The aggregate initial offering price of the Bonds to the public is \$198,730,270.45 plus accrued interest, if any. The Underwriters have jointly and severally agreed, subject to certain conditions precedent to closing, to purchase the Bonds from the State at an aggregate purchase price of \$197,916,162.45, representing an underwriters' discount of \$814,108.00. The Underwriters will be obligated to purchase all the Bonds, if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the Bonds into investment trusts) at prices lower than such initial public offering prices, and such initial public offering prices may be changed, from time to time, by the Underwriters.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.



**ADDITIONAL INFORMATION**

It is the present policy of the State to make available, upon request to the Office of the State Treasurer, copies of this Official Statement or parts hereof and subsequent official statements or parts thereof relating to the issuance of its general obligation bonds.

Additional information may be obtained upon request to the Office of the State Treasurer, Denise L. Nappier, Attn: Sarah K. Sanders, Assistant Treasurer for Debt Management, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3288.

**STATE OF CONNECTICUT**

Dated at Hartford, Connecticut  
this 6th day of November, 2012

/s/ Denise L. Nappier  
Denise L. Nappier  
State Treasurer

**TABLE OF STATUTORY AUTHORIZATIONS**

Each series of Bonds includes the following authorizations, which have been consolidated for purposes of sale:

- |    |    |               |  |
|----|----|---------------|--|
| A. | \$ | 2,915,000.00  | General Obligation Bonds (2012 Series G-1)   |
| 1. | \$ | 2,915,000.00  | General State Purposes Bonds (2007 Special Session Act, Sections 13(a)(1) through (3), 13(b) through 13(i) and 13(k) through 13(n), Series H) authorized by Sections 12 through 19 and more particularly subsections 13(a)(1) through 13(a)(3), 13(b) through 13(i) and 13(k) through 13(n) of Public Act No. 07-7 of the General Assembly of the State of Connecticut, June 2007 Special Session, as amended. |
| B. | \$ | 8,435,000.00  | General Obligation Bonds (2012 Series G-2)   |
| 1. | \$ | 3,856,530.00  | General State Purposes Bonds (2007 Special Session Act, Section 21(l), Series B) authorized by Section 21(l) of Public Act No. 07-7 of the General Assembly of the State of Connecticut, June 2007 Special Session, as amended.  |
| 2. | \$ | 4,578,470.00  | General State Purposes Bonds (2011 Act, Section 2(l), Series B) authorized by Section 2(l) of Public Act No. 11-57 of the General Assembly of the State of Connecticut, June 2011 Session, as amended.   |
| C. | \$ | 45,965,000.00 | General Obligation Bonds (2012 Series G-3)   |
| 1. | \$ | 9,797,107.25  | General State Purposes Bonds (2004 Act, Sections 2(a) through 2(h) and 2(l) through 2(p), Series J) authorized by Sections 2(a) through 2(h) and 2(l) through 2(p) of Special Act No. 04-2 of the General Assembly of the State of Connecticut, May 2004 Special Session, as amended.  |
| 2. | \$ | 1,395,000.00  | General State Purposes Bonds (2005 Act, Sections 21(a) through 21(h), and 21(l) through 21(n), Series F) authorized by Sections 21(a) through 21(h), and 21(l) through 21(n) of Special Act No. 05-1 of the General Assembly of the State of Connecticut, June 2005 Special Session, as amended.   |
| 3. | \$ | 29,330,262.75 | General State Purposes Bonds (2007 Act, Sections 21(a) through 21(k) and 21(n) through 21(p), Series D) authorized by Sections 21(a) through 21(k) and 21(n) through 21(p) of Public Act No. 07-7 of the General Assembly of the State of Connecticut, June 2007 Special Session, as amended.  |
| 4. | \$ | 5,442,630.00  | General State Purposes Bonds (2011 Act, Sections 2(a) through 2(k) and 2(n) through 2(q), Series B) authorized by Sections 2(a) through 2(k) and 2(n) through 2(q) of Public Act No. 11-57 of the General Assembly of the State of Connecticut, January 2011 Session, as amended.  |

- D.     \$   107,900,000.00     General Obligation Bonds (2012 Series G-4)
1.       \$   71,657,150.60     General State Purposes Bonds (2007 Special Session Act, Section 105, Series E) authorized by Section 105 of Public Act No. 07-7 of the General Assembly of the State of Connecticut, June 2007 Special Session, as amended.
  2.       \$   1,137,892.75     General State Purposes Bonds (2004 Special Session Act, Section 2(j), Series I) authorized by Section 2(j) of Special Act No. 04-2 of the General Assembly of the State of Connecticut, May 2004 Special Session, as amended.
  3.       \$   27,208,698.65     General State Purposes Bonds (2007 Special Session Act, Section 21(m), Series D) authorized by Section 21(m) of Public Act No. 07-7 of the General Assembly of the State of Connecticut, June 2007 Special Session, as amended.
  4.       \$   7,896,258.00     General State Purposes Bonds (2009 Special Session Act, Section 42(e), Series B) authorized by Section 42(e) of Public Act No. 09-2 of the General Assembly of the State of Connecticut, September 2009 Special Session, as amended.
- E.     \$   10,000,000.00     General Obligation Bonds (2012 Series G-5)
1.       \$   10,000,000.00     Local Capital Improvement Fund Bonds (1987 Act, Sections 11 through 14, Series YY) authorized by Sections 11 through 14 of Public Act No. 87-584 of the General Assembly of the State of Connecticut, January 1987 Session, as amended.

## FORM OF BOND COUNSEL OPINION

*The opinion of each Bond Counsel with respect to the series of the Bonds for which such firm has been appointed to serve as Bond Counsel will be dated the date of original issuance of the Bonds and will be substantially in the following form:*

Honorable Denise L. Nappier  
Treasurer, State of Connecticut  
Hartford, Connecticut

We have examined a record of proceedings relative to the issuance of \$\_\_\_\_\_ General Obligation Bonds (2012 Series G- ) of the State of Connecticut (the "Bonds"). The Bonds are issued contemporaneously with other general obligation bonds of the State of Connecticut of the same series in the aggregate principal amount of \$175,215,000.

The Bonds are dated as of the date of delivery, mature on October 15 in the years, in the principal amounts and bear interest from their dated date, payable on April 15, 2013 and semiannually thereafter on October 15 and April 15 in each year until maturity [or earlier redemption], at the rate or rates per annum, as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
-------------	-------------------------	----------------------

The Bonds are payable as to principal [and redemption price, if any,] at the office of U.S. Bank National Association, in Hartford, Connecticut. Interest on the Bonds is payable to the person in whose name such bond is registered as of the close of business on the last business day of March and September in each year, by check mailed to such registered owner at such owner's address as shown on the registration books kept by the State or its designated agent.

The Bonds are [not] subject to redemption prior to maturity [as therein provided].

The Bonds are comprised of the following issue[s] of bonds which were authorized by the following statutory provision[s and have been consolidated as a single issue]:

**[HERE LIST COMPONENT BOND ISSUES WITH STATUTORY AUTHORIZATIONS]**

The Bonds are issued under and pursuant to proceedings taken in accordance with Section 3-20 of the General Statutes of Connecticut, Revision of 1958, as amended, resolutions adopted by the State Bond Commission including a resolution adopted on October 3, 2012 and proceedings taken in conformity therewith, including a Certificate of Determination executed by the State Treasurer and filed with the Secretary of the State Bond Commission and a Tax Certificate and a Tax Compliance Agreement.

The Bonds are issuable in the form of registered bonds without coupons in denominations of \$5,000 or any integral multiple thereof, not exceeding the aggregate principal amount of Bonds maturing in any year. The Bonds are originally registered in the name of Cede & Co., as nominee of The Depository Trust Company, for the purpose of effecting a book-entry system for the ownership and transfer of the Bonds.

As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement and certain matters which are the subject of a supplemental opinion provided by us to the State).

We are of the opinion that the Bonds, when duly certified by U.S. Bank National Association, will be valid and legally binding general obligations of the State of Connecticut for the payment of the principal of and interest on which the full faith and credit of the State are pledged, and that the State, acting through the General Assembly, has the power to levy ad valorem taxes upon all taxable property within the State without limitation as to rate or amount to pay the principal and interest thereof. We are further of the opinion that the Tax Compliance Agreement is a valid and binding agreement of the State and that the Tax Certificate and the Tax Compliance Agreement were duly authorized by the State.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. In the Tax Compliance Agreement and the Tax Certificate the State has made covenants and representations designed to assure compliance with such requirements of the Code. The State has covenanted in the Tax Compliance Agreement that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, retroactively to the date of issue or otherwise, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

We are of the opinion that, under existing law, interest on the Bonds (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in computing the federal alternative minimum tax.

In rendering the foregoing opinions regarding the federal income tax treatment of interest on the Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate and the Tax Compliance Agreement, and (ii) continuing compliance by the State with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continues to be, excluded from gross income for federal income tax purposes, as provided in the covenants set forth in the Tax Compliance Agreement as to such matters. We also have relied, with no independent investigation, upon the approving opinions of bond counsel with respect to the other general obligation bonds of the State of Connecticut issued contemporaneously with the Bonds in the aggregate principal amount of \$175,215,000 as to the validity and legality of such bonds and as to the exclusion of the interest thereon from gross income of the owners thereof for federal income tax purposes.

We are further of the opinion that, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

We express no opinion regarding other federal or state tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

Respectfully yours,

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

*In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the State will agree, pursuant to a Continuing Disclosure Agreement for the Bonds to be executed by the State substantially in the following form, to provide, or cause to be provided, (i) certain annual financial information and operating data, (ii) in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of certain events with respect to the Bonds, and (iii) timely notice of a failure by the State to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for the Bonds.*

**Continuing Disclosure Agreement**

This Continuing Disclosure Agreement (“Agreement”) is made as of the 28th day of November, 2012 by the State of Connecticut (the “State”) acting by its undersigned officer, duly authorized, in connection with the issuance of \$175,215,000 General Obligation Bonds (2012 Series G) dated as of the date hereof (the “Bonds”), for the benefit of the beneficial owners from time to time of the Bonds.

**Section 1. Definitions.** For purposes of this Agreement, the following capitalized terms shall have the following meanings:

“Final Official Statement” means the official statement of the State dated November 6, 2012 prepared in connection with the Bonds.

“MSRB” means the Municipal Securities Rulemaking Board established under the Securities Exchange Act of 1934 as amended, or any successor thereto.

“Repository” means the MSRB or any other information repository established pursuant to the Rule as amended from time to time.

“Rule” means rule 15c2-12 under the Securities Exchange Act of 1934, as of the date of this Agreement.

“SEC” means the Securities and Exchange Commission of the United States, or any successor thereto.

**Section 2. Annual Financial Information.**

(a) The State agrees to provide or cause to be provided to each Repository, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2012) as follows:

(i) Financial statements of the State’s general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds and trust and agency (fiduciary) funds and the general long-term debt account group for the prior fiscal year, which statements shall be prepared in accordance with generally accepted accounting principles or mandated state statutory principles as in effect from time to time. As of the date of this Agreement, the State is required to prepare financial statements of its various funds and accounts on a budgeted basis (i.e., on the basis of the modified cash method of accounting as described in Part III to the Final Official Statement, under the caption **FINANCIAL PROCEDURES - Accounting Procedures**). As of the date of this Agreement, the State also prepares its financial statements in accordance with generally accepted accounting principles but is not required to do so. The financial statements will be audited.

(ii) To the extent not included in the financial statements described in (i) above, the financial information and operating data within the meaning of the Rule described below (with references to the Final Official Statement); provided, however, that references to the Final Official Statement for the Bonds as a means of

identifying such financial information and operating data shall not prevent the State from reorganizing such material in subsequent official statements or annual information reports:

1. Until such time as the State's only method of presenting its financial statements is substantially in accordance with generally accepted accounting principles ("GAAP"):
  - a. General Fund - Summary of Operating Results - Budgetary (Modified Cash) Basis (for most recent fiscal year) (See Table 2 and Appendices III-D-6 and III-D-7).
  - b. General Fund - Summary of Operating Results - Budgetary (Modified Cash) Basis vs. GAAP Basis (for most recent fiscal year) (See Table 3).
  - c. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis as of the end of the most recent fiscal year) (See Table 4 and Appendices III-D-4 and III-D-5).
  - d. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis vs. GAAP Basis (as of the end of the most recent fiscal year) (See Table 5).
2. Statutory Debt Limit (as of end of most recent fiscal year or a later date) (See Table 7).
3. Direct General Obligation Indebtedness - Principal Amount Outstanding (as of end of most recent fiscal year or a later date) (See Table 8).
4. Summary of Principal, Mandatory Sinking Fund Payments, and Interest on Long-Term Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 10).
5. Outstanding Long-Term Direct General Obligation Debt (as of end of most recent fiscal year) (See Table 11).
6. Authorized But Unissued Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 12).
7. Statutory General Obligation Bond Authorizations and Reductions (for recent fiscal years, if any legislative action) (See Table 13).
8. Special Capital Reserve Fund Debt (as of end of most recent fiscal year or a later date) (See Table 16).
9. Funding status of the State Employees' Retirement Fund and the Teachers' Retirement Fund.
  - (b) The financial statements and other financial information and operating data described above will be provided on or before the date eight months after the close of the fiscal year for which such information is being provided. The State's fiscal year currently ends on June 30.
  - (c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents available to the public on the MSRB's Internet Web site referenced in the Rule as amended from time to time or filed with the SEC. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report or an annual information statement of the State.
  - (d) The State reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted

accounting principles, or by changes in mandated state statutory principles as in effect from time to time; provided that the State agrees that the exercise of any such right will be done in a manner consistent with the Rule.

**Section 3. Notice of Certain Events.**

The State agrees to provide or cause to be provided, in a timely manner not in excess of ten business days after the occurrence of the event, to each Repository notice of the occurrence of any of the following events with respect to the Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the Bonds;
- (g) modifications to rights of holders of the Bonds, if material;
- (h) Bond calls, if material, and tender offers;
- (i) Bond defeasances;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the State;
- (m) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

**Section 4. Notice of Failure to Provide Annual Financial Information.**

The State agrees to provide or cause to be provided, in a timely manner, to each Repository notice of any failure by the State to provide annual financial information as set forth in Section 2(a) hereof on or before the date set forth in Section 2(b) hereof.

**Section 5. Use of Agents.**

Annual financial information and operating data and notices to be provided pursuant to this Agreement may be provided by the State or by any agents which may be employed by the State for such purpose from time to time.

**Section 6. Termination.**

The obligations of the State under this Agreement shall terminate upon the earlier of (i) payment or legal defeasance, at maturity or otherwise, of all of the Bonds, or (ii) such time as the State ceases to be an obligated person with respect to the Bonds within the meaning of the Rule.

**Section 7. Enforcement.**

The State acknowledges that its undertakings set forth in this Agreement are intended to be for the benefit of, and enforceable by, the beneficial owners from time to time of the Bonds. In the event the State shall fail to perform its duties hereunder, the State shall have the option to cure such failure within a reasonable time (but not



exceeding 30 days with respect to the undertakings set forth in Section 2 of this Agreement or five business days with respect to the undertakings set forth in Sections 3 and 4 of this Agreement) from the time the State's Assistant Treasurer for Debt Management, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Assistant Treasurer for Debt Management is 55 Elm Street, 6th Floor, Hartford, Connecticut 06106.

In the event the State does not cure such failure within the time specified above, the beneficial owner of any Bonds shall be entitled only to the remedy of specific performance. The State expressly acknowledges and the beneficial owners are hereby deemed to expressly agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Bonds.

**Section 8. Miscellaneous.**

(a) All documents provided by the State to a Repository pursuant to the State's undertakings set forth in Sections 2, 3 and 4 of this Agreement shall be in an electronic format as prescribed by the MSRB from time to time and shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(b) The State shall have no obligation to provide any information, data or notices other than as set forth in this Agreement; provided however, nothing in this Agreement shall be construed as prohibiting the State from providing such additional information, data or notices from time to time as it deems appropriate in connection with the Bonds. If the State elects to provide any such additional information, data or notices, the State shall have no obligation under this Agreement to update or continue to provide further additional information, data or notices of the type so provided.

(c) This Agreement shall be governed by the laws of the State of Connecticut.

(d) Notwithstanding any other provision of this Agreement, the State may amend this Agreement, and any provision of this Agreement may be waived, if (i) such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the State, (ii) the provisions of the Agreement as so amended or waived would have complied with the requirements of the Rule, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, in each case as of the date of such amendment to the Agreement or waiver, and (iii) such amendment or waiver is supported by either an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds or an approving vote by the holders of not less than 60% of the aggregate principal amount of the Bonds then outstanding. A copy of any such amendment or waiver will be filed in a timely manner with each Repository. The annual financial information provided on the first date following adoption of any such amendment or waiver will explain, in narrative form, the reasons for the amendment or waiver.

(e) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same instrument.

STATE OF CONNECTICUT

By \_\_\_\_\_  
Denise L. Nappier  
Treasurer

**PART II**  
**INFORMATION SUPPLEMENT**  
**OF THE STATE OF CONNECTICUT**

**November 6, 2012**

The Annual Information Statement of the State of Connecticut (the "State"), dated February 27, 2012, appears in this Official Statement as **Part III** and contains information through February 27, 2012. The State expects to provide an updating Information Supplement from time to time in the future, which will appear in this location as Part II of future Official Statements or Reoffering Circulars of the State.

This Information Supplement updates certain information in the February 27, 2012 Annual Information Statement through November 6, 2012. The information in this **Part II** and **Part III** is subject to change without notice, and investors should not assume that there has been no change in the affairs of the State since the date of this **Part II**.

**FINANCIAL PROCEDURES; STATE GENERAL FUND; STATE DEBT; APPENDIX III-E**

The following information supplements certain information contained under the sections **FINANCIAL PROCEDURES, STATE GENERAL FUND, STATE DEBT AND APPENDIX III-E** related to information with respect to the State's Budget Reserve Fund and early redemption of a portion of the State's Economic Recovery Notes (2009 Series A) from the 2010-11 fiscal year surplus reserved for such purpose:

Pursuant to Public Act No. 12-104, the sum of \$222.4 million previously reserved from the surplus in the 2010-11 fiscal year to redeem early a portion of the State's outstanding Economic Recovery Notes (2009 Series A) was credited to the budget reserve fund established pursuant to Section 4-30a of the General Statutes and \$143.6 million of such sum is expected to be transferred from the budget reserve fund to the resources of the General Fund for the 2011-12 fiscal year. An additional \$14.5 million will be added to the budget reserve fund balance reflecting the unassigned portion of the fund balance reserves from the prior fiscal year, leaving a balance in the budget reserve fund of \$93.4 million. See discussion under **STATE GENERAL FUND** below.

**STATE GENERAL FUND**

**Page III-27.** The following information supplements the information under the heading **Fiscal Year 2011-2012 Operations:**

Pursuant to the Comptroller's unaudited preliminary financial results dated September 4, 2012, the Comptroller estimated the General Fund revenues for the 2011-12 fiscal year were \$18,561.6 million, General Fund expenditures and miscellaneous adjustments were \$18,705.2 million and the General Fund balance for the 2011-12 fiscal year was estimated to have a deficit of \$143.6 million. The Comptroller indicated prior year fund reserves made available for use in the 2011-12 fiscal year eliminated the General Fund deficit. The Comptroller noted that in accordance with Public Act No. 11-48, at the close of fiscal year 2011-12, up to \$75 million of budgetary basis surplus in the General Fund was reserved to offset any fiscal year 2011-12 increase in the fund's GAAP basis unassigned balance, referred to as the GAAP deficit. With the absence of a budgetary basis surplus, this provision is not operable and \$75 million will therefore not be reserved for such purpose for fiscal year 2011-12. Final audited financial statements for the 2011-12 fiscal year are anticipated to be transmitted by December 31, 2012.

The above projections are only estimates and no assurances can be given that future events will materialize as estimated, or that subsequent estimates or adjustments by the Comptroller will not reflect changes in the estimated or final result of the fiscal year 2011-12 operations of the General Fund. In addition, adjustments or audit or actions of the Governor or General Assembly may also result in changes in the final result of the fiscal year 2011-12 operations of the General Fund. The Comptroller's final estimates for the fiscal year 2011-12 operations of the General Fund have been outlined in **Appendix III-E** to this **Part II**.

**Page III-28.** The following information supplements the information under the caption **Revised Consensus Revenues** under the heading **Fiscal Year 2011-2012 Operations**:

The Office of Policy and Management and the General Assembly's Office of Fiscal Analysis issued on April 30, 2012, a revision of their previous consensus revenue estimates. The revised General Fund revenue estimates for fiscal years ending June 30 of 2012, 2013, 2014, 2015 and 2016 were \$18,545.3 million, \$19,067.8 million, \$19,954.3 million, \$21,171.8 million and \$22,126.8 million, respectively. These represent reductions from the previous estimates of \$148.6 million, \$234.5 million, \$311.5 million, \$359.9 million, \$371.2 million, respectively. The projections in the consensus revenue estimates are only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or audit or actions of the Governor or General Assembly will not result in changes to the final results of the fiscal years reported. The Office of Policy and Management and the General Assembly's Office of Fiscal Analysis issued on November 9, 2012, their consensus revenue estimates covering fiscal years ending June 30 of 2013, 2014, 2015 and 2016. See discussion under the caption **Consensus Revenue Estimates** under the heading **Fiscal Year 2012-2013 Operations** below.

**Page III-28.** The following information supplements the information under the heading **Midterm Budget Adjustments**:

The General Assembly passed, and the Governor signed into law, Public Act No. 12-104 and Public Act No. 12-1 of the June Special Session which makes mid-term budget revisions for fiscal year 2012-13. Based upon the most recent consensus revenue estimate issued April 30, 2012 by the Office of Policy and Management and the General Assembly's Office of Fiscal Analysis, revenues are anticipated to be \$19,143.2 million, expenditures are anticipated to be \$19,140.1 million, and the revised budget would result in a General Fund surplus of \$3.1 million for fiscal year 2012-13 and would be \$142.3 million below the expenditure cap.

The revised fiscal year 2012-13 budget includes policy changes that will result in \$75.4 million in additional revenue above the consensus revenue forecast. The more significant changes include: (i) a \$70.1 million reduction in the General Fund transfer to the Transportation Fund for fiscal year 2012-13, (ii) a \$26.0 million reduction in expected federal revenue collections due primarily to expenditure changes made to federally reimbursable programs, and (iii) \$5.2 million in additional revenue due to the expansion of alcoholic beverage sales to Sunday and certain holidays. The revised budget includes additional appropriations of \$187.5 million compared to the originally adopted budget for fiscal year 2012-13. The more significant changes include: (i) a \$93.8 million increase to local education funding, the largest component of which is a \$50 million increase to the Education Cost Sharing formula, and (ii) an \$85.3 million increase to the State Employees Retirement System.

The revised fiscal year 2012-13 budget includes an increase of \$601.3 million in general obligation bond authorizations to take effect in fiscal year 2012-13. The adjustments emphasize investments in State facilities, housing, and education. The General Assembly passed legislation which was signed by the Governor necessary to implement certain aspects of the revised budget at a special session held on June 12, 2012, more fully discussed below.

### **Fiscal Year 2012-2013 Operations:**

Pursuant to Section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates to the Comptroller by the twentieth day of each month of revenues and expenditures for the current fiscal year for use by the Comptroller in preparing the Comptroller's monthly report. In the monthly estimates provided by the Office of Policy and Management on August 20, 2012 for the General Fund for the 2012-13 fiscal year, as of the period ending July 31, 2012, the Office of Policy and Management did not materially revise its estimates from budgeted amounts. In the monthly estimates provided by the Office of Policy and Management on September 20, 2012 for the General Fund for the 2012-13 fiscal year, as of the period ending August 31, 2012, General Fund revenues were estimated at \$19,193.2 million, General Fund expenditures and adjustments (including net appropriations continued and estimated lapses) were estimated at \$19,220.1 million and the General Fund for the 2012-13 fiscal year was estimated to have a deficit of \$26.9 million under a budgetary basis and \$74.4 million under a GAAP basis. The Secretary of the Office of Policy and Management noted that the revenue forecast that underlies the fiscal year 2012-13 budget assumes a modestly accelerating national expansion which has yet to materialize. In addition, the Department of Revenue Services continues to process income tax collections due September 17, 2012 and thus it is premature to draw any conclusions from collection information to date. Finally, the Secretary of the Office of Policy and Management noted that at the national level, the prospects of sequestration and the expiration of tax cuts and other significant federal policies in January 2013 continue to lend a high level of uncertainty to the revenue forecast. In the monthly estimates provided by the Office of Policy and Management on October 19, 2012 for the General Fund for the 2012-13 fiscal year, as of the period ending September 30, 2012, General Fund revenues were estimated at \$19,160.0 million, General Fund expenditures and adjustments (including net appropriations continued and estimated lapses) were estimated at \$19,220.1 million and the General Fund for the 2012-13 fiscal year was estimated to have a deficit of \$60.1 million under a budgetary basis and \$107.6 million under a GAAP basis. The Secretary of the Office of Policy and Management noted that the revenue forecast continues to assume a modestly accelerating national expansion which has yet to materialize. Additionally, the Secretary of the Office of Policy and Management noted that they are closely watching revenue collections from the sales tax, which appear to be weaker than expected and also noted that the continued political gridlock and brinksmanship at the national level relative to addressing the budget and economy, including the prospects of sequestration and the expiration of tax cuts and other significant federal policies in January 2013, coupled with global economic concerns, continue to lend a high level of uncertainty to the revenue forecast.

By statute, the State's fiscal position is reported monthly by the Comptroller. In the monthly report of the Comptroller dated September 4, 2012 for the 2012-13 fiscal year as of the period ending July 31, 2012, the Comptroller indicated that the Office of Policy and Management is projecting a surplus of \$3.1 million in the General Fund for fiscal year 2012-13 on a budgetary basis. On a GAAP basis, these projections yield a deficit of \$46.9 million. In accordance with Public Act No. 11-48, if a General Fund surplus develops during the fiscal year, up to \$50 million will be applied to the GAAP deficit with any remaining balance used toward the payment of a portion of the State's outstanding Economic Recovery Notes (Series 2009). In the monthly report of the Comptroller dated October 1, 2012 for the 2012-13 fiscal year as of the period ending August 31, 2012, the Comptroller indicated that the Office of Policy and Management is projecting a deficit of \$26.9 million in the General Fund for fiscal year 2012-13 on a budgetary basis and he is in general agreement with such projection. The Comptroller also indicated that reserves of \$47.5 million were budgeted for General Fund GAAP conversion. However, in accordance with the provisions of Public Act No. 11-48, such application of these reserves are required only to the extent that there is an increase in the General Fund's unreserved fund balance in the 2011-12 fiscal year. The reserves are to be released in the amount of that increase, not to exceed \$50 million. The unreserved fund balance for the 2011-12 fiscal year will not be

available until January and therefore, an accurate estimate of the GAAP conversion deficit is not available at this time.

In the monthly report of the Comptroller dated November 1, 2012 for the 2012-13 fiscal year as of the period ending September 30, 2012, the Comptroller indicated that the Office of Policy and Management is projecting a deficit of \$60.1 million in the General Fund for fiscal year 2012-13 on a budgetary basis. The Comptroller again indicated that reserves of \$47.5 million were budgeted for General Fund GAAP conversion. However, in accordance with the provisions of Public Act No. 11-48, such application of these reserves are required only to the extent that there is an increase in the General Fund's unreserved fund balance in the 2011-12 fiscal year. The reserves are to be released in the amount of that increase, not to exceed \$50 million. The unreserved fund balance for the 2011-12 fiscal year will not be available until January and therefore, an accurate estimate of the GAAP conversion deficit is not available at this time. The Comptroller indicated he was concerned with the deterioration in General Fund revenue collection to date, specifically in the sales tax category, as sales tax receipts through the end of September 2012 were running significantly below last year's total for the same period. He indicated this to be especially troubling in light of slower personal income growth in the State which has historically shown a correlation to sales tax receipts. He indicated that historically approximately 15% of net sales tax revenue is posted through September, so it was premature to alter the projection this month based on the limits of the data trend. However, he indicated he is carefully monitoring collections to determine the need for future revenue adjustments. The Comptroller indicated another budget concern moving forward is the potential sequestration of federal funds and the expiration of tax reductions in January 2013. The Comptroller indicated that the implications of this action are significant for the State's economy and will exacerbate an already historically slow national recovery.

The above projections are only estimates and no assurances can be given that future events will materialize as estimated, or that subsequent estimates or adjustments by the Office of Policy and Management, the Comptroller or other State agencies will not reflect changes in the estimated or final result of the fiscal year 2012-13 operations of the General Fund. In addition, adjustments or audit or actions of the Governor or General Assembly may also result in changes in the final result of the fiscal year 2012-13 operations of the General Fund. Neither the Office of Policy and Management's nor the Comptroller's estimates for the fiscal year 2012-13 operations of the General Fund have been outlined in **Appendix III-E** to this **Part II**.

On October 29, 2012, the State experienced a storm which caused substantial damage in portions of the State, particularly in its shoreline communities. The State is engaged in recovery efforts which may result in unbudgeted expenses which have yet to be quantified. The State expects a large portion of these expenses to be reimbursed by the federal government.

**Consensus Revenue Estimates.** On November 9, 2012, the Office of Policy and Management and the General Assembly's Office of Fiscal Analysis issued their consensus revenue estimates covering fiscal years ending June 30 of 2013, 2014, 2015 and 2016. The revised General Fund revenue estimates for fiscal years ending June 30 of 2013, 2014, 2015 and 2016 were \$19,015.1 million, \$19,723.6 million, \$21,032.3 million and \$22,136.6 million, respectively. These consensus revenue estimates are expected to be used as the revenue basis for the fiscal accountability reports of the Office of Policy and Management and the General Assembly's Office of Fiscal Analysis to be issued on November 15, 2012, which will estimate the General Fund's ending balance for each of the four fiscal years ending June 30, 2016 based on current services and other assumptions. The revenue estimate for fiscal year 2012-13 is \$144.9 million less than the Office of Policy and Management's revenue estimate of October 19, 2012 for such fiscal year, described above. These revenue estimates reflect, in some cases, increased federal grants due to larger increases in expenditures than were estimated in previous projections. The combination of these two factors will likely result in further downward adjustments in the State's General Fund position. Given the revised consensus revenue

estimates, it is likely that the forthcoming fiscal accountability reports will indicate ending balances that are less than the balances projected in their last fiscal accountability reports, which are discussed on **Page III-28** of this Official Statement, will likely result in greater deficit projections for fiscal year 2012-13 and may result in deficit projections in later fiscal years. The projections in the consensus revenue estimates and the fiscal accountability report are only estimates and no assurance can be given that future events will materialize as estimated or that subsequent estimates, adjustments or audits or State actions will not result in changes to the final results for the fiscal years reported. The next consensus revenue estimates are expected on January 15, 2013.

**Page III-29.** The information under the caption *First Five* under the heading **State Economic Initiatives** is amended by the deletion of “Ticket Network” from such section and supplemented by the following:

Eight companies including Cigna, ESPN, NBC Sports and Bridgewater Associates have agreed to participate in this program.

**Pages III-32, Table 3; III-35, Table 6.**

Tables 3 and 6 in Part III have been corrected in Part III for typographical errors (marked with an asterisk).

#### **FINANCIAL PROCEDURES; STATE GENERAL FUND; STATE DEBT; OTHER FUNDS, DEBT AND LIABILITIES**

The following information supplements certain information contained under the sections **FINANCIAL PROCEDURES, STATE GENERAL FUND, STATE DEBT, and OTHER FUNDS, DEBT AND LIABILITIES** relating to legislation passed at the special session of the legislature held on June 12, 2012:

Public Act No. 12-1 of the June 2012 Special Session, among other items, provides for the transfer of all powers and duties of the Connecticut Development Authority to Connecticut Innovations, Incorporated. The General Assembly also authorized an additional \$10 million in general obligation bond authorizations, \$5 million to take effect in fiscal year 2012-13 and \$5 million to take effect in fiscal year 2013-14.

Public Act No. 12-2 of the June 2012 Special Session, among other items, extends certain deadlines for the provision of consensus revenue estimates. The date by which consensus revenue estimates for the current biennium and the three following fiscal years must be provided was changed from October 15 to November 10 annually. The act also provided expanded bonding authority to the Clean Energy Finance and Investment Authority, which was formed in 2011 to promote and finance clean energy initiatives in the State. Subject to conditions, including approvals by the Secretary of the Office of Policy and Management and the State Treasurer, up to \$50 million of its bonds may be secured by a special capital reserve fund.

#### **STATE GENERAL FUND and APPENDIX III-C**

**Pages III-32, Table 3; III-34, Table 5; III-35, Table 6 and Appendix III-C.** The following information supplements the information included in such pages, tables and appendix:

The Comptroller expects to restate the GAAP fund balance within the General Fund for the fiscal year ending June 30, 2011 in the financial statements to be prepared for the fiscal year ending June 30, 2012. It is anticipated that the restatement of such fund balance will be detailed in Note 23 of the State’s basic financial statements included in the State’s Comprehensive Annual Financial Report

to be prepared for fiscal year ending June 30, 2012. The adjustment arises from an under reporting of the General Fund tax receivable balance accrued for GAAP purposes but not for budgetary-basis purposes in the amount of \$172.7 million, which results in an understatement of GAAP income tax revenue by that same amount. The adjustment improves both the State's GAAP operating position and GAAP fund balance in the State's fiscal year ending June 30, 2011 and should be considered in reviewing the GAAP based financial information included in the referenced tables and appendix. Budgetary-basis financial reporting is not affected. The Comptroller is implementing financial control measures to avoid such an under reporting in the future.

**STATE DEBT**

*Page III-38.* **TABLE 7** is revised as follows:

**TABLE 7**  
**Statutory Debt Limit**  
**as of September 1, 2012**

Total General Fund Tax Receipts	\$14,408,165,000	
Multiplier	<u>1.6</u>	
Debt Limit		\$23,053,064,000
Outstanding Debt <sup>(a)</sup>	\$10,545,011,657	
Guaranteed Debt <sup>(b)</sup>	\$ 904,885,000	
Authorized Debt <sup>(c)</sup>	<u>\$ 5,798,990,139</u>	
Total Subject to Debt Limit		\$17,248,886,796
Less Debt Retirement Funds <sup>(d)</sup>	\$ 8,460,052	
Aggregate Net Debt		\$17,240,426,744
Debt Incurring Margin		\$ 5,812,637,255

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- (a) See **Table 8**. Includes accreted value of capital appreciation bonds. Excludes General Obligation Notes (Economic Recovery 2009 Series A), Pension Obligation Bonds, UConn 2000 Bonds, tax increment financings, short term revenue anticipation notes, CRDA Bonds, CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds, CHEFA Child Care Facilities Bonds and lease financings other than the Middletown Courthouse and the Juvenile Training School.
  - (b) See **OTHER FUNDS, DEBT AND LIABILITIES – Contingent Liability Debt**. Includes only guarantees for certain outstanding debt of Southeastern Connecticut Water Authority and UConn 2000 Bonds.
  - (c) Includes guarantee for UConn 2000 Bonds authorized but unissued under cap for 2012-13 fiscal year.
  - (d) Includes debt service funds available for self-liquidating debt issued to finance facilities at the University of Connecticut and Connecticut State Universities.

SOURCE: State Treasurer's Office

Page III-42. TABLE 8 is revised as follows:

**TABLE 8**  
**Direct General Obligation Indebtedness<sup>(a)</sup>**  
**Principal Amount Outstanding as of September 1, 2012**  
**(In Thousands)**

General Obligation Bonds	\$ 11,215,202
Pension Obligation Bonds	2,330,036
UConn 2000 Bonds	903,550
Other <sup>(b)</sup>	<u>221,635</u>
Long Term General Obligation Debt Total	14,670,423
Short Term General Obligation Debt Total	<u>0</u>
Gross Direct General Obligation Debt	14,670,423
Deduct:	
University Auxiliary Services <sup>(c)</sup>	<u>8,460</u>
Net Direct General Obligation Debt	<u>\$14,661,963</u>

- 
- (a) The table does not include refunded bonds for which escrow funds and investments are sufficient to pay all debt service. The table also does not include limited or contingent liabilities of the State or obligations of the State to towns for participation in the construction and alteration of school buildings. See **OTHER FUNDS, DEBT AND LIABILITIES**.
- (b) "Other" includes lease financings, tax incremental financings, CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds. Does not include CRDA Bonds or CHEFA Child Care Facilities Bonds. See **OTHER FUNDS, DEBT AND LIABILITIES – Other Debt Service and Contractual Commitments**.
- (c) Considered self-liquidating. The proceeds of such bonds have been used to build facilities for the State University System and the University of Connecticut. Student fees, other than tuition, for use of such facilities, are deposited into enterprise funds and are used for the operation of such facilities and for deposit annually into a debt service fund maintained by the Treasurer for payment of the debt service on such bonds.

SOURCE: State Treasurer's Office



**TABLE 10**  
**Summary of Principal, Mandatory Sinking Fund Payments,**  
**and Interest on Long-Term Direct General Obligation Debt<sup>(a)</sup>**  
**as of September 1, 2012**

<u>Fiscal Year</u>	<u>Principal Payments<sup>(b)</sup></u>	<u>Interest Payments<sup>(b,c)</sup></u>	<u>Total Debt Service</u>
2013	\$ 1,184,139,289	\$ 645,381,914	\$ 1,829,521,203
2014	1,151,755,017	645,334,367	1,797,089,385
2015	1,132,206,365	583,638,030	1,715,844,395
2016	1,107,575,061	533,984,809	1,641,559,870
2017	858,734,988	485,036,625	1,343,771,613
2018	850,732,299	448,029,844	1,298,762,142
2019	800,491,471	406,486,049	1,206,977,521
2020	703,980,614	371,159,554	1,075,140,168
2021	704,246,206	335,613,966	1,039,860,172
2022	688,824,111	352,059,512	1,040,883,624
2023	702,376,122	330,009,433	1,032,385,555
2024	629,109,066	324,587,119	953,696,186
2025-2032	<u>4,071,752,437</u>	<u>1,021,622,068</u>	<u>5,093,374,504</u>
<b>Totals</b>	<b>\$ 14,585,923,046</b>	<b>\$ 6,482,943,291</b>	<b>\$ 21,068,866,337</b>

- (a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments (\$14,585,923,046), plus accreted interest (\$84,499,678), total the amount of such long-term debt (\$14,670,422,724) as shown in **Table 8**. See footnotes (b) and (c) for further explanation.
- (b) Principal payments include aggregate stated initial values of capital appreciation bonds. Interest payments include the difference between the aggregate stated initial values and the aggregate maturity amounts of capital appreciation bonds, including capital appreciation bonds issued pursuant to the College Savings Bond Program. Capital appreciation bonds mature in fiscal years 2013-2025.
- (c) Some of the State's direct debt pays interest at variable rates. The interest on such debt is calculated based on the following assumed average rates:

<u>Year Issued</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Maturities</u>	<u>Interest Rate</u>
1997	\$ 100,000,000	\$ 20,000,000	2013-2014	4.25%
2003	77,700,000	8,900,000	2013	5.50
2005*	300,000,000	280,000,000	2016-2023	4.50
2005*	15,620,000	15,620,000	2016	3.99
2005*	20,000,000	20,000,000	2017	5.07
2005*	20,000,000	20,000,000	2020	5.20
2011	337,620,000	298,085,000	2013-2018	3.50
2011	75,000,000	75,000,000	2016, 2019	3.50
2012	212,400,000	212,400,000	2013-2020	3.50

\* Assumed average interest rate based on interest rate swap agreement(s), including projected basis risk.

SOURCE: State Treasurer's Office

Page III-46. TABLE 11 is revised as follows:

**TABLE 11**  
**Outstanding Long-Term Direct General Obligation Debt**  
**As of June 30**  
**(In Thousands)**

<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>
2002	\$ 8,623,009	\$ 8,496,151
2003	9,513,380 <sup>(a)</sup>	9,463,962 <sup>(a)</sup>
2004	9,940,945 <sup>(b)</sup>	9,895,717 <sup>(b)</sup>
2005	10,168,006 <sup>(c)</sup>	10,121,035 <sup>(c)</sup>
2006	10,403,634 <sup>(d)</sup>	10,361,226 <sup>(d)</sup>
2007	10,615,810	10,580,359
2008	13,076,942 <sup>(e)</sup>	13,042,524 <sup>(e)</sup>
2009	13,945,108 <sup>(f)</sup>	13,921,725 <sup>(f)</sup>
2010	15,004,732 <sup>(g)</sup>	14,987,088 <sup>(g)</sup>
2011	14,574,791 <sup>(h)</sup>	14,561,944 <sup>(h)</sup>
2012	14,557,051 <sup>(i)</sup>	14,548,591 <sup>(i)</sup>

- 
- (a) Includes \$219,235,000 Economic Recovery Notes.
  - (b) Includes \$273,215,000 Economic Recovery Notes.
  - (c) Includes \$209,560,000 Economic Recovery Notes.
  - (d) Includes \$146,090,000 Economic Recovery Notes.
  - (e) Includes \$2,278,382,011 Pension Obligation Bonds.
  - (f) Includes \$2,289,598,815 Pension Obligation Bonds.
  - (g) Includes \$2,301,522,318 Pension Obligation Bonds and \$915,795,000 Economic Recovery Notes.
  - (h) Includes \$2,314,197,063 Pension Obligation Bonds and \$915,795,000 Economic Recovery Notes.
  - (i) Includes \$2,327,670,401 Pension Obligation Bonds and \$747,935,000 Economic Recovery Notes.

SOURCE: State Treasurer's Office

Page III-47. TABLE 12 is revised as follows:

**TABLE 12**  
**Authorized but Unissued Direct General Obligation Debt**  
**As of September 1, 2012**  
**(In Thousands)**

	<u>State Direct Debt<sup>(a)</sup></u>	<u>Pension Obligation Bonds<sup>(b)</sup></u>	<u>UCONN 2000<sup>(c)</sup></u>	<u>Tax Increment<sup>(d)</sup></u>	<u>Total</u>
Bond Acts in Effect	\$29,255,263	\$2,276,578	\$1,837,792	\$52,750	\$33,422,383
Amount Authorized	25,728,563	2,276,578	1,837,792	52,750	29,895,684
Amount Issued	23,693,848	2,276,578	1,598,792	49,155	27,618,373
Authorized but Unissued	2,034,716	0	239,000	3,595	2,277,311
Available for Authorization	3,526,699	0	0	0	3,526,699

- (a) Includes CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds, and excludes CRDA Bonds, CHEFA Child Care Facilities Bonds, General Obligation Notes (Economic Recovery 2009 Series A) and lease financings.
- (b) The amount available does not include additional amounts that may exceed the cap to finance issuance costs and capitalized interest.
- (c) Includes bonds that may be issued under the cap in effect on the date of the table. The amount available for authorization does not include additional amounts that may exceed the cap to finance reserve funds, issuance costs and capitalized interest. The amount issued has been adjusted to reflect increases due to closing costs and decreases due to premiums.
- (d) The amount of tax increment bonds authorized is based on the amount authorized by the State Bond Commission, since there is no statutory amount of authorization.

SOURCE: State Treasurer's Office; Office of Policy and Management

**Pages II-6, II-7, II-8 and II-10. Tables 7, 8, 10 and 12** of this **Part II** are further supplemented by the following information:

In October 2012, the State issued (i) \$219,865,000 General Obligation Bonds (2012 Series D) - SIFMA Index Bonds maturing in varying amounts on and between September 15, 2013 and September 15, 2024 and bearing interest at variable interest rates based on the SIFMA Index; (ii) \$280,135,000 General Obligation Bonds (2012 Series E) maturing in varying amounts on and between September 15, 2020 and September 15, 2032 and bearing interest at rates ranging from 2.00% to 5.00% per annum; and (iii) \$69,790,000 General Obligation Refunding Bonds (2012 Series F) maturing in varying amounts on and between March 15, 2013 and September 15, 2015 and bearing interest at rates ranging from 1% to 4% per annum.

On or about November 16, 2012, the State expects to issue \$224,785,000 Taxable General Obligation Bonds (2012 Series B) maturing in varying amounts on and between October 15, 2014 and October 15, 2022 and bearing interest at rates ranging from 0.465% to 2.551% per annum.

Page III-48. TABLE 13 is revised as follows:

**TABLE 13**  
**Statutory General Obligation Bond Authorizations and Reductions<sup>(a)</sup>**  
**(In Millions)**

<u>Fiscal Year</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
New Authorizations	\$1,246.1	\$1,296.5	\$1,290.4	\$1,388.7	\$1,965.0	\$1,564.5	\$1,195.4	\$1,147.2	\$1,724.8	\$2,664.4
Reductions	<u>0.0</u>	<u>(200.3)</u>	<u>(41.3)</u>	<u>0.0</u>	<u>(206.9)</u>	<u>0.0</u>	<u>(140.5)</u>	<u>(474.6)</u>	<u>(10.8)</u>	<u>(22.3)</u>
Net New Authorizations	\$1,246.1	\$1,096.2	\$1,249.1	\$1,388.7	\$1,758.1	\$1,564.5	\$1,054.9	\$ 672.6	\$1,714.0	\$2,642.1

(a) Does not include Pension Obligation Bonds, Economic Recovery Notes, lease financings, tax increment or cash flow borrowings. Includes amount for UConn 2000 available under the cap for 2004 through 2013, as amended, but does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Amounts are listed in the fiscal year that the bond authorizations become effective. Does not include any authorizations which take effect after 2013. See Table 14.

SOURCE: Office of Policy and Management

**OTHER FUNDS, DEBT AND LIABILITIES**

Page III-52; TABLE 15 is revised as follows:

**TABLE 15**  
**Special Tax Obligation Bonds**  
**As of September 1, 2012**  
**(In Millions)**

	<u>New Money</u>	<u>Refundings<sup>(a)</sup></u>	<u>Total</u>
<b>Bond Acts in Effect</b>	\$ 11,155	N/A	\$ 11,155
<b>Amount Authorized</b>	10,526	N/A	10,526
<b>Amount Issued</b>	7,518	\$ 3,762	11,280
<b>Authorized but Unissued</b>	3,008	N/A	3,008
<b>Available for Authorization</b>	629	N/A	629
<b>Amount Outstanding</b>	2,185	1,035	3,220

(a) Refunding Bonds do not require legislative approval.

SOURCE: State Treasurer's Office

Page III-55. The following information supplements the information under the caption *Capital City Economic Development Authority ("CCEDA")*:

Pursuant to Public Act No. 12-147, the name of CCEDA has been changed to the Capital Region Development Authority ("CRDA"). In addition to its existing powers, CRDA received broader powers over development and redevelopment in the City of Hartford and the surrounding towns, including East Hartford. CRDA's board is made up of 13 members, four of whom are appointed by the Governor, two of whom are appointed by the Mayor of Hartford, and two of whom are appointed by legislative leadership. The Mayors of Hartford and East Hartford, the Secretary of

OPM, and the Commissioners of Transportation and Economic and Community Development will serve as ex-officio members of the Board.

**Page III-56, III-57, III-60, Table 16.** The following information supplements the information under the captions *Connecticut Health and Educational Facilities Authority (“CHEFA”)* and *Connecticut Higher Education Supplemental Loan Authority (“CHESLA”)* and under the heading **Connecticut Health and Educational Facilities Authority** in **Table 16** on **Page III-60**:

Pursuant to Public Act No 12-149, effective July 1, 2012, CHESLA was statutorily consolidated with CHEFA by becoming a subsidiary of CHEFA. Also, in addition to other projects currently authorized, CHEFA is now authorized to issue revenue bonds which may be secured by one or more special capital reserve funds to finance projects for any constituent unit of the State higher education system. No statutory limit is imposed on such additional permitted projects and no debt with respect to such additional permitted projects has been issued.

**Pages III-60 and III-61; TABLE 16** is revised as follows:

**TABLE 16**

<b>Special Capital Reserve Fund Debt (In Millions)</b>			
	<b>Authorized SCRF or Guaranteed Debt <u>As of 10/1/12</u></b>	<b>Outstanding SCRF or Guaranteed Debt <u>As of 10/1/12</u></b>	<b>Minimum Capital Reserve Requirement <u>As of 10/1/12</u></b>
<b>Indebtedness Secured by Special Capital Reserve Funds or Guaranteed by State</b>			
<b>Capital Region Development Authority</b>	(a)	\$ 0.0	\$ 0.0
<b>Clean Energy Finance and Investment Authority</b>	\$ 50.0	0.0	0.0
<b>Connecticut Airport Authority</b> .....	(a)	0.0	0.0
<b>Connecticut Innovations</b>			
Umbrella Bond Program .....	300.0	0.0	0.0
General Obligation Bond Program.....	30.6	3.05	1.5
<b>Connecticut Health and Educational Facilities Authority</b>			
Nursing Home Program .....	(a)	15.4	1.8
Connecticut State University System.....	(a)	256.1	26.8
Hospital Equipment Program.....	100.0	0.0	0.0
UCONN Health Center Program .....	(a)	0.0	0.0
<b>Connecticut Higher Education Supplemental Loan Authority</b> .....	300.0	166.1	19.4
<b>Connecticut Housing Finance Authority</b>			
Housing Mortgage Finance Program .....	(a)	3,556.4	274.3
Special Needs Housing Mortgage Finance Program.....	(a)	63.6	4.6

	<b>Authorized SCRF or Guaranteed Debt <u>As of 10/1/12</u></b>	<b>Outstanding SCRF or Guaranteed Debt <u>As of 10/1/12</u></b>	<b>Minimum Capital Reserve Requirement <u>As of 10/1/12</u></b>
<b>Connecticut Resources Recovery Authority .....</b>	725.0	26.9	10.9
<b>University of Connecticut Student Fee Revenue Bonds.....</b>	(a)	0.0	0.0
<b>City of Waterbury Special Capital Reserve Fund Bonds .....</b>	100.0	0.0	0.0
<b>Southeastern Connecticut Water Authority.....</b>	15.0	1.3	N.A.

(a) No statutory limit.

**Page III-62.** The following information supplements the information under the caption *School Construction Grant Commitments* under the heading **Other Debt Service and Contractual Commitments**:

The State has authorized new school construction grant commitments of approximately \$345 million which take effect in the 2012-13 fiscal year.

As of June 30, 2012, the Commissioner estimates that current grant obligations under the grant program established in 1997 are approximately \$2,508 million which includes approximately \$8,102 million in grants approved as of such date less payments already made of \$5,594 million.

As of June 30, 2012, under the grant program prior to 1997 the State is obligated to various cities, towns and regional school districts for approximately \$174 million in aggregate principal installment payments and \$23 million in aggregate interest subsidies, for a total of \$197 million.

**PENSION AND RETIREMENT SYSTEMS**

**Page III-64.** The following information updates information under the heading **State Employees' Retirement Fund**:

As of June 30, 2012, the market value of the fund's investment assets was \$8,468 million. For periods ending June 30, 2012, the Treasurer has realized annualized net returns on investment assets in the State Employees' Retirement Fund of 7.44% over the past twenty years, of 5.82% over the past fifteen years, of 5.91% over the past ten years and of 1.07% over the past five years.

**Page III-66.** The following sentence is added to the end of the third paragraph under the caption *February 2012 Interim Actuarial Valuation* under the heading **State Employees' Retirement Fund**:

The General Assembly did not act on the agreement to eliminate SEBAC IV and SEBAC V provisions related to the deferral of pension funding by March 9, 2012, so it was deemed approved.

**Page III-68.** The following information supplements the information under the heading **Governor's Proposed FYE 2013 Midterm Budget Adjustments**:

As indicated above, the elimination of the SEBAC IV and SEBAC V provisions related to the deferral of pension funding was deemed approved in accordance with the Governor's proposal. The budget for fiscal year ending June 30, 2013 included a General Fund appropriation of \$721,490,818 to implement the first year of the proposed funding plan, in accordance with the Governor's proposal which is an amount equal to the State's annual required contribution. The other elements of the Governor's proposal are yet to be implemented.

**Page III-74.** The following sub-heading and information is added as a final sub-heading under the heading **State Employees' Retirement Fund**

#### ***2012 Investigation Report***

The State Employees' Retirement Commission received a final experience investigation report dated September 12, 2012 prepared by the actuaries for the State Employees' Retirement Fund for the four-year period ending June 30, 2011, assessing the reasonableness of the actuarial assumptions and valuation methods used by the retirement system. As a result of the study, the actuaries recommended that certain assumptions be revised by the State Employees' Retirement Fund for future use. The recommendations were considered by the State Employees Retirement Commission's Actuarial Subcommittee at its meetings held on August 22, 2012 and September 12, 2012. The revised assumptions will be incorporated into the actuarial valuation to be completed as of June 30, 2012 and used to calculate the State's employer contribution requirements for fiscal years ending June 30, 2014 and June 30, 2015.

Generally, the actuaries' final report found the current economic assumptions to be within a reasonable range of assumptions, however they made recommendations that have been considered by the Actuarial Subcommittee. These include assumed price inflation of 2.75%, investment return of 8.00% and wage inflation of 3.75%. The actuaries also recommended that some of the demographic assumptions be changed, including a slight decrease in the total number of withdrawals from active service, an increase in disability retirement and a decrease in the mortality rate, with no changes to service retirement and salary scale. The State Employees Retirement Commission accepted the recommendations made by the Actuarial Subcommittee which approved the demographic and economic assumptions which will result in changes to the unfunded accrued liability, funding ratio and annual required contribution rates.

The actuaries' analysis of the impact of the recommended changes, if applied to the results of the February 2012 interim actuarial valuation as of June 30, 2011, would result in an increase in the unfunded accrued liability from \$11,004.0 million to \$12,213.7 million, a decrease in the funding ratio from 47.9% to 45.3% and an increase in the employer annual required contribution rate from 28.86% to 31.92% of payroll.

The actuaries performed a statistical analysis of long-term expectations and analyzed the 25<sup>th</sup> and 75<sup>th</sup> percentile of long-term return expectations consistent with Actuarial Standards of Practice and recommended a reasonable range for the investment return assumption of 7.3% to 9.1% based on a price inflation of 3%. The current 8.25% return assumption was revised to 8.00% which continues in the reasonable range for investment return assumptions.

Currently, the projected unit credit cost method is used in the Fund's actuarial valuation. While the actuaries indicated there is no issue with this method, they suggested the Commission may want to consider changing to the entry age normal cost method for several reasons, including that it is the only method allowed under new GASB standards. The valuation cost method currently in place

may not be changed without the agreement of SEBAC and approval by the legislature. Under this scenario, if applied to the February 2012 interim actuarial valuation results as of June 30, 2011 and further incorporating the other recommended changes indicated in the experience investigation report, the unfunded accrued liability would increase to \$12,904.4 million, the funding ratio would decrease to 44.0% and the employer annual required contribution rate would increase to 32.67% of payroll.

#### ***Draft October 2012 Actuarial Valuation***

The State Employees Retirement Commission has received a draft actuarial valuation dated October 10, 2012. The valuation is prepared as of June 30, 2012 and includes changes to the actuarial assumptions adopted by the Commission in connection with the 2012 Investigation Report discussed above, which includes, among other changes, a revision from the previous 8.25% investment return assumption to an 8.00% investment return assumption.

The October 2012 draft actuarial valuation indicated that the State Employees' Retirement Fund had assets with an actuarial value of \$9,745.0 million as of June 30, 2012. The October 2012 draft actuarial valuation also indicated that the market value of the State Employees' Retirement Fund's investment assets was \$8,468.5 million as of June 30, 2012, including cash in custody and certain receivables. The market value of the fund's investment assets is continually subject to change based on a variety of factors, including changes in the financial and credit markets and general economic conditions. The October 2012 draft actuarial valuation indicated that as of June 30, 2012, the State Employees' Retirement Fund had actuarial accrued liabilities of \$23,018.8 million and an unfunded actuarial accrued liability of \$13,273.8 million. The October 2012 draft actuarial valuation indicated that as of June 30, 2012 the State Employees' Retirement Fund had a funded ratio of 42.3% based on the actuarial value of the assets. Based on the stated market value of assets, the State Employees' Retirement Fund had a funded ratio of 36.8% as of June 30, 2012. The October 2012 draft actuarial valuation determined the employer contribution requirement, which contribution is sufficient to meet GASB standards, to be \$1,268.9 million for fiscal year ending June 30, 2014 and \$1,379.2 million for fiscal year ending June 30, 2015, resulting in an annual employer contribution rate of 37.82% of payroll and 43.94% of payroll, respectively. The amount determined for fiscal years ending June 30, 2014 and June 30, 2015 have not yet been included in any adopted budget by the State as the budget for the year is not yet due.

**Page III-74.** The following information updates information under the heading **Teachers' Retirement Fund**:

As of June 30, 2012, the market value of the fund's investment assets was \$13,473.7 million. For periods ending June 30, 2012, the Treasurer has realized annualized net returns on investment assets in the Teachers' Retirement Fund of 7.56% over the past twenty years, of 5.95% over the past fifteen years, of 6.08% over the past ten years and of 1.27% over the past five years.

**Page III-75.** The following information updates information under the heading **Teachers' Retirement Fund**:

#### ***October 2012 Actuarial Valuation***

The Teachers' Retirement Fund received an actuarial valuation dated October 24, 2012. The October 2012 actuarial valuation indicated that the Teachers' Retirement Fund had assets with an actuarial value of \$13,734.8 million as of June 30, 2012. It also indicated the market value of the Teachers' Retirement Fund's investment assets was \$13,473.7 million as of June 30, 2012. The market value of the fund's investment assets is continually subject to change based on a variety of factors, including changes in the financial and credit markets and general economic conditions. The October 2012 actuarial valuation also indicated that as of June 30, 2012, the Teachers' Retirement



Fund had actuarial accrued liabilities of \$24,862.2 million and an unfunded actuarial accrued liability of \$11,127.4 million. The October 2012 actuarial valuation indicated that as of June 30, 2012 the Teachers' Retirement Fund had a funded ratio of 55.24% based on the actuarial value of the assets. Based on a market value of assets, the Teachers' Retirement Fund had a funded ratio of 54.19% as of June 30, 2012.

The October 2012 actuarial valuation was based upon the same actuarial assumptions and methods as the November 2010 actuarial valuation. These included an 8.50% earnings assumption, and projected salary increases of 4% to 7.50% and cost-of-living adjustments of 3.0% annually for members retired before September 1, 1992 and 2.0% for members retired on and after September 1, 1992. The October 2012 actuarial valuation uses an amortization method that calculates the amortization payment for the Teachers' Retirement Fund's unfunded actuarial accrued liability, that is included in the actuarially recommended employer contribution requirement rate of contribution based on a level percentage of payroll payments over a declining period of years, starting with 40 years as of July 1, 1991 for the contribution for fiscal year beginning July 1, 1992. The net effective amortization period for the computed State contribution amounts for fiscal years ending June 30, 2012 and June 30, 2013 is 22.4 years. While this method of funding does lead to full funding by the end of the amortization period, the repayment of the UAAL is not level. Because of this, even if the State were to contribute the full amount of the actuarially recommended contributions and all other actuarial assumptions were met, the UAAL for the Teachers' Retirement Fund is not anticipated to be reduced significantly until the latter years of the amortization period. Following full amortization of the UAAL, the actuarially recommended contribution would decrease substantially as it would consist solely of the funding of normal costs representing the portion of the present value of retirement benefits that are allocable to an active members' current year of service.

The October 2012 actuarial valuation determined the following employer contribution requirements, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions, which contributions are sufficient to meet GASB standards: (i) \$948.5 million for fiscal year ending June 30, 2014, and (ii) \$984.1 million for fiscal year ending June 30, 2015. The State has not appropriated such amounts as the State's budget for such years is not yet due.

**Page III-82.** The following information supplements the fourth and fifth paragraphs under the caption ***Other Post-Employment Benefits – State Employees*** under the heading **Social Security and Other Post-Employment Benefits**:

The State received an actuarial report dated May 16, 2012 with respect to the State's liability for post-retirement health care benefits (which include medical, prescription drug, dental and life insurance benefits) for eligible persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System. The May 2012 valuation indicates an OPEB actuarial accrued liability as of June 30, 2011 of \$17.954 billion and an unfunded actuarial accrued liability of \$17.905 billion, a decrease of approximately \$8.662 billion in unfunded actuarial accrued liability as determined by the prior actuarial valuation. The actuarial valuation determined the amount of the annual required contribution for fiscal year ending June 30, 2012, based on a projected unit credit actuarial cost method and level percent-of-payroll amortization over 30 years (with 26 years remaining as of June 30, 2011), to be \$1.355 billion, and the annual OPEB cost to be \$1.405 billion, applying a 5.7% discount rate. The annual OPEB cost adjusts the annual required contribution for timing differences between the annual required contribution and contributions in relation to the annual required contribution. The May 2012 valuation indicates a Net OPEB Obligation of \$4.930 billion for the fiscal year ending June 30, 2011. The Net OPEB Obligation is the cumulative difference between the annual required contribution and actual contributions made, with adjustments for timing differences between cash and accrual accounting and to prevent double counting of OPEB plan costs. Certain assumption changes since the prior valuation include (i) changing the discount rate from 4.5% to 5.7%, (ii) updating medical, prescription drug and dental claim costs for recent

experience and adjusting trend rates on each, (iii) assuming an explicit administrative expense of \$271 per participant increasing at 3% per year, (iv) adjusting the assumption for Medicare Part B as well as the associated trend assumption, and (v) adjusting the retiree contribution increase rate. The valuation includes the evaluation of recent plan changes made pursuant to SEBAC 2011, discussed on page III-66.

**Page III-83.** The following information supplements the second paragraph under the caption *Other Post-Employment Benefits – Teachers* under the heading **Social Security and Other Post-Employment Benefits**:

***Other Post-Employment Benefits – Teachers***

Implementation of GASB Statement No. 45 requires the State to obtain an analysis of the unfunded actuarial accrued liability of such retiree health insurance benefits and to recognize the annual required contribution to fund that actuarial liability in its financial statements. The Teachers' Retirement Board has received an actuarial valuation dated October 2012 of the State's liability as of June 30, 2012 with respect to post-retirement health care benefits for members of the Teachers' Retirement Fund and for retired teachers who are not members of the Teachers' Retirement Board's health benefit plan. The actuarial liability is determined directly as the present value of benefits accrued to date, where the accrued benefits for each member is the pro-rata portion (based on service to date) of the projected benefit payable. The report indicates an actuarial accrued liability as of June 30, 2012 of \$3,048.3 million on an unfunded basis, based upon certain stated assumptions including a 4.5% earnings assumption and a 30 year amortization period and no valuation assets available to offset the liabilities of the plan. Against these liabilities, as of June 30, 2012 the plan had no present assets for valuation purposes. The actuarial valuation determined a \$180.5 million employer contribution requirement for fiscal year ending June 30, 2013 and \$187.2 million for fiscal year ending June 30, 2014, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions and applying a 4.5% discount rate.

**LITIGATION**

**Page III-86.** The following paragraph is added as the last paragraph under the caption *Sheff v. O'Neill*:

Currently, the State has just completed Year 4 of the Stipulation which requires that it meet 80% of demand for reduced racially isolated school settings by end of year 5 (June 2013). The State met 68% of demand for year 4 based on numbers submitted October 1, 2011. The internal benchmark for that year was 65%. However, children are still being placed through Open Choice and it is anticipated the percentage will improve. If, at the end of Year 5, the State falls short of the 80% goal by more than 1%, it will be deemed a material breach which may result in court action. However, notwithstanding a failure to meet the 80% demand standard, there is no material breach if a minimum of 41% of Hartford-resident minority students are in a reduced-isolation setting by the end of Year 5. Per the Stipulation, the parties may enter into negotiations beginning in September 2012 to extend the Stipulation one year to June 2014 in order to permit further progress towards benchmarks.

**Page III-87.** The second and third sentence are revised under the caption *Connecticut Coalition for Justice in Education Funding et al. v. Rell, et al.*:

Plaintiffs claim the students' State constitutional rights to a free public education under Article VIII, Section 1, equality of rights under Article I, Section 1 and equal protection of the laws under Article I, Section 20 are being violated by the alleged inequitable and inadequate financing of their schools by the State. In particular, plaintiffs claim for a variety of reasons that the State's primary statutory mechanism for the distribution of State aid for public schools currently fails to ensure both

substantially equal educational opportunities and a suitable education for some students, as purportedly reflected by both the educational challenges they face and their poor performance on state standardized measures.

**Page III-89.** The following sentence is added after the second sentence under the caption *Schaghticoke Tribal Nation*:

In February 2012, the land claim defendants filed a motion for judgment on the pleadings, which is pending.

**Page III-89.** The last two sentences are revised under the caption *Eastern Pequot Tribe*:

On January 13, 2012, a group claiming to represent the Eastern Pequot filed an appeal in the federal district court for the District of Columbia, challenging on various grounds the denial of federal recognition. In February 2012, the land claim defendants filed a motion for judgment on the pleadings, which is pending.

**Page III-89.** The last sentence is revised under the caption *State of Connecticut Office of Protection and Advocacy for Persons with Disabilities v. The State of Connecticut, et al.*:

The Court had established a schedule for discovery and anticipated trial date, but the matter has been stayed until at least October 2012 by agreement of the parties while they discuss possible settlement.

**Page III-89** The following information revises the seventh and subsequent sentences under the caption *Connecticut Association of Health Care Facilities v. Rell*:

The case was stayed in the trial court, until 45 days after the U.S. Supreme Court issued its opinion in three consolidated cases arising out of the U.S. Court of Appeals for the Ninth Circuit addressing the availability of a claim similar to the plaintiff's, at which time the parties must jointly report to court. On February 22, 2012, the Supreme Court issued its opinion in *Douglas v. Independent Living Center*. That decision effectively eliminated most of the plaintiff's case because of the court's deference to the federal approval of the Medicaid plan challenged in that case and its identification of the federal Administrative Procedure Act review of that approval as the appropriate avenue for challenging a state plan instead of a court action. Connecticut's Medicaid plan had been approved by the federal Center for Medicare and Medicaid Services. Plaintiff chose not to proceed on the claim for which a preliminary injunction was denied but not dismissed, electing instead to appeal the dismissal of their takings claim. No schedule has been set for the appeal at this time.

**Page III-90.** The last sentence is revised and an additional sentence is added under the caption *Paul Shafer and Joshua Harder v. Bremby*:

The State filed an objection to the motion for preliminary injunction and a motion to dismiss on the grounds that plaintiffs may not bring an action under 42 USC § 1983 for violation of the Medicaid reasonable promptness standard. The State plans on filing a motion for summary judgment on some of the Medicaid claims in early October 2012.

**Page III-90.** The following paragraph has been revised:

*Briggs v. Bremby* is a class action lawsuit filed on March 6, 2012 in federal district court challenging the Department of Social Services' ("DSS") failure to process applications for the Supplemental Nutrition Assistance Program ("SNAP"), commonly known as food stamps in a timely fashion, within 30 days for most applicants and within seven days when an applicant falls within immediate need criteria for expedited processing. Plaintiffs allege that DSS has failed to comply with

the food stamp statutes and federal regulations that require eligibility to be determined with “reasonable promptness” and the related federal implementing regulations. Plaintiffs seek declaratory relief, as well as preliminary and permanent injunctive relief to enjoin DSS from failing or refusing to process applications for food stamps and to provide these benefits on a timely basis. The State filed an objection to the motion for preliminary injunction and filed a motion to dismiss on the grounds that plaintiffs may not bring an action under 42 USC § 1983 for violation of the food stamp processing standard.

**APPENDIX III-A**

*Page III-A-7.* TABLE A-4 is revised as follows:

**TABLE A-4**  
**Full-Time Work Force**  
**Collective Bargaining Units and**  
**Those Not Covered by Collective Bargaining**

<u>Bargaining Unit/Status Group</u>	<u>Percentage of State Employees Represented<sup>(a)</sup></u>	<u>Contract Status, if any</u>
<u><i>Covered by Collective Bargaining</i></u>		
Correctional Officers	9.07%	Contract in place through 6/30/2016
Correctional Supervisor	0.84	Contract in place through 6/30/2012 <sup>(b)</sup>
Administrative Clerical	7.53	Contract in place through 6/30/2016
Service/Maintenance	7.37	Contract in place through 6/30/2016
Health Care Non-Professional	6.32	Contract in place through 6/30/2016
Social and Human Services	7.72	Contract in place through 6/30/2016
Administrative and Residual	5.85	Contract in place through 6/30/2016
Health Care Professional	5.89	Contract in place through 6/30/2016
Engineering, Scientific and Technical	4.78	Contract in place through 6/30/2016
UConn Faculty	3.08	Contract in place through 6/30/2016
UCHC University Health Professionals	4.26	Contract in place through 6/30/2016
UConn - Non-Faculty	3.27	Contract in place through 6/30/2016
State University Faculty	3.45	Contract in place through 6/30/2016
Judicial – Non-Professional	2.68	Contract in place through 6/30/2016
Judicial - Professional	2.53	Contract in place through 6/30/2016
Community College Faculty – AFT	0.36	Contract in place through 6/30/2016
Community College Faculty – CCCC	1.19	Contract in place through 6/30/2016
Community College Administration – CCCC	1.26	Contract in place through 6/30/2016
Community College Administration – AFSCME	0.16	Contract in place through 6/30/2016
Community College AFT Counsel/Librarian	0.03	Contract in place through 6/30/2016
Vocational Technical School Faculty	2.16	Contract in place through 6/30/2016
State Police	2.08	Contract in place through 6/30/2011 <sup>(c)</sup>
State Police Lts & Captains	0.08	Contract in place through 6/30/2016
Protective Services	1.60	Contract in place through 6/30/2016
Education A	0.50	Contract in place through 6/30/2016
Education B	1.30	Contract in place through 6/30/2016
American Federation of School Administration	0.10	Contract in place through 6/30/2016
State University Non-Faculty Professional	1.46	Contract in place through 6/30/2016
UCHC – Faculty	1.04	Contract in place through 6/30/2016
UConn – Law School Faculty	0.10	Contract in place through 6/30/2016
Judicial Judges	0.55	Contract in place through 6/30/2016
Judicial – Law Clerks	0.14	Contract in place through 6/30/2016
Connecticut Association Prosecutors	0.47	Contract in place through 6/30/2016
Criminal Justice Residual	0.24	Contract in place through 6/30/2016
Higher Education – Professional Employees	0.07	Contract in place through 6/30/2016

<b><u>Bargaining Unit/Status Group</u></b>	<b><u>Percentage of State Employees Represented<sup>(a)</sup></u></b>	<b><u>Contract Status, if any</u></b>
<b><u>Covered by Collective Bargaining</u></b>		
Board State Academic Awards Professional	0.12	Contract in place through 6/30/2016
Judicial – Judicial Marshalls	1.38	Contract in place through 6/30/2016
DPDS Public Defenders	0.36	Contract in place through 6/30/2016
DPDS Chief Public Defenders	0.04	Contract in place through 6/30/2016
Criminal Justice Inspectors	0.14	Contract in place through 6/30/2016
Division Public Defender Services – Statutory	0.00	Contract in place through 6/30/2016
Judicial – Supervisor Judicial Marshals	<u>0.11</u>	Contract in place through 6/30/2013
Total Covered by Collective Bargaining	91.69%	
<b><u>Not Covered by Collective Bargaining</u></b>		
Auditors of Public Accounts	0.22%	Not Applicable
Other Employees	<u>8.09%</u>	Not Applicable
Total Not Covered by Collective Bargaining	<u>8.31%</u>	
<b>Total Full-Time Work Force</b>	100.00%	

- (a) Percentage expressed reflects approximately 51,417 filled full-time positions as of June 30, 2012.  
(b) Contract negotiations beginning in Fall 2012.  
(c) Currently in negotiation.

SOURCE: Office of Policy and Management

### APPENDIX III-B

*Page III-B-16.* The following row is added to **TABLE B-18** as follows:

**TABLE B-18**  
**Unemployment Rate**

<b><u>Year</u></b>	<b><u>Unemployment Rate</u></b>		
	<b><u>Connecticut</u></b>	<b><u>New England</u></b>	<b><u>United States</u></b>
2012 <sup>(a) (b)</sup>	7.9%	7.0%	8.2%

- (a) Reflects average for the first six months.  
(b) On a preliminary basis, Connecticut’s average unemployment rate for September 2012 was 8.9% compared to the national average of 7.8% for the same period. No assurances can be provided that such rates will not change.

SOURCE: Connecticut State Labor Department

**APPENDIX III-D**

*Page III-D-4.* The General Fund Balance Sheet is supplemented as follows:

**Balance Sheet<sup>(a)</sup>  
As of June 30  
(In Thousands)  
  
(Unaudited)**

	<b><u>2012</u></b> <b><u>(unaudited)</u></b>
<b>Assets</b>	
Accrued Taxes Receivable	\$ 1,336,954.0
Accrued Accounts Receivable	27,839.0
Loans Receivable	<u>3,418.9</u>
Total Assets	<u>\$ 1,368,211.9</u>
<b>Liabilities, Reserves and Surplus</b>	
<b>Liabilities</b>	
Deficiency in Cash and Short-Term Investments	\$ 1,218,807.0
Due to Other Funds – Year End Adjustments	<u>\$ 300.6</u>
Total Liabilities	<u>\$ 1,219,107.6</u>
<b>Reserves</b>	
Petty Cash Funds	\$ 805.6
Statutory Surplus Reserves	14,528.9
Appropriations Continued to Following Year	130,350.8
Reserve for Receivables	<u>3,418.9</u>
Total Reserves	<u>\$ 149,104.2</u>
<b>Unappropriated Surplus (Deficit)</b>	<b>0</b>
Total Liabilities, Reserves, and Surplus	<u>\$ 1,368,211.9</u>

- 
- (a) The State of Connecticut's policy, which was formulated in accordance with State fiscal statutes, is to prepare the accompanying financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut. The modified cash basis of accounting, as used by the State, records expenditures when they are paid and recognizes revenues when received, except for the accrual at June 30 of State collections in July and August of certain taxes levied, Indian gaming payments, and the accounting for restricted grants on an earned basis. Certain accrual dates for various revenues have been extended and may not reflect the same accrual date through the years reflected herein.

**APPENDIX III-E**

**Appendix III-E** to this **Part II** reflects the adopted budgets for fiscal years 2010-11, 2011-12 and 2012-13, the final financial results on a budgetary basis for fiscal year 2010-11 and the unaudited preliminary financial results on a budgetary basis for fiscal year 2011-12.

APPENDIX III-E

**GENERAL FUND REVENUES AND EXPENDITURES**  
**ADOPTED BUDGET AND FINAL FINANCIAL RESULTS FOR FISCAL YEAR 2010-2011**  
**ADOPTED BIENNIAL BUDGET FOR FISCAL YEARS 2011-2012 AND 2012-2013**  
**UNAUDITED PRELIMINARY FINANCIAL RESULTS FOR FISCAL YEAR 2011-12**  
(In Millions)

	Adopted Budget 2010-11 <sup>(c)</sup>	Final Financial Results 2010-11 <sup>(f)</sup>	Adopted Budget 2011-12 <sup>(h)</sup>	Unaudited Preliminary Financial Results 2011-12 <sup>(s)</sup>	Revised Adopted Budget 2012-13 <sup>(t)</sup>
<b>Revenues</b>					
<u>Taxes</u>					
Personal Income Tax	\$ 6,682.5	\$ 7,246.4	\$ 8,660.8 <sup>(i)</sup>	\$ 8,310.8 <sup>(i)</sup>	\$ 8,554.3 <sup>(i)</sup>
Sales & Use	3,164.9	3,353.2	3,789.0 <sup>(i)</sup>	3,830.1 <sup>(i)</sup>	4,045.9 <sup>(i)</sup>
Corporation	662.9	794.5	707.7 <sup>(k)</sup>	716.5 <sup>(k)</sup>	793.0 <sup>(k)</sup>
Public Service	271.4	269.8	268.7	250.4	275.2
Inheritance & Estate	99.0	237.6	158.0	191.7	166.2
Insurance Companies	223.9	220.6	237.2 <sup>(l)</sup>	237.6 <sup>(l)</sup>	234.4 <sup>(l)</sup>
Cigarettes	386.5	404.1	443.8 <sup>(l)</sup>	421.0 <sup>(l)</sup>	411.1 <sup>(l)</sup>
Real Estate Conveyance	113.2	94.8	90.3	107.5	100.3
Oil Companies	107.7	169.2	93.1	146.1	182.6
Electric Generation Tax	--	--	71.0 <sup>(m)</sup>	69.5 <sup>(m)</sup>	71.0 <sup>(m)</sup>
Alcoholic Beverages	48.1	48.9	56.9 <sup>(l)</sup>	60.6 <sup>(l)</sup>	59.3 <sup>(l)</sup>
Admissions and Dues	36.5	34.5	39.6 <sup>(l)</sup>	34.4 <sup>(l)</sup>	39.6 <sup>(l)</sup>
Health Provider Tax	--	--	526.3 <sup>(n)</sup>	516.9 <sup>(n)</sup>	530.7 <sup>(n)</sup>
Miscellaneous	144.9	140.5	15.9	19.9	20.1
Total Taxes	<u>\$11,941.5</u>	<u>\$13,014.1</u>	<u>\$15,158.3</u>	<u>\$14,913.1</u>	<u>\$15,483.8</u>
Less Refunds of Taxes	(1,009.3)	(956.1)	(1,020.0)	(995.0)	(950.6)
Less Earned Income Tax	--	--	(110.2)	(110.2)	(116.5)
Less R&D Credit Exchange	(10.5)	(8.6)	(9.0)	(3.6)	(8.5)
Net Taxes	<u>\$10,921.7</u>	<u>\$12,049.5</u>	<u>\$14,019.1</u>	<u>\$13,804.4</u>	<u>\$14,408.2</u>
<u>Other Revenues</u>					
Transfers- Special Revenues	295.1	293.1	288.4	313.8	305.1
Indian Gaming Payments	365.8	359.6	375.5	344.6	336.2
Licenses, Permits, Fees	235.4	250.4	271.2	283.4	258.8
Sales of Commodities & Services	34.3	35.5	36.4	35.0	34.8
Rents, Fines & Escheats	99.5	157.8	127.4	123.4	107.7
Investment Income	6.5	0.0	2.9	1.0	2.8
Miscellaneous	167.0	178.7	163.0	192.0	162.9
Less Refunds of Payments	(0.9)	(1.9)	(38.3) <sup>(o)</sup>	(85.4) <sup>(o)</sup>	(50.0) <sup>(o)</sup>
Total Other Revenue	<u>\$ 1,202.7</u>	<u>\$ 1,273.3</u>	<u>\$ 1,226.5</u>	<u>1,207.8</u>	<u>\$ 1,158.3</u>
<u>Other Sources</u>					
Federal Grants	4,256.0 <sup>(d)</sup>	4,235.2 <sup>(d)</sup>	3,589.7 <sup>(d)</sup>	3,607.2 <sup>(d)</sup>	3,629.0 <sup>(d)</sup>
Transfers to the Resources of the General Fund	1,246.5 <sup>(e)</sup>	116.0 <sup>(e)</sup>	--	--	--
Transfers from Tobacco Settlement Funds	102.3	95.3	96.1	96.1	93.1
Transfers to Other Funds <sup>(a)</sup>	(61.8)	(61.8)	(142.8)	(153.8)	(145.5)
Total Other Sources	<u>\$ 5,543.0</u>	<u>\$ 4,384.7</u>	<u>\$ 3,543.0</u>	<u>\$ 3,549.5</u>	<u>\$ 3,576.7</u>
Total Budgeted Revenue <sup>(b)</sup>	<u>\$17,667.4</u>	<u>\$17,707.5</u>	<u>\$18,788.6</u>	<u>\$18,561.6</u>	<u>\$19,143.2</u>

	Adopted Budget 2010-11 <sup>(c)</sup>	Final Financial Results 2010-11 <sup>(f)</sup>	Adopted Budget 2011-12 <sup>(h)</sup>	Unaudited Preliminary Financial Results 2011-12 <sup>(s)</sup>	Revised Adopted Budget 2012-13 <sup>(t)</sup>
<b>Appropriations/Expenditures</b>					
Legislative	\$ 80.4	\$ 66.3	\$ 80.1	\$ 67.5	\$ 76.2
General Government	502.8	475.3	655.9	608.9	614.9
Regulation & Protection	258.0	256.1	270.2	261.5	243.5
Conservation & Development	132.1	124.7	150.7	139.3	137.1
Health & Hospitals	1,723.0	1,723.4	1,886.2	1,782.7	1,837.7
Human Services	5,161.0	5,400.0	5,785.9 <sup>(p)</sup>	5,834.6	5,834.2 <sup>(p)</sup>
Education, Libraries & Museums	4,080.6	4,065.3	4,321.8	4,245.9	4,380.6
Corrections	1,501.0	1,482.3	1,576.5	1,472.7	1,450.8
Judicial	552.5	560.8	576.1	546.5	543.2
Non- Functional					
Debt Service	1,672.7	1,564.3	1,894.1	1,813.4	1,870.9
Miscellaneous	2,299.4	2,206.0	2,288.1	1,938.7	2,267.3
Subtotal	<u>\$17,963.5</u>	<u>\$ 17,924.7</u>	<u>\$ 19,485.6</u>	<u>\$ 18,711.7</u>	<u>\$ 19,256.4</u>
Other Reductions and Lapses	<u>(296.3)</u>	<u>--</u>	<u>(777.9)<sup>(q)</sup></u>	<u>-</u>	<u>(116.3)<sup>(q)</sup></u>
Net Appropriations/Expenditures	<u>\$17,667.2</u>	<u>\$ 17,924.7</u>	<u>\$ 18,707.7</u>	<u>\$ 18,711.7</u>	<u>\$ 19,140.1</u>
Surplus (or Deficit) from					
Operations	0.2	(217.2)	80.9	(150.1)	3.1
Miscellaneous Adjustments	--	4.2	--	6.5	--
Reserve for GAAP	--	--	(75.0) <sup>(r)</sup>	-- <sup>(r)</sup>	-- <sup>(r)</sup>
Statutory Transfer from Restricted Purposes	--	449.9	--	--	--
<b>Balance<sup>(b)</sup></b>	<u>\$ 0.2</u>	<u>\$ 236.9<sup>(g)</sup></u>	<u>\$ 5.9</u>	<u>\$(143.6)</u>	<u>\$ 3.1</u>

NOTE: Columns may not add due to rounding.

- (a) Includes transfers to the Mashantucket Pequot Fund for grants to towns and the Special Transportation Fund. The amounts for fiscal years 2011-12 and 2012-13 include transfers of \$61.8 million in each year to the Mashantucket Pequot Fund for grants to towns, and \$81.6 million in fiscal year 2011-12 and \$102.7 million in fiscal year 2012-13 to the Special Transportation Fund.
- (b) Does not include revenues or expenditures with respect to Restricted Accounts and Federal & Other Grants, which are not included in this Appendix. The amount of such expenditures is generally the same as the amount of grants received. Per Section 4-30a of the Connecticut General Statutes, after the accounts for the General Fund have been closed for each fiscal year and the Comptroller has determined the amount of unappropriated surplus in said fund, after any amounts required by provision of law to be transferred for other purposes have been deducted, the amount of such surplus shall be transferred by the State Treasurer to the Budget Reserve Fund. Per Section 4-30b of the Connecticut General Statutes and notwithstanding the requirement of Section 4-30a, after the accounts for the fiscal year are closed, beginning with the fiscal year ending June 30, 2010, and each fiscal year thereafter, until and including the fiscal year ending June 30, 2017, if the Comptroller determines there exists an unappropriated surplus in the General Fund, the amount of any such surplus is first to be used for redeeming prior to maturity any outstanding notes issued under Section 3-20g of the Connecticut General Statutes.
- (c) Per Public Act No. 09-3 of the June 2009 Special Session; Public Act No. 09-8, Public Act No. 09-7 and Public Act No. 09-5 of the September 2009 Special Session; Public Act No. 10-3 and Public Act No. 10-179 of the February Session; and Public Act No. 10-1 and Public Act No. 10-2 of the June Special Session. Pursuant to Public Act No. 10-179, any General Fund surplus in Fiscal Year 2009-10 shall be transferred to Fiscal Year 2010-11. See footnotes (e) and (g).



- (d) The revised adopted budget for fiscal year 2010-11 assumed \$932.0 million in federal ARRA funds, but this amount has been reduced to \$773.1 million in the final financial results column. The budget for fiscal years 2011-12 and 2012-13 reflects the loss of federal ARRA funds and other adjustments.
- (e) Pursuant to Public Act No. 10-3, as amended, includes transfers from the budget reserve fund of \$103.2 million for 2010-11. Pursuant to Public Act No. 10-179 includes \$140.0 million transferred from balance for 2009-10 to fiscal year 2010-11.
- (f) Per the Comptroller's audited financial results dated December 31, 2011 for the fiscal year ending June 30, 2011, as adjusted by the Office of Policy and Management to exclude expenditures of appropriations carried over from the prior fiscal year and to include expenditures of appropriations carried into the next fiscal year.
- (g) In accordance with a labor agreement, \$14.5 million of this surplus will be deposited in the Other Post Employment Benefit Trust Fund. Public Act No. 12-104 required a transfer of \$222.4 million to the budget reserve fund.
- (h) Per Public Act No. 11-6, as amended by Public Act No. 11-61 and Public Act No. 11-1 of the June Special Session.
- (i) Includes rate increases, reduction of the property tax credit, and enactment of an Earned Income Tax credit.
- (j) Includes rate increases and elimination of exemptions.
- (k) Includes extension of the tax surcharge and other miscellaneous changes.
- (l) Includes rate increases and/or elimination of exemptions.
- (m) Includes the imposition of a new tax on electric generators.
- (n) Includes the imposition of a new provider tax on hospitals and intermediate care facilities along with an increase in the existing tax on nursing home providers, which were previously included within the miscellaneous tax category.
- (o) Consistent with the Consensus Revenue Forecast and per the budget, certain refunds of escheated property will now be reported as Refunds of Payments, instead of a Miscellaneous Adjustment.
- (p) Includes additional appropriations related to the Health Provider Tax.
- (q) Includes \$658.2 million in fiscal year 2011-12 and \$844.3 million in fiscal year 2012-13 for labor concessions.
- (r) Pursuant to Public Act No. 11-48, notwithstanding the provisions of Sections 4-30a and 4-30b of the General Statutes, after the accounts for the fiscal years ending June 30, 2012, and June 30, 2013, are closed, if the Comptroller determines that an unappropriated surplus exists in the General Fund, the Comptroller shall reserve an amount, not to exceed seventy-five million dollars for the fiscal year ending June 30, 2012, and fifty million dollars for the fiscal year ending June 30, 2013, to be applied to any net increase in unreserved negative General Fund balance beyond the amount reported by the Comptroller as of June 30, 2011, before any other reserve required by any provision of the general statutes is determined.
- (s) Per the State Comptroller's unaudited preliminary financial results for fiscal year 2011-12 issued September 1, 2012.
- (t) Per Public Act No. 12-104 as amended by Public Act No. 12-1 of the June Special Session.

NOTE: The information in **Appendix III-E** of this **Part II** contains projections and no assurances can be given that subsequent projections or adjustments will not result in changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

**PART III  
ANNUAL INFORMATION STATEMENT  
STATE OF CONNECTICUT**

**FEBRUARY 27, 2012**

This Annual Information Statement of the State of Connecticut (the "State") contains information through February 27, 2012. For information about the State after February 27, 2012, the State expects to provide an updating Information Supplement from time to time. The reader should refer to the Information Supplement, if any, set forth in this Official Statement immediately preceding this Annual Information Statement. This Annual Information Statement and the Information Supplement that precedes it, if any, and any appendices attached thereto, should be read collectively and in their entirety.

The State expects to revise this Annual Information Statement each year and expects to modify Annual Information Statements each year following the release of the State's audited GAAP based financial statements and audited legal accounting basis (modified cash) financial statements. This year, this Annual Information Statement contains the State's audited GAAP based financial statements and audited legal accounting basis (modified cash) financial statements. The State expects generally to prepare Information Supplements from time to time for the purpose of updating certain information contained in this Annual Information Statement. Such Information Supplements are expected to include certain interim financial information prepared on a modified cash basis, but are not expected to include interim financial information prepared in accordance with GAAP.

The Annual Information Statement and the most recent Information Supplement, if any, may be obtained, when prepared, by contacting the Office of the State Treasurer, Attn.: Assistant Treasurer for Debt Management, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3288.

**Constitutional Elected Officers**

* Governor	Dannel P. Malloy
Lieutenant Governor	Nancy S. Wyman
Secretary of the State	Denise W. Merrill
* Treasurer	Denise L. Nappier
* Comptroller	Kevin P. Lembo
* Attorney General	George C. Jepsen

**Executive Branch Officers**

* Secretary of the Office of Policy and Management	Benjamin Barnes
* Acting Commissioner of Construction Services	Donald J. DeFronzo
Commissioner of Transportation	James P. Redeker

**Legislative Branch Officers**

President Pro Tempore of the Senate	Sen. Donald E. Williams, Jr.
Speaker of the House of Representatives	Rep. Christopher G. Donovan
* Co-chairpersons of the Joint Standing Committee on Finance, Revenue and Bonding	Sen. Eileen M. Daily Rep. Patricia M. Widlitz
* Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding	Sen. Andrew W. Roraback Rep. Sean J. Williams
Auditors of Public Accounts	John C. Geragosian Robert M. Ward

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\* Denotes member of the State Bond Commission

**PART III**  
**February 27, 2012**

**ANNUAL INFORMATION STATEMENT OF THE STATE OF CONNECTICUT**

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## INTRODUCTION

This Annual Information Statement of the State of Connecticut (the “State”) contains certain information which a potential investor might consider material in reaching a decision to invest in securities of the State. All quotations from and summaries and explanations of provisions of laws of the State contained in this Annual Information Statement do not purport to be complete and are qualified in their entirety by reference to the Annual Information Statement in its entirety.

The information included in this Annual Information Statement is organized as follows:

**The State of Connecticut** comprises a brief introductory summary of the governmental organization of the State and the services it provides, as well as a historical overview of the State’s economic performance. A more detailed discussion of these topics, including additional information, is contained in **Appendices III-A** and **III-B** to this Annual Information Statement.

**Financial Procedures** discusses the legal and administrative processes, procedures and policies that generally apply to all State funds.

**State General Fund** discusses the State’s General Fund, which is the source of financing for most operating activity of the State. The discussion includes both prospective and historic information about the General Fund. Additional information regarding General Fund activity is included in **Appendices III-C, III-D** and **III-E** to this Annual Information Statement.

**State Debt** describes the procedures for the authorization of the State to incur debt and the various ways in which the State may borrow funds to finance State functions. This section provides both current and historical information about the State’s borrowing practices and State indebtedness.

**Other Funds, Debt and Liabilities** provides an overview of certain activities of the State which are not accounted for in the General Fund. These include the budget and debt of the Special Transportation Fund, certain special revenue funds and debt, contingent liability debt, and other debt service and contractual commitments. Certain additional information regarding these other funds, debt and liabilities of the State is included in **Appendix III-C** to this Annual Information Statement.

**Pension and Retirement Systems** describes the major pension and retirement systems of the State. Additional information regarding these systems is included in **Appendix III-C** to this Annual Information Statement.

**Litigation** comprises a summary of pending legal actions in which the fiscal impact of an adverse decision may not be determined at this time and the Attorney General is unable to opine that a final judgment against the State in such suits would not materially adversely affect the State’s financial position.

**Appendices III-A through III-E** to this Annual Information Statement contain detailed information relating to the information summarized in the Annual Information Statement and should be read in their entirety with the other information contained therein.

This Annual Information Statement will constitute **Part III** to Official Statements of the State prepared in connection with the offering of certain bonds of the State and should be read in its entirety together with **Part I** and **Part II**, if any, of such Official Statement. The Annual Information Statement speaks only as of its date. For more current information, potential investors should read **Part II - Information Supplement**, if any, or should contact the State directly as described in **Part I - Information Concerning the Bonds**, under the caption **ADDITIONAL INFORMATION**.

## THE STATE OF CONNECTICUT

### Governmental Organization and Services

The State Constitution divides the functions and powers of State government into three distinct branches, referred to in the Constitution as “departments”. The State government’s legislative, executive and judicial functions and powers are vested in the legislative department, the executive department and the judicial department, respectively.

In addition to the State government, a number of other governmental bodies exist in Connecticut. These bodies include: State-wide and regional special purpose authorities, districts and similar bodies, 169 cities and towns, and numerous local special purpose authorities, districts and similar bodies. County government was functionally abolished in Connecticut in 1960. Local governmental functions are generally performed by the 169 cities and towns, or by special purpose authorities, districts and similar bodies located within these cities and towns. In certain instances, regional bodies perform governmental functions that would otherwise be performed at the local level.

Services provided by the State or financed through State appropriations are classified under one of ten major government function headings or are classified as “non-functional”. The major function headings are: Human Services; Education, Libraries and Museums; Non-Functional (debt service and miscellaneous expenditures including fringe benefits); Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection; Conservation and Development; and Legislative. These function headings apply to the General Fund as well as to other funds of the State which are used to account for appropriated moneys. State expenditures for the Department of Transportation are primarily paid from the Transportation Fund, not the General Fund. For budgetary purposes, State agencies, boards, commissions and other bodies are each assigned to one of the function headings.

A detailed discussion of the organization of State government, including information on state employees, as well as services provided at the various levels of government in the State, is included as **Appendix III-A** to this Annual Information Statement.

### State Economy

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one-quarter of the total population of the United States and more than 50% of the Canadian population live within 500 miles of the State. The State’s population grew at a rate which exceeded the United States’ rate of population growth during the period 1940 to 1970, and slowed substantially during the past four decades. The State has extensive transportation and utility services to support its economy.

Connecticut’s economic performance is measured by personal income, which has been among the highest in the nation on a per capita basis, and gross state product (the market value of all final goods and services produced by labor and property located within the State), which demonstrated slower growth in the early 2000s, but expanded at a healthy pace in 2004, surpassing the New England growth rates for the period from 2000 to 2009. Since then, Connecticut’s annual growth in gross state product has mostly performed better than the New England region, but mostly slower than the Nation. Connecticut’s nonagricultural employment reached a high in March of 2008 with 1,712,700 persons employed, but began declining with the onset of the recession falling to 1,593,500 jobs by January 2010.

A detailed summary of economic resources including population information and services, and economic performance indicators, including personal income, gross state product and employment in the State is included as **Appendix III-B** to this Annual Information Statement.

## FINANCIAL PROCEDURES

The State of Connecticut has in place a number of constitutional provisions, statutes, regulations, and administrative policies and procedures which bear on fiscal management and accountability. These include provisions that limit debt and expenditures. They also lay out a sequence for planning future budgets by both the executive and legislative branch, the development and adoption of a biennial budget, and monitoring of the State's financial position against the current budget. Taken as a whole, the State believes these provisions provide sound fiscal management and accountability. These provisions include the following elements, each of which are explained in the text that follows:

### **Budget Discipline**

#### ***Balanced Budget Requirement***

The State Constitution provides that the General Assembly may not authorize General Fund expenditures in excess of General Fund revenues. See **The Budgetary Process – Balanced Budget Requirement** below.

#### ***Biennial Budget***

The budget covers a two year period and the power to propose, enact, and implement such budget rests with the Governor and General Assembly. See **The Budgetary Process – Biennium Budget** below.

#### ***Budget Reserve Fund***

By statute, any General Fund surplus is directed to the Budget Reserve Fund until such fund equals 10% of annual expenditures, unless otherwise directed by law. Currently, prior to any deposit to the Budget Reserve Fund, certain portions of the surplus are directed towards debt retirement and other long term obligations and reserves of the State. See **Financial Controls – Unappropriated Surplus – Budget Reserve Fund** below.

### **Spending Controls**

#### ***Spending Cap and Controls***

The General Assembly is prohibited from increasing expenditures from year to year by a percentage exceeding the greater of the percentage increase in personal income or the percentage increase in inflation, with certain exceptions. The legislative and executive branch each have other tools to control spending, including the appropriations process, encumbrance requirements, agency expenditure plans, and authority to reduce allotments. See **The Budgetary Process and Financial Controls** below.

#### ***Debt Limit***

By statute, the State may not authorize general obligation debt in excess of a multiple of 1.6 of General Fund tax receipts, subject to statutory exceptions. The Treasurer certifies as to the debt limit in connection with each authorization of debt by the General Assembly and the State Bond Commission. See **STATE DEBT – State Direct General Obligation Debt – Statutory Debt Limit**.

#### ***Line Item Veto***

Under the State Constitution, the Governor has the power to veto any line of any itemized appropriations bill while at the same time approving the remainder of the bill. See **The Budgetary Process – Line Item Veto** below.

### ***Rescission Authority and Deficit Mitigation***

The Governor is required to propose mitigation plans should projections indicate a General Fund deficit greater than 1%. The Governor is authorized to reduce allotments and may make further reductions with legislative backing. See **Financial Controls – Governor’s Role** below.

### **Regular Revenue Forecasting and Monitoring of Fiscal Progress; Multiple-Year Planning Tools**

These include monthly reports from the Comptroller and OPM within the executive branch, and periodic reports from other governmental entities, including the legislature’s Office of Fiscal Analysis. See **The Budgetary Process – Consensus Revenue Estimates, The Budgetary Process – Fiscal Accountability Report**, and **Financial Controls – Comptroller’s Role** below.

### **Transition to GAAP**

Legislation was passed in 2011 directing a transition from the use of a modified cash basis of accounting to the application of Generally Accepted Accounting Principles, as prescribed by the Government Accounting Standards Board. See **Accounting Procedures – Transition to GAAP** below.

## **The Budgetary Process**

**Balanced Budget Requirement.** In November 1992 electors approved an amendment to the State Constitution providing that the amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year. This amendment also provides a framework for a cap on budget expenditures. The General Assembly is precluded from authorizing an increase in general budget expenditures for any fiscal year above the amount of general budget expenditures authorized for the previous fiscal year by a percentage which exceeds the greater of the percentage increase in personal income or the percentage increase in inflation, unless the Governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote to exceed such limit for the purposes of such emergency or extraordinary circumstances. The constitutional limitation on general budget expenditures does not include expenditures for the payment of bonds, notes or other evidences of indebtedness. There is no statutory or constitutional prohibition against bonding for general budget expenditures.

The Supreme Court has ruled that the provisions of the constitutional budget cap require the passage of additional legislation by a three-fifths majority in each house of the General Assembly, which has not yet occurred. In the interim, the General Assembly has been following a provision of the General Statutes, which contains the same budget cap as the constitutional amendment. In addition to the exclusion of debt service from the budget cap, this statute also excludes statutory grants to distressed municipalities, expenditures to implement federal mandates and court orders in the first fiscal year in which such expenditures are authorized, and payments from surplus for certain debt retirement and additional state employee pension contributions.

**Biennium Budget.** The State’s fiscal year begins on July 1 and ends June 30. The General Statutes require that the budgetary process be on a biennium basis. The Governor is required to transmit a budget document to the General Assembly in February of each odd-numbered year setting forth the financial program for the ensuing biennium with a separate budget for each of the two fiscal years and a report which sets forth estimated revenues and expenditures for the three fiscal years after the biennium to which the budget document relates. In each even-numbered year, the Governor must prepare a report on the status of the budget enacted in the previous year with any recommendations for adjustments and revisions, and a report, with revisions, if any, which sets forth estimated revenues and expenditures for the three fiscal years after the biennium in progress.

**Budget Document.** By statute the budget document shall contain the Governor’s budget message, and the Governor’s program for meeting the expenditure needs of the State as well as financial statements detailing the condition of State debt, the financial position of all major State operating funds, recommended appropriations and State revenues on an actual basis for the last completed fiscal year and on an estimated

basis for the fiscal year in progress and the fiscal years to which the budget relates. If a budget deficit or surplus is projected, the Governor will recommend the manner in which the deficit will be met or surplus used. The budget document also includes the Governor's recommended appropriations from the General Fund and all special and agency funds. Appropriations are set forth for meeting the cost of each major function and program. An accounting of federal funds and recommendations for the capital program are also included. In addition, based on the consensus revenues described below under *Consensus Revenue Estimates*, the budget document consists of drafts of appropriations and revenue bills to carry out the Governor's budget recommendations. Finally, the budget document contains the Governor's recommendations concerning the State's economy and analysis of the impact on the economy of the proposed spending and revenue programs.

**Preparation of the Budget.** Formulation of the budget document commences with the preparation of estimates of expenditure requirements for each fiscal year of the next biennium by the administrative head of each budgeted agency. These estimates are submitted on or before September 1 of each even-numbered year to the Office of Policy and Management ("OPM") and to the joint legislative standing committee on appropriations and the committee having cognizance of matters relating to such budgeted agency. In odd-numbered years, each agency submits its recommended adjustments or revisions of such estimates. In addition, the administrative head of each budgeted agency transmits to the Office of Fiscal Analysis copies of the agency's monthly status reports relating to finances, personnel, and nonappropriated moneys. A detailed statement showing revenue and estimated revenue for the current fiscal year and estimated revenue for the next fiscal year, and in the even-numbered year, for the next biennium, must also be submitted by such agency heads to OPM on or before September 1 and the joint legislative standing committee on finance on or before November 15. Upon receipt of such agency reports, it is OPM's practice to prepare a preliminary budget report.

**Adoption of the Budget.** The budget document, as finally developed by the Governor with the assistance of OPM, is published and transmitted to the General Assembly in February of each odd-numbered year. A report summarizing recommended adjustments or revisions is submitted by the Governor to the General Assembly in even-numbered years. The Governor or a representative then appears before the appropriate committee of the General Assembly to explain and address questions concerning the budget document or reports. Prior to June 30 of each odd-numbered year, the General Assembly generally enacts one bill making all appropriations for the next two fiscal years and setting forth revenue estimates for those years. Subsequent appropriations or revenue bills are occasionally passed.

**Line Item Veto.** Under the State Constitution, the Governor has the power to veto any line of any itemized appropriations bill while at the same time approving the remainder of the bill. A statement identifying the items so disapproved and explaining the reasons therefor must be transmitted with the bill to the Secretary of the State and, when in session, the General Assembly. The General Assembly may separately reconsider and repass such disapproved appropriation items by a two-thirds vote of each house.

**Consensus Revenue Estimates.** The Office of Policy and Management and the legislature's Office of Fiscal Analysis are required by statute to issue consensus revenue estimates each year by October 15. The estimates must cover a five-year period that includes the current biennium and the three following fiscal years. It also requires the two offices, by January 15 and April 30 each year, to issue either (1) a consensus revision of their previous estimate or (2) a statement that no revision is needed. If the two agencies cannot arrive at a consensus estimate, they must issue separate ones. In such a case, the Comptroller must issue the consensus estimate based upon the separate estimates. The Comptroller's estimate must equal one of the separate estimates or fall between the two.

**Fiscal Accountability Report.** By November fifteenth annually, the Secretary of the Office of Policy and Management and the director of the legislative Office of Fiscal Analysis each submit the following to the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of State agencies and to finance, revenue and bonding: (1) an estimate of State revenues, expenditures and ending balance for each fund, for the current biennium and the next ensuing three fiscal



years, and the assumptions on which such estimates are based; (2) the projected tax credits to be used in the current biennium and the next ensuing three fiscal years, and the assumptions on which such projections are based; (3) a summary of any estimated deficiencies in the current fiscal year, the reasons for such deficiencies, and the assumptions upon which such estimates are based; (4) the projected balance in the Budget Reserve Fund at the end of each uncompleted fiscal year of the current biennium and the next ensuing three fiscal years; (5) the projected bond authorizations, allocations and issuances in each of the next ensuing five fiscal years and their impact on the debt service of the major funds of the State; (6) an analysis of revenue and expenditure trends and of the major cost drivers affecting State spending, including identification of any areas of concern and efforts undertaken to address such areas, including efforts to obtain federal funds; and (7) an analysis of possible uses of surplus funds, including the Budget Reserve Fund, debt retirement and funding of pension liabilities.

By November 30, annually, the legislative committees then meet with the Secretary of the Office of Policy and Management and the Director of the legislative Office of Fiscal Analysis to consider the submitted reports.

### **Financial Controls**

**Expenditures.** The financial control procedures utilized by the State in the expenditure of State funds are described below and may be generally summarized as follows: initially, the legislature appropriates funds for a particular purpose; such funds must then be allotted for such purpose by the Governor; and thereafter such funds are encumbered by the Comptroller upon the request of the responsible State agency. Once this appropriation, allotment and encumbrance procedure (which may be modified as described below) has been completed, State funds are paid by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. Certain receivables from the federal government or other sources do not require allotment by the Governor.

**Governor's Role.** Before an appropriation for a budgeted agency becomes available for expenditure the agency must submit to the Governor through the Secretary of OPM, not less than 20 days before the beginning of the fiscal year for which the appropriation is made, a requisition for the allotment of funds needed for each quarter of the fiscal year. Appropriations for capital outlays may be allotted in any manner the Governor deems advisable. The Governor may reduce the budget allotment request by not more than three percent of the total appropriation from any fund or not more than five percent of any appropriation under certain circumstances. Such allotments are subject to further modification by the Governor throughout the course of the fiscal year if conditions warrant. If the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one per cent of the total of General Fund appropriations, the Governor is required within thirty days to file a report with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a plan which the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. The Governor is not authorized to reduce allotment requisitions or allotments in force concerning aid to municipalities or any budgeted agency of the legislative or judicial branch, except that the Governor may propose an aggregate allotment reduction of a specified amount for the legislative or judicial branch.

**Comptroller's Role.** The Comptroller is responsible for keeping an account in connection with each appropriation. No warrant, draft or order may be issued by the Comptroller in excess of the available balance of the applicable account unless the General Assembly has passed a deficiency bill for the purpose or unless such appropriation has been increased by the Governor in the limited circumstances of emergency expenditures or allotment modifications as authorized by statute. The Comptroller is required to issue cumulative monthly financial reports concerning the State General Fund. OPM provides estimates to the Comptroller by the twentieth day of each month of the revenues and expenditures for the current fiscal year for use by the Comptroller in preparing the Comptroller's monthly report.

***Treasurer's Role.*** Each warrant, draft or order upon the Treasurer must specify the particular appropriation against which it is drawn, and no money may be paid by the Treasurer absent such specification. The Treasurer is required to honor all warrants, drafts and orders properly drawn by the Comptroller. The Treasurer also has primary responsibility for the investment of State funds and the issuance of debt of the State.

By statute, the Treasurer may not pay compensation, expenses or fees or otherwise enter into contractual arrangements with any firm providing legal services, investment banking services, investment advisory services, underwriting services, financial advisory services or brokerage firm services if such firm, through its political committee or certain managerial level officers or employees, makes or solicits contributions to any committee established by a candidate for nomination or election to the Office of Treasurer of the State. The statute also prohibits the making or solicitation of contributions by such firms.

***Use of Appropriations.*** No appropriation or part thereof may be used for any purpose other than for the purpose for which it was made, except with respect to certain transfers and revisions of appropriations permitted to be made by the Governor with the concurrence of the Finance Advisory Committee, composed of members of the executive and legislative departments. Civil sanctions may be imposed pursuant to statute upon persons who willfully expend or authorize the expenditure of State funds for any purpose in excess of the amount specifically appropriated for such purpose.

***Unexpended Appropriations.*** All unexpended balances of appropriations for each fiscal year lapse on the last day of such fiscal year and revert to the unappropriated surplus of the fund from which the appropriations were made, except for certain continuing appropriations. Such continuing appropriations include those continued into the succeeding fiscal year to permit liquidation of obligations of the prior fiscal year in the case of programs which were not renewed the succeeding year, those continued for the entire succeeding year in the case of highway and other capital construction projects, and limited amounts for certain special programs.

***Unappropriated Surplus – Budget Reserve Fund.*** The State Constitution provides that any resulting unappropriated surplus shall be used to fund a budget reserve fund, to reduce bonded indebtedness or for any other purpose authorized by at least three-fifths of each house of the General Assembly. The General Statutes provide that the Treasurer shall transfer any unappropriated surplus in the General Fund to a budget reserve fund, unless otherwise directed by law. When the amount in the budget reserve fund in any fiscal year equals 10 % of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

After the accounts for the fiscal year are closed, beginning with the fiscal year ending June 30, 2010, and each fiscal year thereafter, until and including the fiscal year ending June 30, 2017, if the Comptroller determines there exists an unappropriated surplus in the General Fund, the amount of any such surplus is first to be used for redeeming prior to maturity any outstanding economic recovery notes issued to fund the deficit in the General Fund for the fiscal year ending June 30, 2009, and any amount beyond that required to redeem such notes shall be used to reduce the obligations of the State under the financing plan to provide revenues for the fiscal year ending June 30, 2011. By statute, the Treasurer was directed to transfer (i) and did transfer, \$1,278.5 million from the budget reserve fund to the resources of the General Fund to be used as revenue for the fiscal year ending June 30, 2010 and (ii) \$103.2 million from the budget reserve fund to the resources of the General Fund to be used as revenue for the fiscal year ending June 30, 2011. These transfers reduced the budget reserve fund to \$0.0.

As part of the State's transition to Generally Accepted Accounting Principles, as prescribed by the Government Accounting Standards Board ("GAAP"), and notwithstanding the above, legislation passed in 2011 requires that certain amounts of unappropriated surplus be reserved to address the GAAP deficit, all as further discussed below in **Accounting Procedures – Transition to GAAP**.

**Revenues.** The Treasurer superintends the collection and receipt of all taxes and revenues belonging to the State, and is authorized to deposit the same in any qualified public depository as defined by statute. Each State department, institution, board, commission or other State agency and any official or employee thereof that receives any money for revenue of the State must, within 24 hours of its receipt or within seven days of receipt for amounts less than \$500, account for and pay the same to the Treasurer or, with the approval of the Treasurer and the Comptroller, deposit the same in an account in a qualified public depository in the name of the State or in the name of the public official as such official. The Treasurer is authorized to make exceptions to the limitations on amounts and timing of payments or deposits of receipts provided the Treasurer files a written statement of such exception with the Comptroller and the State's Auditors of Public Accounts. Any public official who deposits funds or moneys in an account in the name of the State or in such official's name must submit a list of all such accounts as of the preceding June 30 to the Treasurer and the Comptroller not later than September 1 of each year.

### **Accounting Procedures**

Financial statements of the State are prepared annually on a modified cash basis of accounting for all civil list funds. The Comptroller prepares the statements for submission to the Governor by September 1 of each year, unless extended by State law. The State's Auditors of Public Accounts must audit the books and accounts of the Treasurer and the Comptroller at least annually and have discretion to audit them at more frequent intervals.

At the present time the State is not required to prepare financial statements in accordance with GAAP and does not prepare GAAP statements on an interim basis. However, since 1988 the State has issued comprehensive annual financial reports in accordance with the guidelines established by the Governmental Accounting Standards Board. These reports include audited annual financial statements prepared in accordance with GAAP.

As specifically permitted by statute or decision of the Comptroller, the only present modifications from the cash basis in recording revenues under the modified cash method are: (1) the accrual of sales and use taxes to be received for the calendar quarter ending at the close of such fiscal year as estimated by the Secretary of OPM; (2) the accrual of cigarette tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (3) the accrual of alcoholic beverage tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (4) the accrual of motor fuels tax revenue and motor carrier road tax revenue on all fuel sold or used prior to the end of such fiscal year and received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (5) the accrual of utility company tax revenue and tax revenue on gross earnings from the sale of petroleum products which is received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (6) the accrual of corporation business tax revenue received by the Department of Revenue Services no later than five business days after the fifteenth day of August immediately following the end of such fiscal year through the 2006-07 fiscal year and, pursuant to the Comptroller's constitutional powers under Section 24, Article Fourth of the Connecticut State Constitution and her statutory powers under Public Act No. 08-111, the last day of July for fiscal year 2007-08 and thereafter; (7) the accrual of income tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (8) the accrual of nursing home provider tax received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (9) the accrual of payments received from any Indian tribe, pursuant to a memorandum of understanding, received by the Treasurer no later than the last day of July immediately following the end of such fiscal year; (10) the accrual of real estate conveyance tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (11) the recording as grants receivable of certain amounts of restricted grants for which the State has the contractual right to be reimbursed by the federal

government or other parties; (12) the accrual of electric generators tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (13) the accrual of hospital provider tax received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (14) the accrual of intermediate care use fee received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; and (15) the accrual of the amount of the outstanding balances required to be paid to the State for bottle deposits pursuant to Section 22a-245a of the General Statutes, and that is received by the State no later than five business days after the last day of July immediately following the end of such fiscal year.

Expenditures are recorded on a cash basis in the fiscal year in which they are made. Such expenditures are so recorded by the Comptroller when the Comptroller draws and serves a warrant on the Treasurer. Those instances in which warrants are drawn at the close of a fiscal year can, because of required processing time, result in disbursements made after the beginning of the following fiscal year. Certain appropriations which have not lapsed are reflected in the balance sheet through a reserve for continuing appropriations.

The modified cash basis of accounting used for statutory financial reporting and the modified accrual basis used for GAAP financial reporting are different and, as a result, often produce varying financial results, primarily because of differences in the recognition of revenues and expenditures. For example, for statutory reporting purposes, the State's bi-weekly payroll expenditures are recognized in the fiscal year in which employees are paid, while for GAAP purposes they are recognized in the fiscal year in which the services are performed, resulting in GAAP accrual of expenditures for work performed through June 30 but not paid until the following fiscal year. Similarly, the modified accrual basis used for GAAP financial reporting recognizes additional federal and other grant moneys as revenues which are not so recognized in the modified cash basis of accounting.

The Treasurer is required to submit to the Governor and the Investment Advisory Council, by December 31 of each year, audited financial statements of the State's combined investment funds, and financial statements of the Short Term Investment Fund, the Second Injury Fund, and the Tax Exempt Proceeds Fund for the prior fiscal year. The Treasurer is also required to submit a monthly report to certain legislative members and the Office of Fiscal Analysis which includes among other items, a weekly list of the State's cash balance, a year to date total of authorized but unissued bonds, debt instruments or commercial paper of the State, and the amounts in the State's common cash fund.

The State implemented an Enterprise Resource Planning system in 2003 called Core-CT to address its automated financial accounting and human resources needs. This statewide system uses PeopleSoft technology to manage financial transaction activities ranging from contracting and purchasing to payment and reporting. The State's financial applications are fully integrated with human resources, providing a single comprehensive management and reporting system. Core-CT replaced many disparate agency based systems with a single statewide system that reduced overall maintenance costs and, in some cases, the need for double entry of data. The vast majority of State agency financial and human resources transactions are processed in Core-CT and the State is making a concerted effort to centralize all remaining processing within Core-CT. Core-CT is currently the book of record for all of the Comptroller's monthly and annual financial reports and provides formatted reports to all State agencies. Core-CT also provides a data warehouse used to develop custom reporting. While fully implemented and stabilized, Core-CT is currently in the process of an upgrade from PeopleSoft version 8.9 to version 9.1 to be fully implemented in 2012. Issues with the implementation of Core-CT caused a delay in the preparation of financial statements and reports for fiscal years 2004-05 and 2005-06. The initial Core-CT implementation issues have been resolved.

The audited legal accounting basis (modified cash) financial statements and the audited financial statements of the State prepared in accordance with generally accepted accounting principles (GAAP) for the fiscal year ending June 30, 2011 appear in **Parts III-C and III-D**.

### ***Transition to GAAP***

Legislation was passed in 2011 directed towards facilitating a transition from a modified cash basis of accounting to Generally Accepted Accounting Principles, as prescribed by the Government Accounting Standards Board (“GAAP”). This legislation requires that the budget, commencing with the fiscal year ending June 30, 2014, be prepared on a GAAP basis. Commencing with the fiscal year ending June 30, 2014, the Secretary of OPM must initiate a process intended to result in the implementation of the use of GAAP with respect to the preparation of the biennial budget. This transition includes changing the meaning of a deficit as it relates to the requirement that the Governor’s budget includes recommendations to the General Assembly regarding the manner in which any deficit shall be met. Commencing in the fiscal year ending June 30, 2014, the Governor shall account for the projected amount necessary to extinguish any unreserved negative balance for the prior year as reported in the most recently audited comprehensive annual financial report issued by the Comptroller prior to the start of the biennium in the budget document transmitted to the General Assembly.

To address the GAAP deficit expected to exist when the transition to GAAP occurs in fiscal year 2013-14 and notwithstanding the requirements set forth above in ***Unappropriated Surplus – Budget Reserve Fund*** with respect to the application of any unappropriated surplus, after the accounts for the fiscal years ending June 30, 2012 and June 30, 2013 are closed, if the Comptroller determines that an unappropriated surplus exists in the General Fund, the Comptroller shall reserve an amount, not to exceed \$75 million for the fiscal year ending June 30, 2012 and \$50 million for the fiscal year ending June 30, 2013, before any other reserve required by any provision of the General Statutes is determined. These amounts reserved are to be applied to any net increase in an unreserved negative General Fund balance beyond the amount reported by the Comptroller as of June 30, 2011. Further, after the accounts for the fiscal year ending June 30, 2014 and each fiscal year thereafter are closed, if the Comptroller determines that an unappropriated surplus exists in the General Fund, the Comptroller shall reserve an amount equal to the increment of the deferred charge determined by the Comptroller for such fiscal year, before any other reserve required by any provision of the General Statutes is determined.

Commencing June 30, 2014, the Comptroller, in the Comptroller’s sole discretion, may initiate a process intended to result in the implementation of GAAP with respect to the preparation and maintenance of the biennial budget and the annual financial statements of the State now prepared on a modified cash basis. Beginning July 1, 2013, the Comptroller shall establish an opening combined balance sheet for all appropriated funds on the basis of GAAP. This combined balance sheet shall reflect as a deferred charge the aggregate of the accrued and unpaid expenses, liabilities, and other adjustments for the purposes of GAAP as of July 1, 2013. Such deferred charge shall be amortized in equal increments over a 15 year period commencing with the fiscal year ended June 30, 2014. Beginning in fiscal year 2013, the Comptroller’s annual report shall be submitted to the Governor by September 30<sup>th</sup> and prepared in accordance with GAAP.

### **Investment and Cash Management**

***Treasurer’s Role.*** The Treasurer has the investment responsibility for all funds of the State and functions as the trustee of all State pension, retirement and trust funds. The Treasurer is authorized to invest or reinvest funds under the control of the Treasurer in United States government or agency obligations, shares or interests in an investment company or trust registered under the Investment Company Act of 1940, whose portfolio is limited to obligations of the United States, its agencies or instrumentalities, or repurchase agreements fully collateralized by such obligations, United States postal service obligations, certificates of deposit, commercial paper, savings accounts and bank acceptances. The Treasurer may also invest funds, excluding civil list funds, in the sale or acquisition of securities or obligations which the Treasurer is authorized to sell or acquire for purposes of any combined investment fund, subject to repurchase agreements with any securities dealer or bank included in the list of primary dealers prepared by the Federal Reserve Bank of New York. The Treasurer is also authorized to invest all or any part of any sinking fund in bonds in which savings banks may legally invest, provided such bonds mature prior to maturity of the bonds of the State which

are outstanding. The Treasurer is required to report by December 31 annually to the Governor and the Investment Advisory Council as to the activities of the Office of the Treasurer for the preceding fiscal year.

**Cash Management.** The cash management system and the investment by the Treasurer of all State monies are based on the concept of available cash. The common cash pool, a component of the State's available cash, is comprised of the operating cash of most State funds, including the General Fund and the Budget Reserve Fund. All banks holding major account balances for the State Treasury report these balances daily, enabling the Treasurer to maintain adequate cash to meet anticipated demands and to keep unneeded balances fully invested.

**Short Term Investment Fund.** The Short Term Investment Fund ("STIF") is a combined investment pool of high quality, short term money market instruments which is the primary investment vehicle for the temporarily surplus cash of all funds of which the Treasurer is custodian and/or trustee, except certain bond funds, State pension funds and selected trust funds. All agencies, instrumentalities and political subdivisions of the State are permitted to invest in STIF. The State is responsible to these governmental entities to manage their deposits and accumulated earnings in a prudent manner. Individual participants in STIF can add or withdraw monies on a daily basis with interest earned from date of deposit to date of withdrawal. The primary investment objectives of STIF are the preservation of principal and the provision of liquidity to meet participants' daily cash flow needs, while seeking to earn competitive yields. STIF is managed in accordance with the investment guidelines established by the Treasurer. These investment guidelines prohibit investment in derivative securities other than floating rate securities which vary in the same direction as individual short term money market indices, and limit the ability to enter into reverse repurchase agreements to amounts not to exceed five percent (5%) of the STIF's net assets at the time of execution. Shares of the Short Term Investment Fund are rated "AAAm" by Standard & Poor's.

**Medium Term Investment Fund.** A 1997 statute created the Medium-Term Investment Fund. The Treasurer may purchase participation units of the fund for all trusts and other funds for which the Treasurer has investment responsibility. The Treasurer may sell participation units in the Medium-Term Investment Fund to all agencies, authorities, instrumentalities and political subdivisions of the State. The Treasurer is authorized to invest and reinvest funds of the Medium-Term Investment Fund in obligations of the United States government and its agencies and instrumentalities, certificates of deposit, commercial paper, corporate debt securities, savings accounts and bankers' acceptances, repurchase agreements collateralized by such securities, and investment funds or pools comprised of securities in which the Medium-Term Investment Fund may directly invest. The Medium-Term Investment Fund was implemented in September 2006.

**Other Funds.** Up to \$100 million of the state's operating cash may be invested in certificates of deposit of community banks and credit unions, pursuant to CGS 3-24k. In addition, investments are made in individual securities pursuant to CGS 3-31a. Allowable investments under CGS 3-31a include United States government and agency obligations, shares or interests in an investment company or investment trust registered under the Investment Company Act of 1940, whose portfolio is limited to obligations of the United States, its agencies or instrumentalities, or repurchase agreements collateralized by such obligations, certificates of deposit, commercial paper, savings accounts, and bank acceptances. The Treasurer has adopted guidelines for investments made under CGS 3-31a, which specify credit and diversification standards, and limit individual security maturities to three years and the total amount invested to \$900 million.

**Investment of Bond Proceeds.** Proceeds of bonds are accounted for in various general obligation bond funds. All invested assets of the bond funds are invested in STIF. Bond proceeds are expended in accordance with the authorization and allotment procedure of the State Bond Commission and the Governor, respectively. Assets of the bond funds may from time to time be transferred temporarily to the common cash pool in accordance with the State's overall cash flow needs. Under the State's accounting system, transfer of the assets of the bond funds to the common cash pool is reflected in the accounts of the bond funds as an uninvested cash balance. That accounting balance can be reduced only when an approved payment for an

expenditure is charged to the bond funds. In no case does the transfer of bond fund assets to the common cash pool alter the timing or the extent of expenditures for the purposes for which the bonds were issued.

***Tax Exempt Proceeds Fund.*** The Tax Exempt Proceeds Fund, Inc. (“TEPF”), was a diversified, open-end management investment company, registered under the Investment Company Act of 1940, established with the facilitation of the Treasurer. It existed to serve the particular federal income tax needs of entities that are issuers of tax-exempt state and local bonds, such as states and municipalities and their authorities, agencies, instrumentalities and subdivisions. All recipients of any grant or loan monies of the State funded from Connecticut tax-exempt bond proceeds were required to invest such monies in TEPF, unless the Treasurer waived the requirement. The Board of Directors and shareholders of TEPF approved a plan to dissolve, liquidate, and terminate TEPF. All TEPF accounts were liquidated and as of December 30, 2011 there were no shareholders in TEPF. Beginning December 1, 2011, payments of State bond-funded grants and loans are processed through the Automated Clearing House (“ACH”) which replaces the 25-year-old TEPF.

***Investment Advisory Council.*** All trust fund investments by the Treasurer are reviewed by the Investment Advisory Council, comprised of the Treasurer and the Secretary of OPM as ex officio members, five members of the public with experience in investment matters, three representatives of the teachers’ union and two representatives of the State employees’ unions. The Treasurer, with the approval of the Council, adopts an Investment Policy Statement for trust funds. Under certain limited circumstances, all private equity or real estate investments require approval of the Investment Advisory Council. The Governor may direct the Treasurer to change any investments when in the judgment of the Council such action is in the best interest of the State. At the close of each fiscal year a report is submitted to the Governor on the value of all security investments of the State.

***Investment of Pension Funds.*** Twelve investment funds serve as the investment medium for the various pension, retirement and trust funds of which the Treasurer is the trustee. They are the Mutual Equity Fund, the Developed Markets International Stock Fund, the Emerging Markets International Stock Fund, the Core Fixed Income Fund, the Inflation Linked Bond Fund, the Emerging Markets Debt Fund, the High Yield Debt Fund, the Private Investment Fund, the Real Estate Fund, the Liquidity Investment Fund, the Commercial Mortgage Fund, and the Alternative Investment Fund. The pension, retirement and trust funds acquire units, in varying proportions depending on the investment policies of the funds, in one or more of the twelve investment funds. By statute no more than 60% of any of the State’s trust funds may be invested in common stock and if market fluctuations cause this limit to be exceeded, after six months no more than 65% of the State’s trust funds may remain invested in common stock. Other than these limits, the statutes of the State permit investment in securities under the “Prudent Investor” rule. See also **PENSION AND RETIREMENT SYSTEMS** herein.

## STATE GENERAL FUND

The State finances most of its operations through its General Fund. However, certain State functions, such as the State's transportation budget, are financed through other State funds. See **OTHER FUNDS, DEBT AND LIABILITIES** herein. For budgetary purposes, the State's General Fund is currently accounted for on a modified cash basis of accounting (the "budgetary-basis"), which differs from generally accepted accounting principles ("GAAP"). The State is not presently required to prepare GAAP financial statements, although it has prepared such statements annually since 1988. Legislation was passed in 2011 directed towards facilitating a transition from a budgetary-basis of accounting to GAAP. For an explanation of the differences between the budgetary-basis and GAAP based accounting and a discussion of the transition to GAAP, see **FINANCIAL PROCEDURES — Accounting Procedures** herein.

GAAP based audited financial statements for all civil list funds of the State for the fiscal year ending June 30, 2011 are included as **Appendix III-C** to this Annual Information Statement. Budgetary-basis financial statements for the General Fund audited for the fiscal years ending June 30, 2007 through June 30, 2011 are included in **Appendix III-D** to this Annual Information Statement. The adopted budget and final financial budgetary-basis results for the fiscal year ending June 30, 2011, the adopted budget and estimated (as of January 31, 2012) budget for the fiscal year ending June 30, 2012 and the adopted budget for the fiscal year ending June 30, 2013 are included as **Appendix III-E** to this Annual Information Statement. Unless otherwise stated, amounts set forth in the discussion which follows under this caption **STATE GENERAL FUND** refer to such amounts as calculated on the budgetary-basis of accounting.

### General Fund Revenues

#### *Forecasted, Adopted and Historical Revenues*

**Procedure For Forecasting Revenues.** Revenue forecasting in Connecticut incorporates a blend of econometric modeling and economic advice obtained from an array of expert sources. Some of these major sources include: "Blue Chip Economic Indicators" which is a compilation of the consensus forecast for major national economic indicators from the top 50 economic and financial institutions; Moody's Economy.com, a nationally recognized econometric forecasting firm; and "The Connecticut Economy," a University of Connecticut quarterly review written and edited by widely known State economists.

Because of the vast number of variables that can impact the revenue forecast, the State considers forecasting to be a process and not a product. While the economic data from available sources is analyzed and used to anticipate overall direction and trends, the revenue forecast is generated through a consensus interpretation of all available data. Annual revenue estimates from the beginning of each year attempt to account for possible variations in economic activity during the year. Periodic economic data, such as seasonal adjustments to estimated personal income growth, or a monthly drop in employment, are analyzed on an on-going basis. Adjustments are made when the aggregate values of such changes deviate beyond tolerable levels from aggregate and historical estimates. The State believes that the process followed in developing Connecticut's revenue forecast is consistent with approaches taken in many other states.

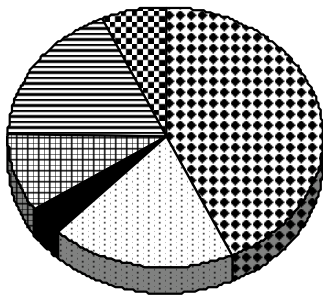
**Fiscal Year 2011-2012 and 2012-2013 Adopted Revenues.** General Fund revenues as forecasted at the adoption of the budget for the fiscal years ending June 30, 2012 and June 30, 2013 ("Adopted Revenues") are reflected in **Appendix III-E** to this Annual Information Statement. The State, as of the forecast date, expected to derive approximately 74.6 percent and 75.3 percent, respectively, of its General Fund revenues from taxes during the 2011-12 fiscal year and the 2012-13 fiscal year. The adopted budget and the final budgetary-basis results for the fiscal year ending June 30, 2011, the adopted budget and the estimated (as of January 31, 2012) budgetary basis results for the fiscal year ending June 30, 2012 and the adopted budget for the fiscal year ending June 30, 2013 are included in **Appendix III-E** to this Annual Information Statement.



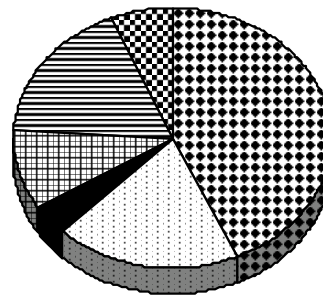
General Fund revenues are derived primarily from the collection of State taxes, including the personal income tax, the sales and use tax and the corporation business tax. Miscellaneous fees, receipts, transfers and unrestricted Federal grants account for most of the other General Fund revenue. A summary of anticipated General Fund revenue sources based on the Adopted Revenues, for the fiscal years ending June 30, 2012 and June 30, 2013, are set forth below:







### Adopted General Fund Revenues (In Millions)







**Adopted Revenues 2011-2012**  
**\$18,788.6<sup>(a)</sup>**



**Adopted Revenues 2012-2013**  
**\$19,441.0<sup>(a)</sup>**



	Personal Income Tax	\$ 8,660.8	43.1%
	Sales and Use Tax	3,789.0	18.8%
	Corporate Business Tax	707.7	3.5%
	Other Taxes <sup>(b)</sup>	2,000.8	9.9%
	Unrestricted Federal Grants	3,589.7	17.9%
	Other Non-Tax Revenues <sup>(c)</sup>	1,360.9	6.8%

	Personal Income Tax	\$ 9,025.5	43.2%
	Sales and Use Tax	3,955.4	18.9%
	Corporate Business Tax	799.8	3.8%
	Other Taxes <sup>(b)</sup>	2,039.6	9.8%
	Unrestricted Federal Grants	3,717.9	17.8%
	Other Non-Tax Revenues <sup>(c)</sup>	1,349.7	6.5%

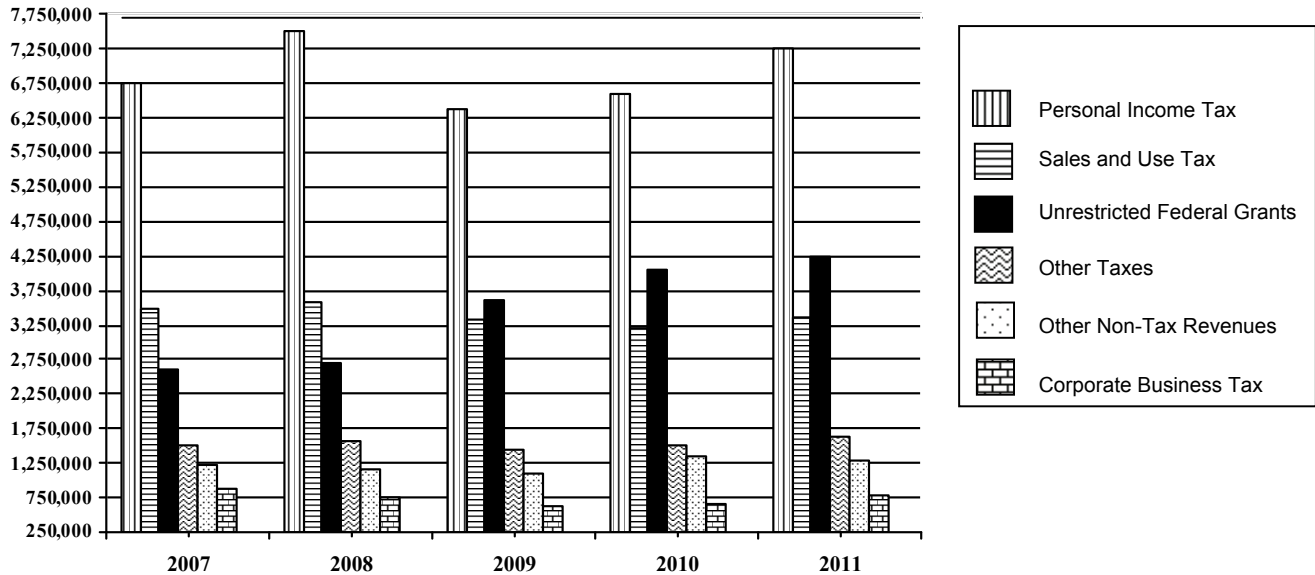
Note: Totals may not add to 100% due to rounding.

- (a) The pie charts reflect the total of the listed tax and revenue amounts of \$20,108.9 million for fiscal year 2011-12 and \$20,887.9 million for fiscal year 2012-13 and do not reflect tax refunds, R&D Credit Exchange and transfers to other funds of \$1,320.3 million for fiscal year 2011-12 and \$1,446.9 million for fiscal year 2012-13. See **Appendix III-E** for anticipated adjustments to adopted tax revenues.
- (b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of public service corporations, on net direct premiums of insurance companies, on oil companies, on cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on healthcare providers, electric generation and other miscellaneous taxes. See **Appendix III-E**.
- (c) Other non-tax revenues are comprised of special revenue transfers, Indian gaming payments, licenses, permits and fees, sales of commodities and services, rents, fines and escheats, investment income, other miscellaneous revenues and designated Tobacco Settlement Revenues and special transfers to the resources of the General Fund. See **Appendix III-E**.

SOURCE: Public Act No. 11-6, as amended by Public Act No. 11-61 and Public Act No. 11-1 of the June Special Session.

**Historical General Fund Revenues.** Actual General Fund revenues for the fiscal years ending June 30, 2007 through 2011 are set forth in **Appendix III-D** to this Annual Information Statement. A summary of the composition of General Fund gross revenues for the last five fiscal years is illustrated below:

**General Fund Revenues<sup>(a)</sup>**  
**Fiscal Year Ending June 30**  
**(In Thousands)**



	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Taxes:</b>					
Personal Income Tax .....	\$ 6,749,462	\$ 7,512,688	\$ 6,385,856	\$ 6,586,099	\$ 7,246,431
Sales Tax .....	3,496,110	3,582,317	3,318,752	3,203,988	3,353,230
Corporate Business Tax .....	890,730	733,942 <sup>(d)</sup>	615,921	667,132	794,473
Other Taxes <sup>(b)</sup> .....	1,517,553	1,558,511	1,448,448	1,507,283	1,619,985
<b>Subtotal</b> .....	<u>12,653,855</u>	<u>13,387,458</u>	<u>11,768,977</u>	<u>11,964,502</u>	<u>13,014,119</u>
R & D Credit Exchange .....	(5,983)	(11,363)	(8,428)	(8,937)	(8,598)
Refunds of Taxes .....	(746,539)	(852,184)	(1,052,286)	(1,061,433)	(956,054)
<b>Total Net Taxes</b> .....	<u>\$11,901,333</u>	<u>\$12,523,911</u>	<u>\$10,708,263</u>	<u>\$10,894,132</u>	<u>\$12,049,467</u>
<b>Other Revenue:</b>					
Federal Grants					
(Unrestricted) .....	\$ 2,602,774	\$ 2,701,603	\$ 3,619,490	\$ 4,066,314	\$ 4,235,178
Other Non-Tax Revenues <sup>(c)</sup> .....	1,224,753	1,164,272	1,105,217	1,363,385	1,273,290
Transfers to Other Funds .....	(86,300)	(86,300)	(86,300)	(61,800)	(61,800)
Transfers from Other Funds .....	100,000	115,300	354,131 <sup>(e)</sup>	1,426,498 <sup>(f)</sup>	211,319
<b>Total Other Revenues</b> .....	<u>\$ 3,841,227</u>	<u>\$ 3,894,875</u>	<u>\$ 4,992,538</u>	<u>\$ 6,794,397</u>	<u>\$ 5,657,987</u>
<b>Total Revenues</b> .....	<u>\$15,742,560</u>	<u>\$16,418,786</u>	<u>\$15,700,801</u>	<u>\$17,688,529</u>	<u>\$17,707,454<sup>(g)</sup></u>

- (a) The bar graph reflects the total of the listed tax and revenue amounts and does not reflect the listed adjustments for tax refunds and transfers to or from other funds. See **Appendix III-D** for adjustments to revenues.
- (b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of public service corporations, on net direct premiums of insurance companies, on oil companies, on cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on healthcare providers, electric generation and other miscellaneous taxes.
- (c) Other non-tax revenues are comprised of special revenue transfers, Indian gaming payments, licenses, permits and fees, sales of commodities and services, rents, fines and escheats, investment income and other miscellaneous revenues less refunds of payments.
- (d) For Fiscal Year ending June 30, 2008, the Corporation Business Tax accrual date was changed to the last day of July from August 15th (as in the prior fiscal years). The Corporation Business Tax is now consistent with other tax accruals. The Comptroller's decision to make this change is within her constitutional powers under Section 24, Article Fourth of the Connecticut State Constitution and her statutory powers under Public Act No. 08-111.
- (e) For Fiscal Year 2009, \$179.4 million of reserved fund balance within the General Fund was released for Fiscal Year 2009 operations and was posted under the "Transfer from Other Funds" category.
- (f) Includes numerous transfers from other funds of the State, the largest of which is \$1,278.5 million from the Budget Reserve Fund.
- (g) Totals do not include the release of the Reserved Fund Balance in the amount of \$449,868,589.

SOURCE: 2007, 2008, 2009, 2010 and 2011 Annual Reports of the State Comptroller.

## ***Components of Revenue***

***Personal Income Tax.*** The State imposes a personal income tax on the income of residents of the State (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. The tax imposed is at the maximum rate of 6.7% on Connecticut taxable income. Depending on federal income tax filing status, the taxable year and Connecticut adjusted gross income, personal exemptions are available to taxpayers, ranging from \$12,000 to \$24,000, with the lower end of the range increasing annually to \$15,000 by taxable year 2015 for certain taxpayers. In addition, tax credits ranging from 1% to 75% of a taxpayer's Connecticut tax liability are also available depending upon federal income tax filing status, the taxable year and Connecticut adjusted gross income. Such exemptions and tax credits are phased out at certain higher income levels. Neither the personal exemption nor the tax credit described above is available to trusts or estates. Legislation enacted in 1995 effected a graduated rate structure beginning in tax year 1996, and most recently revised for tax year 2011. Under this revised structure, the top rate increases to 6.7% with a rate of 3% applicable to taxable income up to certain amounts. The first \$20,000 of taxable income for a joint filer and the first \$10,000 of taxable income for a single filer is taxed at the 3% rate, under the revised rate structure effective income year 2011, the lower rates are fully phased out for joint filers earning over \$700,000. In addition, an income tax credit for property taxes paid of \$500 per filer for tax years beginning on or after January 1, 2006, was decreased to \$300 per filer for tax years beginning on or after January 1, 2011. Taxpayers also are subject to a Connecticut minimum tax based on their liability, if any, for payment of the federal alternative minimum tax.

***Sales and Use Taxes.*** The Sales Tax is imposed, subject to certain limitations, on the gross receipts from certain transactions within the State of persons engaged in business in the State, including (a) sales at retail of tangible personal property, (b) the rendering of certain services, (c) the leasing or rental of tangible personal property, (d) the production, fabrication, processing, printing, or imprinting of tangible personal property to special order or with materials furnished by the consumer, (e) the furnishing, preparation or serving of food, meals, or drinks, and (f) the transfer of occupancy of hotel or lodging house rooms for a period not exceeding thirty consecutive calendar days. The Use Tax is imposed, with certain exceptions, on the consideration paid for certain services or purchases or rentals of tangible personal property used within the State pursuant to a transaction not subject to the Sales Tax. The tax rate for the Sales and Use Taxes is 6.35%. A separate rate of 15% is charged on the occupancy of hotel rooms. Various exemptions from the Sales and Use Taxes are provided, based on the nature, use or price of the property or services involved or the identity of the purchaser. Tax returns and accompanying payments with respect to revenues from these taxes are generally due monthly on or before the last day of the month next succeeding the taxable month.

***Corporation Business Tax.*** The Corporation Business Tax is imposed on any corporation, joint stock company or association, any dissolved corporation that continues to conduct business, any electric distribution company or fiduciary of any of the foregoing which carries on or has the right to carry on business within the State or owns or leases property or maintains an office within the State or is a general partner in a partnership or a limited partner in a limited partnership, except an investment partnership, that does business, owns or leases property or maintains an office within the State. Certain financial services companies and domestic insurance companies are exempt from this tax. The Corporation Business Tax provides for three methods of computation. The taxpayer's liability is the greatest amount computed under any of the three methods.

The first method of computation is a tax measured by the net income of a taxpayer (the "Income-Base Tax"). Net income means federal gross income with limited variations less certain deductions, most of which correspond to the deductions allowed under the Internal Revenue Code of 1986, as amended from time to time. The Income-Base Tax had been levied at the rate of 10.75% in 1996 and was phased down over subsequent years to 7.5% for taxable years commencing on and after January 1, 2000. The second method of computing the Corporation Business Tax is an alternative tax on capital. This alternative tax is determined either as a specific maximum dollar amount or at a flat rate on a defined base, usually related in whole or in part to its capital stock and balance sheet surplus, profit and deficit. The third method of computing the Corporation Business Tax is the minimum tax which is a flat \$250. Corporations must compute their tax liability under all

three methods, determine which calculation produces the greatest tax, and pay that amount to the State. In 2002 the State limited corporation credits from reducing tax liability by more than 70%. The State imposed a corporation business tax surcharge of 20% for income year 2003, 25% for income year 2004, 20% for income year 2006. There was no corporation business tax surcharge for income year 2005, 2007 or 2008. For income year 2009, 2010 and 2011 a corporation business tax surcharge of 10% has been imposed for businesses with over \$100 million in federal adjusted gross income. For income year 2012 and 2013 a corporation business tax surcharge of 20% has been imposed for businesses with over \$100 million in federal adjusted gross income.

A \$250 charge is levied on LLCs, LLPs and S corporations. The tax extends to single-member LLCs that are not considered entities separate from their owners for federal tax purposes. Beginning with taxable years starting January 1, 2013, this tax will be due biennially.

**Other Taxes.** Other tax revenues are derived from estate taxes, taxes on gross receipts of public service companies, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarette and alcoholic beverage excise taxes, real estate conveyance taxes, taxes on admissions and dues, taxes on healthcare providers, electric generation, and other miscellaneous tax sources.

**Federal Grants.** Depending upon the particular program being funded, federal grants in aid are normally conditioned, to some degree, on resources provided by the State. Most unrestricted federal grant revenue is expenditure driven. The largest federal grants in fiscal year 2010-11 were made for the purposes of providing medical assistance payments to low income individuals and temporary assistance to needy families. The State also receives certain restricted federal grants which are not reflected in annual appropriations but which nonetheless are accounted for in the General Fund. The American Recovery and Reinvestment Act (ARRA) provided the State with increased Medicaid and Title IV-E grants as well as new funding for education, transportation, and other general government functions in fiscal years 2009, 2010 and 2011. In addition, the State receives certain federal grants which are not accounted for in the General Fund but are allocated to the Transportation Fund, various Capital Project Funds and other funds.

**Other Non-Tax Revenues.** Other non-tax revenues are derived from special revenue transfers; Indian gaming payments; licenses, permits and fees; sales of commodities and services; rents, fines and escheats; investment income; other miscellaneous revenue sources; and designated Tobacco Settlement Revenues.

## **General Fund Expenditures**

### ***Appropriated and Historical Expenditures***

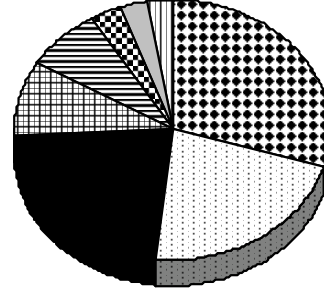
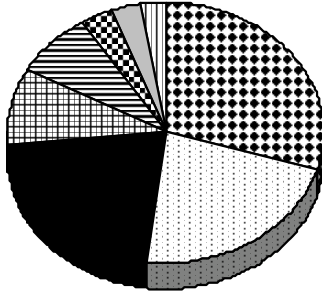
**Fiscal Year 2011-2012 and 2012-2013 Appropriated Expenditures.** State expenditures are categorized for budget and appropriation purposes under ten functional headings, with expenditures by agency generally shown as subheadings in the following functional categories, listed in order of magnitude of expenditure for the current budget biennium: Human Services; Education, Libraries and Museums; Non-Functional (debt service and miscellaneous expenditures including fringe benefits); Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection of Persons and Property; Conservation and Development; and Legislative. State expenditures for Department of Transportation functions are generally paid from the Special Transportation Fund, not the General Fund. Occasionally, minor expenditures for transportation related expenditures are paid from the General Fund.

















The adopted budget and final budgetary-basis results for the fiscal year ending June 30, 2011, the adopted and estimated (as of January 31, 2012) budgets for the fiscal year ending June 30, 2012 and the adopted budget for the fiscal year ending June 30, 2013 are included as **Appendix III-E** to this Annual Information Statement. A summary of appropriated General Fund expenditures for the fiscal years ending June 30, 2012 and June 30, 2013 is set forth below.

## Appropriated General Fund Expenditures (In Millions)

**Appropriated Expenditures 2011-2012**  
\$18,707.7<sup>(a)</sup>

**Appropriated Expenditures 2012-2013**  
\$18,952.5<sup>(a)</sup>



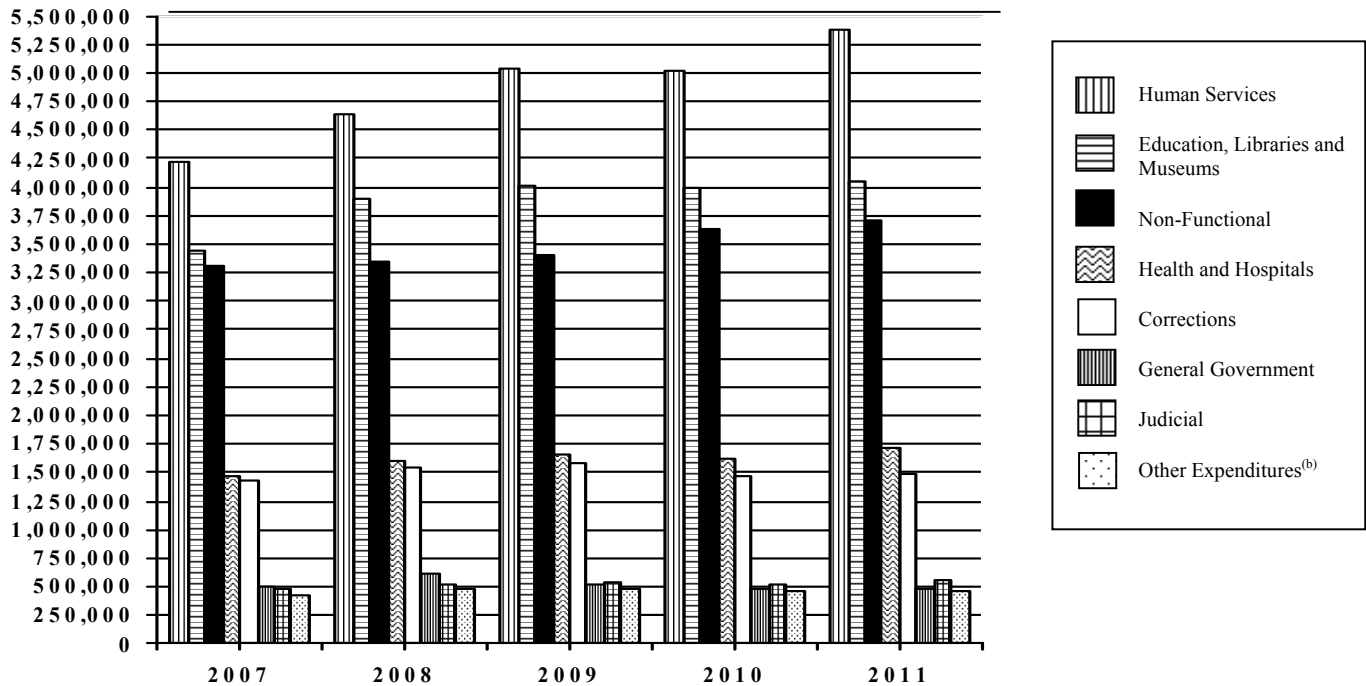
	Human Services	\$ 5,785.9	29.7%		Human Services	\$ 5,925.4	29.7%
	Education, Libraries and Museums	4,321.8	22.2%		Education, Libraries and Museums	4,346.7	21.8%
	Non-Functional	4,182.2	21.5%		Non-Functional	4,479.1	22.5%
	Health and Hospitals	1,886.2	9.7%		Health and Hospitals	1,911.3	9.6%
	Corrections	1,576.5	8.1%		Corrections	1,540.2	7.7%
	General Government	655.9	3.4%		General Government	647.6	3.3%
	Judicial	576.1	3.0%		Judicial	572.8	2.9%
	Other Expenditures <sup>(b)</sup>	501.0	2.6%		Other Expenditures <sup>(b)</sup>	495.2	2.5%

(a) The pie charts reflect the total listed expenditures of \$19,485.6 million for fiscal year 2011-12 and \$19,918.3 million for fiscal year 2012-13, and do not reflect adjustments for unallocated lapses of \$777.9 million for fiscal year 2011-12 and \$965.8 million for fiscal year 2012-13. See **Appendix III-E** for anticipated adjustments to appropriated expenditures.

(b) Other expenditures are comprised of appropriations for Legislative, Regulation and Protection, Conservation and Development and Transportation.

SOURCE: Public Act No. 11-6, as amended by Public Act No. 11-61 and Public Act No. 11-1 of the June Special Session.

**Historical General Fund Expenditures.** Actual General Fund expenditures for the fiscal years ending June 30, 2007 through 2011 are set forth in **Appendix III-D** to this Annual Information Statement. A summary of the composition of General Fund expenditures for the last five fiscal years is illustrated below:



**General Fund Expenditures By Function<sup>(a)</sup>**  
**Fiscal Year Ending June 30**  
**(In Thousands)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Human Services.....	\$ 4,221,641	\$ 4,629,658	\$ 5,041,515	\$ 5,012,333	\$ 5,387,535
Education, Libraries and Museums....	3,449,507	3,892,796	4,019,381	3,990,199	4,060,467
Non-Functional.....	3,311,597	3,356,538	3,399,404	3,633,977	3,709,293
Health and Hospitals .....	1,473,779	1,606,711	1,662,540	1,624,827	1,715,670
Corrections .....	1,430,316	1,549,792	1,577,167	1,475,769	1,484,364
General Government .....	500,641	602,849	520,115	486,318	476,090
Judicial.....	474,067	515,738	543,078	524,043	559,912
Other Expenditures <sup>(b)</sup> .....	432,187	473,365	471,655	460,655	451,793
Totals.....	\$ 15,293,735	\$ 16,627,447	\$ 17,234,855	\$ 17,208,021	\$ 17,845,124

(a) The bar graphs and amounts listed do not reflect expenditure of restricted federal and other grants. See **Appendix III-D**.

(b) Other expenditures are comprised of appropriations for Legislative, Regulation and Protection, Conservation and Development and Transportation.

SOURCE: 2007, 2008, 2009, 2010 and 2011 Annual Reports of the State Comptroller.

## ***Components of Expenditures***

***Human Services.*** Virtually all of the State expenditures for Human Services are allocated to the Department of Social Services for various programs and services, including Medicaid payments, Temporary Assistance to Families, and General Assistance payments.

***Education, Libraries and Museums.*** Based upon the adopted budget for the 2011-12 fiscal year, approximately 64.4% of the State expenditures for Education, Libraries and Museums is allocated to the Department of Education, the largest share of which consists of payments to local governments. The remaining 35.6% consists of expenditures for higher education (including the University of Connecticut, the Connecticut State University System and the Regional Community-Technical Colleges), the Teachers' Retirement Board, the State Library, and services for the blind and deaf.

***Non-Functional.*** Non-Functional State expenditures consist of debt service payments, State employee fringe benefit accounts and other miscellaneous appropriations.

***Health and Hospitals.*** State expenditures for Health and Hospitals are allocated primarily for programs and services provided by the State Departments of Public Health, Developmental Services, and Mental Health and Addiction Services.

***Corrections.*** Appropriations to the State Department of Correction and the Department of Children and Families comprise the largest portion of State expenditures for Corrections.

***General Government.*** State expenditures for General Government may be classified into three categories: executive, financial administration and legal, the largest of which is expenditures for financial administration. Such expenditures are primarily for salaries and other miscellaneous expenses of various State departments.

***Judicial.*** Judicial expenditures are comprised of salaries, expenses and payments for special programs of the Judicial Department and the Public Defender Services Commission.

***Regulation and Protection.*** State expenditures for Regulation and Protection consist primarily of appropriations for the Department of Public Safety for salaries, equipment, training and other services and expenses. Other agencies and programs for which appropriations are made include the Police Officer Standards and Training Council, the Board of Firearms Permit Examiners, the Military Department, the Commission on Fire Prevention and Control, the Department of Consumer Protection, the Department of Labor, the Commission on Human Rights and Opportunities, the Office of Protection and Advocacy for Persons with Disabilities, and the Office of the Child Advocate.

***Conservation and Development.*** State expenditures for Conservation and Development fall into three general categories: agriculture; development of historical sites, commerce and industry; and environment, the latter accounting for approximately 52.0% of all appropriations for Conservation and Development based upon the adopted budget for the 2011-12 fiscal year.

***Legislative.*** Legislative expenditures are comprised primarily of salaries, equipment and other expenses necessary for Legislative Management and the Auditors of Public Accounts.

**Expenditures by Type**

General Fund appropriations and the State expenditures to which they relate are divided for both administrative and budgetary purposes among appropriation account categories based on the type of appropriation. Appropriation account types may be grouped conceptually into two broad categories: payments to third parties and costs of State administration. Payments to third parties consist of two major appropriation account types: payments to local governments, and payments to parties other than local governments (which include debt service payments for purposes of **Table 1**; see footnote 3 to **Table 1** below). Such payments to third parties amount to approximately 66.2% of total General Fund appropriations under the adopted budget for the 2011-12 fiscal year. Costs of State administration consist of three major appropriation account types: personal services, equipment, and other expenses. These expenditures are used directly to operate the facilities and programs of State agencies and include such items as salaries, wages, pension and other benefits for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses. Appropriations for costs of State administration represent approximately 33.8% of all General Fund appropriations under the revised adopted budget for the 2011-12 fiscal year.

Appropriations categorized as payments to third parties are generally referred to for budgetary purposes as “fixed charges.” Contractually required payments to third parties include debt service payments. Statutorily required payments to third parties include grants to local governments and individual beneficiaries under a wide variety of programs established by statute. The amount of such payments is generally either specifically set forth in the statutes in question or is calculated in accordance with a formula set forth in such statutes. Despite the characterization of these statutorily determined payments to third parties as “fixed charges,” the Governor’s budgetary recommendations routinely include proposed modifications in the amounts and formulas for calculating the amounts of such appropriations, and such modifications are often, in fact, adopted by the General Assembly. A summary of fixed charges is shown on **Table 1**. This summary includes a breakdown of total fixed charges into payments to local governments and total payments, as well as information as to the most significant types of expenditures in each category.

**Table 1<sup>1,4</sup>**  
**Fixed Charges - General Fund**  
**Summarized by Function of Government and Expenditure Category**  
**Including Major Expenditure Items**  
**(In Thousands of Dollars)**

	<u>Fiscal Year 2009-10</u> <u>(Actual)</u>		<u>Fiscal Year 2010-11</u> <u>(Unaudited)</u>		<u>Fiscal Year 2011-12</u> <u>(Appropriated)</u>	
	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>
<b>LEGISLATIVE</b>						
Total – Legislative .....	331	0	342	0	554	0
<b>GENERAL GOVERNMENT</b>						
Tax Relief for Elderly Renters .....	21,973	0	23,555	0	26,160	0
Property Tax Relief Elderly Circuit Breaker .....	20,506	20,506	20,506	20,506	20,506	20,506
P.I.L.O.T. - New Manufacturing Machinery and Equipment .....	57,348	57,248	47,895	47,895	0	0
Reimbursement to Towns for Loss of Taxes on State Property <sup>3</sup> .....	0	0	0	0	73,519	73,519
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property <sup>3</sup> .....	0	0	0	0	115,432	115,432
Undesignated .....	19,296	17,067	18,186	17,580	16,971	15,860
Total – General Government .....	119,123	94,821	110,142	85,981	252,588	225,317



	<u>Fiscal Year 2009-10 (Actual)</u>		<u>Fiscal Year 2010-11 (Unaudited)</u>		<u>Fiscal Year 2011-12 (Appropriated)</u>	
	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>
<b>REGULATION AND PROTECTION</b>						
Total - Regulation and Protection .....	931	0	870	0	1,210	0
<b>CONSERVATION AND DEVELOPMENT</b>						
Total - Conservation and Development.....	27,638	12,767	28,776	13,023	30,813	13,341
<b>HEALTH AND HOSPITALS</b>						
Employment Opportunities and Day Services (Dept. of Developmental Services) .....	173,784	0	161,334	0	186,575	0
Community Residential Services (Dept. of Developmental Services).....	379,343	0	405,083	0	419,598	0
Grants for Substance Abuse Services.....	25,018	0	25,268	0	25,028	0
Grants for Mental Health Services .....	76,084	0	79,615	0	76,394	0
Undesignated .....	46,703	14,268	47,708	14,516	48,103	15,200
Total - Health and Hospitals .....	700,932	14,268	719,008	14,516	755,698	15,200
<b>HUMAN SERVICES</b>						
Medicaid .....	3,855,090	0	4,465,884	0	4,632,074	0
Old Age Assistance.....	35,263	0	35,523	0	35,600	0
Aid to the Disabled .....	60,407	0	61,169	0	61,785	0
Temporary Assistance to Families – TANF .....	119,103	0	117,217	0	120,551	0
Connecticut Pharmaceutical Assistance Contract to the Elderly .....	25,102	0	5,976	0	790	0
Medicaid - Disproportionate Share - Mental Health.....	105,935	0	105,935	0	105,935	0
Connecticut Home Care Program .....	67,251	0	47,402	0	62,613	0
Child Care Services - TANF/CCDBG .....	93,563	0	98,516	0	97,598	0
Housing/Homeless Services.....	41,119	0	46,507	0	55,312	0
Disproportionate Share - Medical Emergency Assistance.....	51,725	0	51,725	0	268,487	0
DSH - Urban Hospitals in Distressed Municipalities .....	31,550	0	31,550	0	0	0
State Administered General Assistance.....	197,382	0	(2,233)	0	14,551	0
Medicare Part D Supplemental Needs.....	5,008	0	0	0	0	0
Undesignated .....	64,408	6,220	65,511	6,587	38,134	915
Total - Human Services .....	4,752,906	6,220	5,130,682	6,587	5,493,430	915

	<u>Fiscal Year 2009-10 (Actual)</u>		<u>Fiscal Year 2010-11 (Unaudited)</u>		<u>Fiscal Year 2011-12 (Appropriated)</u>	
	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>
<b>EDUCATION, LIBRARIES AND MUSEUMS</b>						
Charter Schools.....	48,081	0	52,768	0	57,067	0
Adult Education.....	19,565	19,565	19,565	19,565	21,033	21,033
Transportation of School Children.....	28,729	28,729	28,740	28,740	25,785	25,785
Education Equalization Grants.....	1,883,944	1,883,944	1,889,023	1,889,023	1,889,609	1,889,609
Priority School Districts.....	115,509	115,509	115,656	115,656	116,627	116,627
Excess Cost - Student Based.....	139,821	139,821	139,811	139,811	139,806	139,806
Magnet Schools.....	155,033	155,033	183,330	183,330	215,855	215,855
Connecticut Independent College Student Grant.....	23,414	0	23,414	0	18,072	0
Connecticut Aid for Public College Students.....	30,208	0	30,208	0	29,809	0
Teachers' Retirement Contributions...	559,224	0	581,593	0	757,246	0
Undesignated.....	96,835	55,533	88,462	53,406	130,703	58,264
Total – Education.....	3,100,363	2,398,134	3,152,570	2,429,531	3,401,612	2,466,979
<b>CORRECTIONS</b>						
Community Support Services (Dept. of Correction).....	38,870	0	39,830	0	40,370	0
Board and Care for Children – Adoption.....	81,232	0	84,380	0	87,101	0
Board and Care for Children – Foster.....	102,520	0	104,459	0	115,486	0
Board and Care for Children – Residential.....	185,059	0	181,129	0	189,186	0
Community KidCare.....	25,104	0	23,573	0	23,575	0
Undesignated.....	92,578	0	91,848	0	99,217	0
Total – Corrections.....	525,363	0	525,219	0	554,935	0
<b>NON FUNCTIONAL</b>						
Debt Service (Including UConn 2000 and CHEFA Day Care Security and Teachers' Retirement Pension Obligation Bonds) <sup>2</sup>	1,619,470	0	1,629,672	0	1,894,081	0
Reimbursement to Towns for Loss of Taxes on State Property <sup>3</sup>	73,519	73,519	73,519	73,519	0	0
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property <sup>3</sup> .....	115,432	115,432	115,432	115,432	0	0
Undesignated.....	399	0	435	0	0	0
Total - Non Functional.....	1,808,820	188,951	1,819,058	188,951	1,894,081	0
<b>Total – Fixed Charges.....</b>	<b>11,036,407</b>	<b>2,715,161</b>	<b>11,486,667</b>	<b>2,738,589</b>	<b>12,384,921</b>	<b>2,721,752</b>

1 Table 1 includes actual fixed charge expenditures for fiscal year 2009-10, unaudited fixed charge expenditures for Fiscal Year 2010-11, and appropriated fixed charge expenditures for fiscal year 2011-12.

2 Under the old coding system, Debt Service was considered a fixed charge – one of the Payments to Other Than Local Governments. Under the new coding system, Debt Service is coded as an Other Current Expense. Debt Service is included in this table for consistency with past presentation.

3 In fiscal year 2011-12 Reimbursements to Towns for Loss of Taxes were moved from Nonfunctional to General Government (OPM).

4 In fiscal year 2011-12, Vocational Services, Employment Opportunities and Independent Living Centers moved from the Department of Social Services to the Bureau of Rehabilitative Services; Commission on Tourism was merged into the Department of Economic and Community Development; and Commission on Fire Prevention and Control was merged into the Department of Emergency Services and Public Protection.

SOURCE: Office of Policy and Management

## **Fiscal Year 2010-2011 Operations**

Pursuant to the Comptroller's audited financial statements provided on December 31, 2011, as of June 30, 2011, General Fund revenues were \$17,707.5 million and General Fund expenditures were \$17,845.1 million producing a deficit from General Fund operations of \$137.7 million. However, a General Fund surplus for the 2010-11 fiscal year of \$236.9 million results after net adjustments of \$374.5 million which included the release of \$449.9 million from prior year reserves and other fund balance and carryforward adjustments. With the exception of \$14.5 million that is contractually obligated to be deposited into the trust fund for Other Post Employment Benefits, the surplus balance is reserved for payment toward a portion of the State's \$915.8 million Economic Recovery Notes (2009 Series A) issued to finance the fiscal year 2008-09 deficit.

The audited results for the final fiscal year 2010-11 operations of the General Fund have been outlined in **Appendix III-D** to this Annual Information Statement.

## **Budget for Fiscal Years 2011-2012 and 2012-2013**

On May 3, 2011, the General Assembly passed Public Act No. 11-6, An Act Concerning The Budget For The Biennium Ending June 30, 2013. The Governor signed the bill into law on May 4, 2011. This act made general fund appropriations of \$18,350.3 million in fiscal year 2011-12 and \$18,781.8 million in fiscal year 2012-13. The budget was projected to result in a surplus of \$369.3 million in fiscal year 2011-12 and \$634.8 million in fiscal year 2012-13. The budget included anticipated savings of \$1.0 billion annually from state employee concessions.

Numerous revenue enhancements were included in Public Act No. 11-6 including, increasing the number of tax brackets for the personal income tax with a maximum rate of 6.7%. The sales tax was raised from 6.0% to 6.35% and numerous exemptions were eliminated including the previous exemption for clothing and footwear under \$50. A 20% surcharge was imposed on the corporation tax for income years 2012 and 2013. Other miscellaneous taxes were increased as well including the tax on cigarettes and alcoholic beverages. Additional revenue of \$1.5 billion is estimated from these tax increases in fiscal year 2011-12 and \$1.3 billion in fiscal year 2012-13. An expanded health provider tax was also implemented which when combined with the additional reimbursements from the federal government will total over \$600 million annually.

The adopted budget is \$1.0 million below the spending cap in fiscal year 2011-12 and \$278.4 million below in fiscal year 2012-13. After the passage of budget implementers and other acts, the final adopted budget has a projected surplus of \$80.9 million in fiscal year 2011-12 and \$488.5 million in fiscal year 2012-13.

While the biennial budget included anticipated savings of \$1.0 billion annually from State employee concessions, the State initially failed to achieve an agreement with State employees for sufficient State employee concessions. Without an agreement, the Governor called for a special legislative session which was held on June 30, 2011 for purposes of addressing the unattained labor related savings in the adopted Fiscal Year 2011-13 biennial budget. The General Assembly passed and the Governor signed into law Public Act No. 11-1, which provided the Governor with enhanced rescission authority through September 30, 2011, and allotment holdback authority to effectuate savings in the budget equivalent to the unattained labor related savings. The act required the Governor to submit a plan, which he did, by July 15, 2011 to the General Assembly detailing these revised savings. On August 18, 2011, the Governor reached an agreement with the state employee unions which achieved the requisite number of votes and the number of bargaining groups required to ratify the agreement with the administration. Pursuant to Public Act No. 11-1 the agreement was deemed approved as of August 22, 2011. The estimated savings resulting from the agreement and the additional savings recommended by the Governor were estimated to result in a balanced budget for the Fiscal Year 2011-13 biennial budget.

A special session of the General Assembly was held on October 26, 2011 for purposes of promoting economic development and job creation in the State. The General Assembly passed, and the Governor signed into law, two pieces of legislation toward achieving those goals. Public Act No. 11-1 of the October 20, 2011 Special Session, An Act Promoting Economic Growth And Job Creation In the State, authorized an additional \$231 million in general obligation bonds for fiscal year 2011-12, \$345 million for fiscal year 2012-13, and \$25 million each year in fiscal years 2013-14, 2014-15 and 2015-16. It also authorized \$50 million for additional special tax obligation bonds for the Fix-it-first Bridges program in fiscal year 2011-12. The act modified certain tax credits offered by the State that are expected to result in a revenue loss of \$8.5 million in fiscal year 2011-12 and \$40.3 million in fiscal year 2012-13. Public Act No. 11-2, An Act Establishing The Connecticut Bioscience Collaboration Program, authorized \$290.7 million in general obligation bonds in varying amounts from fiscal year 2011-12 through fiscal year 2020-21 for purposes of establishing a research facility in Farmington in proximity to the University of Connecticut's Health Center.

### **Fiscal Year 2011-2012 Operations**

Pursuant to Section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates to the Comptroller by the twentieth day of each month of revenues and expenditures for the current fiscal year for use by the Comptroller in preparing the Comptroller's monthly report. In the monthly estimates provided by the Office of Policy and Management on October 20, 2011, November 18, 2011, December 20, 2011 and January 20, 2012 for the General Fund for the 2011-12 fiscal year, as of the periods ending September 30, 2011, October 31, 2011, November 30, 2011 and December 31, 2011, respectively, under a budgetary basis, the General Fund was estimated to have a surplus of \$75.6 million, \$79.1 million, \$83.7 million and \$1.4 million, respectively. In the monthly estimates provided by the Office of Policy and Management on February 20, 2012 for the General Fund for the 2011-12 fiscal year, as of the period ending January 31, 2012, General Fund revenues were estimated at \$18,693.9 million, General Fund expenditures were estimated at \$18,658.0 million and the General Fund for the 2011-12 fiscal year was estimated to have a surplus of \$35.9 million under a budgetary basis. \$75.0 million of any estimated surplus must be reserved by the Comptroller to be applied to the GAAP deficit pursuant to Public Act No. 11-48, with the remainder dedicated to redeeming a portion of the State's \$915.8 million Economic Recovery Notes (2009 Series A) issued to finance the fiscal year 2008-09 deficit. On February 20, 2012, the Office of Policy and Management projected a \$39.1 million operating deficit on a GAAP basis in the General Fund for the 2011-12 fiscal year. The next monthly report of the Office of Policy and Management is expected on March 20, 2012 and no assurances can be given that the estimates in such report will match the Office of Policy and Management's prior estimates.

By statute, the State's fiscal position is reported monthly by the Comptroller. In each of the Comptroller's monthly reports from October 3, 2011 through February 1, 2012, the Comptroller was in general agreement with the Office of Policy and Management's estimates for each applicable period. The next monthly report of the Comptroller is expected on March 1, 2012 for the period ending January 31, 2012, and no assurances can be given that the estimates in such report will match the Office of Policy and Management's estimates.

On February 24, 2012, the Office of Fiscal Analysis projected a deficit in the General Fund of \$161.0 million for fiscal year 2011-12 on a budgetary basis. The report identifies that the Office of Policy and Management has indicated that it intends to use \$90.0 million of available fiscal year 2010-11 carry forward funding towards the fiscal year 2011-12 General Fund deficit and assuming this occurs, the projected deficit is reduced to \$71.0 million. In addition such projections do not include \$27.0 million related to the national mortgage foreclosure settlement. The projections do include the impact of the Governor's anticipated rescissions totaling \$80.6 million, but do not include the setting aside of funds for the GAAP deficit.

The above projections are only estimates and the information in the monthly letter of the Office of Policy and Management to the Comptroller, in the Comptroller's monthly report and in the Office of Fiscal Analysis' January 25, 2012 projections, contain only estimates and no assurances can be given that future

events will materialize as estimated or that subsequent estimates, adjustments or audit or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2011-12 operations of the General Fund.

See **Appendix III-E** of this Annual Information Statement for more information regarding the Budget for fiscal years 2011-12 and 2012-13.

**Fiscal Accountability Report.** The Secretary of the Office of Policy and Management and the director of the legislative Office of Fiscal Analysis, on November 15, 2011, each submitted a fiscal accountability report for the current biennium and the next ensuing three fiscal years. The Office of Fiscal Analysis projected General Fund surpluses for fiscal years ending June 30 of 2012, 2013, 2014, 2015 and 2016 of \$101.2 million, \$455.8 million, \$310.8 million, \$347.9 million and \$715.6 million, respectively. The Office of Policy and Management in its report projected a General Fund surplus of \$67.1 million for fiscal year ending June 30, 2012 and General Fund surpluses for fiscal years ending June 30 of 2013, 2014, 2015, and 2016 of \$297.5 million, \$163.4 million, \$160.6 million and \$520.6 million, respectively. The projections in each report were based on current services and certain other assumptions. The Office of Policy and Management projected these current services estimates to exceed the State's expenditure cap by \$652.7 million, \$1,113.3 million and \$1,215.9 million in fiscal years ending June 30 of 2014, 2015 and 2016, respectively. The Office of Fiscal Analysis similarly projected these current services estimates to exceed the State's expenditure cap by \$628.1 million, \$1,032.2 million and \$1,114.2 million in fiscal years ending June 30 of 2014, 2015 and 2016, respectively. The reports estimated general obligation bond authorizations, allocations, issuance and debt service for the current fiscal year and succeeding four fiscal years. The reports estimated fairly stable general obligation bond issuances over the five-year period of between \$1.2 billion and \$1.5 billion, with the expenditure on debt service gradually increasing. The projections of the Office of Policy and Management and the Office of Fiscal Analysis are only estimates and the information in each of the fiscal accountability reports contain only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or actions of the General Assembly will not indicate changes in the final result of such fiscal years. Specifically, the Office of Policy and Management noted that until the United States Congress acts on the federal budget, final current State fiscal year and future funding levels for many of the State's federally funded discretionary and entitlement programs are unknown. In addition, the State has a balanced budget requirement and an expenditure cap as discussed at **Page III-6** under the heading **The Budgetary Process – Balanced Budget Requirement**. As such, budgets adopted for the future fiscal years will need to comply with those requirements. As a result, the figures included in these reports do not represent a projection of the actual financial results that might be expected, but instead serve as planning tools.

**Revised Consensus Revenues.** The Office of Policy and Management and the General Assembly's Office of Fiscal Analysis issued on April 29, 2011, a consensus revision of their previous revenue estimates. The General Fund revenue estimates for fiscal years ending June 30 of 2011, 2012, 2013 and 2014 were \$18,526.8 million, \$16,793.6 million, \$17,654.9 million, and \$18,884.4 million, respectively. The Office of Policy and Management and the General Assembly's Office of Fiscal Analysis issued on January 17, 2012, another consensus revision of their previous revenue estimates. The revised General Fund revenue estimates for fiscal years ending June 30 of 2012, 2013, 2014, 2015 and 2016 were \$18,693.9 million, \$19,302.3 million, \$20,265.8 million, \$21,531.7 million and \$22,498.0 million, respectively. The projections in the consensus revenue estimates are only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or audit or actions of the General Assembly will not result in changes to the final results of the fiscal years reported. The next consensus revenue estimate is expected on or about April 30, 2012.

### **Midterm Budget Adjustments**

Per Section 4-71 of the Connecticut General Statutes, the Governor is required to submit a status report to the General Assembly on the biennial budget enacted in the previous year. The status report shall include any recommendations for adjustments and revisions to the enacted budget. On February 8, 2012 the

Governor submitted to the General Assembly a status report including detailed projections of expenditures and revenues and proposed midterm budget adjustments for fiscal year 2012-13. The midterm budget adjustments incorporate the January 17<sup>th</sup> consensus revenue forecast as a baseline and include anticipated additional revenues for total revenue collections in the General Fund for fiscal year 2012-13 of \$19,318.0 million. The Governor recommended an increase in General Fund appropriations for fiscal year 2012-13 of \$313.9 million over the adopted fiscal year 2012-13 General Fund budget for total General Fund appropriations of \$19,266.4 million, resulting in a projected General Fund budget surplus of \$1.6 million, after reserving \$50.0 million for GAAP. The proposed budget is \$5.9 million below the spending cap in fiscal year 2012-13, calculated as of January 20, 2012.

Increases in General Fund appropriations included in the Governor's recommended General Fund budget for fiscal year 2012-13 include (i) an increase of \$182.0 million to maintain current services, including \$119.0 million as a result of a revised estimate for the cost of retiree health care services, (ii) an investment of \$128 million to improve the State's education system and (iii) \$123.4 million, \$85.3 million of which is attributable to the General Fund, to begin to address the State's underfunding of its pension system. In addition, the Governor proposes to restructure the payment schedule for funding the State Employees' Retirement System to reduce the magnitude of required contributions toward the end of the System's amortization period with the aim of achieving a funded ratio of 80% by 2025. The Governor is also proposing more than \$124 million in savings initiatives, including a number of changes within the Medicaid program and a reduction in the percentage of retired teachers' healthcare costs paid by the State. Additionally, the Governor is recommending to continue to streamline State government by proposing further consolidations of State agencies.

Projections of current services revenue contained in the Governor's proposed General Fund budget have been revised downward by a total of \$138.7 million from the revenue projected in the adopted budget. Programmatic revenue changes proposed in his budget totaling \$15.7 million, include the enhancement of the Department of Revenue Services' auditing and collections functions, federal revenue maximization efforts, and the modernization of Connecticut's alcohol statutes.

The Governor's proposed midterm budget adjustments include an increase of \$315.8 million in general obligation bond authorizations to take effect in fiscal year 2012-13. The adjustments emphasize investments in State facilities, the environment, housing, and education and transportation infrastructure. The Governor's recommendations also include an increase of \$90.0 million in special transportation obligation bond authorizations.

### **State Economic Initiatives**

The General Assembly has enacted formal programs targeted at encouraging economic growth within the State. Below is a summary of certain of these programs, including several new initiatives.

***First Five.*** Legislation passed in 2011 allowed the State's existing incentive and tax credit programs to be combined and augmented in order to create incentive packages for the first five companies that promise to either create not less than 200 new jobs within two years or invest not less than \$25 million and create not less than 200 new jobs within five years. Cigna, Ticket Network, ESPN, and NBC Sports have agreed to participate in this program, pledging to create over 1,050 combined jobs in Connecticut in return for \$132.45 million in forgivable loans, grants, and tax credits from the State and potential further tax credits depending on expenditure levels of certain of the companies. After securing these commitments, legislation was passed to expand the program to allow incentives to be bundled in this manner for up to 15 companies.

***Bioscience Connecticut.*** Legislation passed in 2011 to expand the University of Connecticut Health Center ("Health Center") by making programmatic changes, providing State funding for expansion (including the construction of a new patient tower and renovation of existing facilities), and setting the framework for strengthening research capabilities in the State, including at the Health Center. Later in 2011, the State passed

legislation to expand this initiative into an effort to promote the expansion of the bioscience industries in the State. The State reached an agreement to collaborate with Jackson Laboratory, the University of Connecticut, and Yale University for the construction of a new research laboratory on the Health Center campus with a particular focus on personalized medicine. The State is providing \$290.7 million in support for this project over ten years, with \$145 million in the form of a secured, forgivable construction loan, \$46.7 million in a secured, forgivable equipment loan, and \$99 million in research partnership funding. These funds are to be provided through the issuance of general obligation bonds over the next 10 years. The Jackson Laboratory project is expected to generate short-term construction jobs in addition to 6,800 permanent jobs over the next 20 years. No assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments, legislative actions, or other events will not indicate changes in the final results of this initiative.

***Economic and Manufacturing Assistance Act.*** Since 1990, the Economic and Manufacturing Assistance Act program has been one of the State's primary economic development incentive tools. The program provides incentive-driven direct loans for projects with strong economic development potential. The loan funds may be used for the planning of a municipal development project or business development project; the acquisition of real property, machinery or equipment; the construction of site and infrastructure improvements relating to a municipal development or business development project; the construction, renovation and demolition of buildings; relocation expenses for the purpose of assisting an eligible business to locate, construct, renovate or acquire a facility; or such other reasonable expenses necessary or appropriate for the initiation, implementation and completion of the project, including administrative expenses and business support services such as labor training, day care, energy conservation, and pollution control and recycling.

***Small Business Assistance Revolving Loan Program.*** Legislation passed in 2010 provides for loans and lines of credit for businesses with less than 100 employees. The program provides financing of up to \$500,000 per business at 4% interest for up to ten years and is capped at \$15 million of such loans and lines of credit outstanding at any time.

***Small Business Express Program.*** Legislation passed in 2011 created a program to support the retention and growth of small businesses with 50 or fewer employees through a streamlined process that provides financial assistance in the form of revolving loans, job creation incentives, and matching grants. Loans are available from the revolving loan fund for a maximum of \$100,000 per loan to assist small businesses with capital and operational needs. Job creation incentive loans of up to \$250,000 per loan are also available to assist small businesses to spur growth, and payments on these loans may be deferred or forgiven if certain prescribed job creation goals are attained. A matching grant component provides grants up to \$100,000 per grant to small businesses for training, working capital, acquisition of machinery and equipment, construction or leasehold improvements, relocation within the State, or other authorized expenses so long as the small business matches any funds awarded to it under this program.

***Subsidized Training and Employment Program.*** Legislation passed in 2011 provides for job creation incentives to employers to expand opportunities for unemployed workers. Under the program, small businesses and manufacturers with less than 50 full-time workers may receive wage and training subsidies of up to \$12,500 per newly-hired person over six months if they hire an unemployed worker who meets the program eligibility requirements.

***Business Tax Credits.*** The State offers many business tax credits for firms conducting certain activities. Tax credits are offered for investments in human and fixed capital, research and development expenditures, expenditures related to film production and investment, and for job creation, among others.

## General Fund Budget History

**Table 2** summarizes the results of operation of the General Fund on the budgetary-basis. Summaries of actual revenues and expenditures on the budgetary (modified cash) basis for the fiscal years 2007 through 2011 are set forth in **Appendix III-D** to this Annual Information Statement.

**TABLE 2**  
**General Fund**  
**Summary of Operating Results — Budgetary (Modified Cash) Basis**  
**(In Millions)**  
**Fiscal Years Ending June 30**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total General Fund Revenues <sup>(a)</sup> .....	\$ 15,742.6	\$16,418.8	\$15,700.8	\$17,688.5	\$17,707.5
Net Appropriations/Expenditures <sup>(b)</sup> .....	<u>15,473.4</u>	<u>16,319.4</u>	<u>16,648.4</u>	<u>17,238.6</u>	<u>17,470.6</u>
<b>Operating Surplus/(Deficit)</b> .....	<u>\$ 269.2</u> <sup>(c)</sup>	<u>\$ 99.4</u> <sup>(d)</sup>	<u>\$ (947.6)</u> <sup>(e)</sup>	<u>\$ 449.9</u> <sup>(f)</sup>	<u>\$ 236.9</u> <sup>(g)</sup>

(a) Does not include Restricted Accounts and Federal and Other Grants. See **Appendix III-D-6**.

(b) Does not include expenditures for Restricted Accounts and Federal and Other Grants. Includes Amounts Reserved for Prior Year Appropriations Less Appropriations Carried Forward and Other Adjustments. See **Appendix III-D**.

(c) The entire surplus balance of \$269.2 million was reserved for transfer to the Budget Reserve Fund.

(d) The entire surplus balance of \$99.4 million was reserved for spending in fiscal year 2008-09.

(e) The State Treasurer was given authority to fund, and did fund, the Fiscal Year 2009 General Fund deficit through economic recovery notes.

(f) The entire surplus balance of \$449.9 million was reserved for fiscal year 2010-11, \$140.0 million for spending and the remaining \$309.9 million to reduce the amount of economic recovery revenue bonds to be issued. The State has since repealed the authorization to issue economic recovery revenue bonds.

(g) In accordance with a labor agreement, \$14.5 million of this surplus will be deposited in the Other Post Employment Benefit Trust Fund and per State statute, the remaining balance will be used to pay a portion of the State's \$915.8 million Economic Recovery Notes (2009 Series A) issued to finance the fiscal year 2008-09 deficit.

SOURCE: Comptroller's Office



**Table 3** shows the reconciliation of the actual operations surplus (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting. Audited GAAP based financial statements for fiscal year 2011 are included in **Appendix III-C**.

**TABLE 3**  
**General Fund**  
**Summary of Operating Results — Budgetary (Modified Cash) Basis vs. GAAP Basis**  
**(In Millions)**  
**Fiscal Years Ending June 30**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Modified Cash Basis Operating Surplus/(Deficit).....</b>	\$ 269.2	\$ --	\$ (947.6)	\$ 449.9	\$ 236.9
<u>Adjustments:</u>					
Increases (decreases) in revenue accruals:					
Governmental Receivables.....	(91.0)	63.5	284.0	(113.1)	(103.3)
Other Receivables .....	177.9	(302.0)	101.4	(42.6)	85.2
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities .....	45.2	60.3	(601.6)	(160.9)	(100.4)
Salaries and Fringe Benefits Payable .....	(90.0)	(14.0)	56.6	(7.8)	4.4
Increase (decrease) in Continuing					
Appropriations .....	128.2	(327.0)	(415.3)	32.7	79.5
Reclassification of equity adjustments .....	80.0	99.4	--	--	--
Proceeds of Recovery Notes .....	--	--	--	947.5	--
Transfer of restricted resources .....	--	--	--	(1,278.5)	(103.2)
Transfer of prior year surplus.....	(41.0)	--	(179.4)	--	(449.9)
<b>GAAP Based Operating Surplus/(Deficit) .....</b>	<u>\$ 478.5</u>	<u>\$ (419.8)</u>	<u>\$ (1,701.9)</u>	<u>\$ (172.8)</u>	<u>\$ (350.8)*</u>

\* This figure has been revised to correct a typographical error.

SOURCE: Comptroller's Office

**Table 4** sets forth on the budgetary (modified cash) basis the actual cumulative unreserved fund balance (deficit) for the General Fund for the last five fiscal years.

**TABLE 4**  
**General Fund**  
**Unreserved Fund Balance — Budgetary (Modified Cash) Basis**  
**(In Millions)**  
**Fiscal Years Ending June 30**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Operating Surplus/Deficit</b> .....	\$ 269.2	\$ 99.4	\$ (947.6)	\$ 449.9	\$ 236.9
<b>Fund Transfers and Reserves</b>					
Transfers to Budget Reserve Fund .....	269.2	0.0	0.0	0.0	0.0
Transfers from Budget Reserve Fund .....	--	--	--	--	--
Reserve for Fiscal Year 2011 Operations				140.0	
Reserve to reduce economic recovery revenue bonds <sup>(a)</sup>				309.9	
Reserve for Fiscal Year 2009 Operations .....	--	99.4	--	--	
Reserve for Subsequent Fiscal Year Operations .....	--	--	--	--	<u>236.9<sup>(b)</sup></u>
Total Transfers/Reserves .....	<u>269.2</u>	<u>99.4</u>	<u>(947.6)</u>	<u>449.9</u>	<u>236.9</u>
<b>Unreserved Fund Balance</b>					
<b>Surplus/(deficit)</b> .....	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ (947.6)</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>

(a) The State has since repealed the authorization to issue economic recovery revenue bonds.

(b) In accordance with a labor agreement, \$14.5 million of this reserve will be deposited in the Other Post Employment Benefit Trust Fund and per State statute, the remaining balance will be used to pay a portion of the State's \$915.8 million Economic Recovery Notes (2009 Series A) issued to finance the fiscal year 2008-09 deficit.

SOURCE: Comptroller's Office

**Table 5** shows the reconciliation of the actual cumulative unreserved General Fund balance (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting for the last five fiscal years.

**TABLE 5**  
**General Fund**  
**Unreserved Fund Balance — Budgetary (Modified Cash) Basis vs. GAAP Basis**  
**(In Millions)**  
**Fiscal Years Ending June 30**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Unreserved Fund Balance (Deficit)</b>					
<b>Modified Cash Basis</b> .....	\$ 0.0	\$ 0.0	\$ (947.6)	\$ 0.0	\$ 0.0
<b>GAAP Based Adjustments</b>					
<b>Additional Assets</b>					
Taxes Receivable					
Income Tax Accrual Reduction.....	(271.0)	(380.7)	(364.1)	(377.4)	(525.3)
Eliminate Corporation Accrual .....	(7.1)	(3.6)	(11.2)	(12.6)	(5.4)
Additional Taxes Receivable.....	<u>133.6</u>	<u>6.1</u>	<u>4.1</u>	<u>3.8</u>	<u>4.2</u>
Net Increase (Decrease) Taxes .....	(144.5)	(378.2)	(371.2)	(386.2)	(526.5)
Net Accounts Receivable .....	146.0	237.6	199.6	218.0	307.9
Federal and Other Grants Receivable <sup>(a)</sup> .....	410.9	474.5	758.5	645.4	542.1
Due From Other Funds.....	<u>22.7</u>	<u>20.3</u>	<u>27.1</u>	<u>24.8</u>	<u>19.6</u>
Total Additional Assets.....	\$ 435.1	\$ 354.2	\$ 614.0	\$ 502.0	\$ 343.1
<b>Additional Liabilities</b>					
Salaries and Fringe Payable .....	(285.0)	(299.1)	(242.5)	(250.3)	(245.9)
Accounts Payable—Department of					
Social Services .....	(628.1)	(508.0)	(585.0)	(573.0)	(711.9)
Accounts Payable—Trade & Other.....	(339.3)	(473.2)	(891.0)	(1,131.2)	(844.1)
Payable to Federal Government .....	(67.9)	(121.1)	(146.1)	(124.5)	(186.9)
Due to Other Funds .....	<u>(109.1)</u>	<u>(102.0)</u>	<u>(105.2)</u>	<u>(102.0)</u>	<u>(103.2)</u>
Total Additional Liabilities .....	\$(1,429.4)	\$(1,503.4)	\$(1,969.8)	\$(2,181.0)	\$(2,092.0)
<b>Unreserved Fund Balance (Deficit)</b>					
<b>GAAP Basis</b> .....	<u>\$ (994.3)</u>	<u>\$ (1,149.2)</u>	<u>\$ (2,303.4)</u>	<u>\$ (1,679.0)</u>	<u>\$ (1,748.9)</u>

(a) Primarily reimbursement for additional liabilities accrued to federal grant accounts or programs with federal participation, e.g., Medicaid.

SOURCE: Comptroller's Office

**Table 6** sets forth on a GAAP basis the components of the fund balance for the General Fund for the last five fiscal years.

**TABLE 6**  
**General Fund Fund Balances-GAAP Basis**  
**(In Millions)**  
**Fiscal Years Ending June 30**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Reserved:</b>					
Petty Cash .....	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ --
Budget Reserve .....	1,381.7	1,381.7	1,381.7	103.2	--
Loans & Advances to Other Funds .....	18.0	9.7	9.8	15.0	22.5
Restricted Purposes .....	80.0	179.4	--	449.9	236.9
Inventories.....	34.0	25.3	24.3	13.9	13.6
Continuing Appropriations.....	811.3	455.4	87.1	113.2	178.6
Debt Service.....	--	--	--	--	--
Total .....	<u>2,326.0</u>	<u>2,052.5</u>	<u>1,503.9</u>	<u>696.2</u>	<u>451.6</u>
<b>Unreserved:</b>	<u>(994.3)</u>	<u>(1,149.2)</u>	<u>(2,303.4)</u>	<u>(1,679.0)</u>	<u>(1,748.9)</u>
<b>Total Fund Balance .....</b>	<u>\$1,331.7</u>	<u>\$ 903.3</u>	<u>\$ (799.5)</u>	<u>\$ (982.8)</u>	<u>\$(1,297.3)*</u>

\* This figure has been revised to correct a typographical error.

SOURCE: Comptroller's Office

## STATE DEBT

### Constitutional Provisions

The State has no constitutional limit on its power to issue obligations or incur debt, except that it only may borrow for public purposes. There are no reported court decisions relating to State bonded debt other than two cases validating the legislative determination of the public purpose for improving employment opportunities and related activities. The State Constitution has never required a public referendum on the question of incurring debt. Therefore, State statutes govern the authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters.

### Types of State Debt

Pursuant to various public and special acts the State has authorized a variety of types of debt. These types fall generally into the following categories: direct general obligation debt, which is payable from the State's General Fund; special tax obligation debt, which is payable from specified taxes and other funds which are maintained outside the State's General Fund; and special obligation and revenue debt, which is payable from specified revenues or other funds which are maintained outside the State's General Fund. In addition, the State provides annual appropriation support for, or is contingently liable on, the debt of certain State quasi-public agencies and political subdivisions. See **OTHER FUNDS, DEBT AND LIABILITIES** for information concerning debt and contingent liabilities on debt other than direct general obligation debt.

### State Direct General Obligation Debt

#### *General*

***Statutory Authorization and Security Provisions.*** In general, the State issues general obligation bonds pursuant to specific bond acts and Section 3-20 of the General Statutes, the State general obligation bond procedure act. That act provides that such bonds shall be general obligations of the State and that the full faith and credit of the State are pledged for the payment of the principal of and interest on such bonds as the same become due. Such act further provides that, as a part of the contract of the State with the owners of such bonds, appropriation of all amounts necessary for the punctual payment of principal and interest on such bonds is made, and the Treasurer shall pay such principal and interest as the same become due.

There are no State Constitutional provisions precluding the exercise of State power by statute to impose any taxes, including taxes on taxable property in the State or on income, in order to pay debt service on bonded debt now or hereafter incurred. The constitutional limit on increases in General Fund expenditures for any fiscal year does not include expenditures for the payment of bonds, notes or other evidences of indebtedness. There are also no constitutional or statutory provisions requiring or precluding the enactment of liens on or pledges of State General Fund revenues or taxes, or the establishment of priorities for payment of debt service on the State's general obligation bonds. There are no express statutory provisions establishing any priorities in favor of general obligation bondholders over other valid claims against the State.

***Statutory Debt Limit.*** Section 3-21 of the General Statutes provides that no bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the General Assembly or issued except as shall not cause the aggregate amount of (1) the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but which have not been issued and (2) the total amount of such indebtedness which has been issued and remains outstanding, to exceed 1.6 times the total estimated General Fund tax receipts of

the State for the fiscal year in which any such authorization will become effective or in which such indebtedness is issued, as estimated for such fiscal year by the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding. However, in computing the aggregate amount of indebtedness at any time, there shall be excluded or deducted revenue anticipation notes having a maturity of one year or less, refunded indebtedness, bond anticipation notes, borrowings payable solely from the revenues of a particular project, the balances of debt retirement funds associated with indebtedness subject to the debt limit as certified by the Treasurer, the amount of federal grants certified by the Secretary of OPM as receivable to meet the principal of certain indebtedness, all authorized and issued indebtedness to fund any budget deficit of the State for any fiscal year ending on or before June 30, 1991 and for the fiscal years ending June 30, 2002, June 30 2003 and June 30, 2009, all authorized debt to fund the Connecticut Development Authority's tax increment bond program, any indebtedness represented by agreements entered into pursuant to certain provisions of the General Statutes, provided the indebtedness in connection with which such agreements were entered into shall be included in such aggregate amount of indebtedness, any indebtedness issued for the purpose of meeting cash flow needs, and any indebtedness issued for the purpose of covering emergency needs in times of natural disaster. For purposes of the debt limit statute, all bonds and notes issued or guaranteed by the State and payable from General Fund tax receipts are counted against the limit, except for the exclusions or deductions described above, and certain other debt specifically excluded by statute. In addition, the amount of authorized but unissued debt for the UConn 2000 program is limited to the amount permitted to be issued under the cap. See *Types of Direct General Obligation Debt — UConn 2000 Financing*.

Under the General Statutes, the Treasurer is required to compute the aggregate amount of indebtedness as of January 1 and July 1 each year and to certify the results of such computation to the Governor and the General Assembly. If the aggregate amount of indebtedness reaches 90% of the statutory debt limit, the Governor shall review each bond act for which no bonds, notes or other evidences of indebtedness have been issued, and recommend to the General Assembly priorities for repealing authorizations for remaining projects.

The total tax receipts for the fiscal year beginning July 1, 2011 as last estimated by the General Assembly's joint standing committee on finance, revenue and bonding, the calculation of the debt limit, the aggregate amount of outstanding debt and of authorized but unissued debt subject to such limit, and the debt incurring margin, all as of February 1, 2012, are described in the following table.

**TABLE 7**  
**Statutory Debt Limit**  
**As of February 1, 2012**

Total General Fund Tax Receipts	\$14,019,100,000	
Multiplier	<u>1.6</u>	
Debt Limit		\$22,430,560,000
Outstanding Debt <sup>(a)</sup>	\$10,527,078,442	
Guaranteed Debt <sup>(b)</sup>	\$ 954,300,000	
Authorized Debt <sup>(c)</sup>	<u>\$ 3,711,978,684</u>	
Total Subject to Debt Limit		\$15,193,357,126
Less Debt Retirement Funds <sup>(d)</sup>	\$ 12,847,403	
Aggregate Net Debt		\$15,180,509,723
Debt Incurring Margin		\$ 7,250,050,277

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- (a) See **Table 8**. Includes accreted value of capital appreciation bonds. Excludes General Obligation Notes (Economic Recovery 2009 Series A), Pension Obligation Bonds, UConn 2000 Bonds, tax increment financings, short term revenue anticipation notes, CCEDA Bonds, CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds, CHEFA Child Care Facilities Bonds and lease financings other than the Middletown Courthouse and the Juvenile Training School.
- (b) See **OTHER FUNDS, DEBT AND LIABILITIES – Contingent Liability Debt**. Includes only guarantees for certain outstanding debt of Southeastern Connecticut Water Authority and UConn 2000 Bonds.
- (c) Includes guarantee for UConn 2000 Bonds authorized but unissued under cap for 2011-12 fiscal year.
- (d) Includes debt service funds available for self-liquidating debt issued to finance facilities at the University of Connecticut and Connecticut State University.

SOURCE: State Treasurer’s Office

**State Bond Commission.** The general obligation bond procedure act establishes the State Bond Commission and empowers it to authorize the issuance of general obligation bonds for purposes and in amounts and subject to other limits established by the legislature in a bond act. The Commission consists of the Governor, the Treasurer, the Comptroller, the Attorney General, the Secretary of the Office of Policy and Management (“OPM”), the Commissioner of Construction Services, and the Co-Chairpersons and Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding of the General Assembly. The Secretary of OPM serves as secretary to the Commission.

Subject to satisfaction of certain conditions, the Commission may authorize the issuance of general obligation bonds by the approving vote of at least a majority of the Commission, upon a finding that such authorization will be in the best interest of the State. Upon authorization, the principal amount of bonds so authorized is deemed an appropriation of such amount for such purpose or project and, subject to allotment thereof by the Governor, contracts may be awarded and obligations incurred with respect to the project or purpose, in amounts not exceeding the authorized principal amount, notwithstanding the fact that the contracts and obligations may at a particular time exceed the amount of the proceeds from the sale of such bonds received by the State up to that time. The Commission also determines the terms and conditions of the bonds authorized or delegates such determination to the Treasurer. The Commission generally meets monthly in formal session.

### ***Types of Direct General Obligation Debt***

***Bond Acts.*** Pursuant to various public or special bond acts, the General Assembly empowers the State Bond Commission to authorize bonds for a variety of projects or purposes. Each bond act is usually specific as to its projects or purposes and the amount of bonds to be issued therefor, although each bond act may contain several projects or purposes. Each bond act also usually sets forth a maximum maturity of the bonds.

The types of projects and purposes for which the State has authorized general obligation debt include the following: acquisition, construction, renovation and improvement of buildings and facilities for State departments and agencies, educational institutions, prisons, college and university facilities, library facilities and courthouses, acquisition of development rights to preserve open space and farmland, and the provision of grants and loans to promote economic development within the State. Some bonds authorized for university and college facilities are self-liquidating, and certain fees and charges collected by the college or university are set aside and used to service the debt on these bonds. Bonds are also authorized to fund a wide variety of grant programs. Such grants are made to local governments for local school construction projects or to finance a variety of local government, economic development, highway, bridge and other capital improvement projects. Certain bonds are authorized to finance grants and loans to local housing authorities and developers of affordable housing. Other general obligation debt finances grants and loans to municipalities for design and construction of water pollution control facilities, in addition to loans that are financed under the State's Clean Water revenue bond program.

***Teachers' Retirement Fund Pension Obligation Bonds.*** Legislation passed in 2007 authorized the issuance of pension obligation bonds to fund up to \$2 billion of the unfunded accrued liability in the Teachers' Retirement Fund plus capitalized interest and issuance costs. In April 2008 the State issued \$2,277 million of such bonds. The public act also requires the State to appropriate annually the actuarially-determined annual required contribution to the Teachers' Retirement Fund, while the bonds are outstanding. The bonds are general obligations of the State, but do not count against the State's debt limit.

***UConn 2000 Financing.*** In 1995 the General Assembly established the University of Connecticut as a separate corporate entity and instrumentality of the State empowered to issue bonds and construct the infrastructure improvements contemplated by the act for the University of Connecticut. The estimated costs of the infrastructure improvements as initially set forth in the act totaled \$1,250 million to be financed over a 10-year period. The General Assembly extended the UConn 2000 financing program several times and it now runs through June 30, 2018, with total estimated project costs of \$3,068 million. The legislation authorizes the University to borrow money to finance and refinance the UConn 2000 projects, including \$262.9 million to finance a new patient tower for the John Dempsey Hospital and renovations at the University of Connecticut Health Center. Such borrowings are to be general obligations of the University payable from any revenues or assets of the University and may be secured by pledges of the University's revenues or assets other than mortgages.

The UConn 2000 projects are to be financed by \$18 million general obligation bonds of the State and \$2,732 million bonds of the University which are secured by the State's debt service commitment, which is an annual amount for any debt service requirements when due and payable. The balance of the estimated cost of UConn 2000 projects may be met by the issuance of special obligation bonds of the University or from gifts or other revenue or borrowing resources of the University. Under the enabling legislation, appropriations of all amounts of the State's debt service commitment are made out of the resources of the State's General Fund and the State Treasurer is obligated to make such payments. For this reason, all general obligation borrowings by the University are treated as part of the State's general obligation debt. The amount of the University's bonds which are secured by the State's debt service commitment is capped for each fiscal year, but any amount not used may be carried forward to future fiscal years. The cap does not apply to bonds issued to finance any special capital reserve fund or other debt service reserve fund, costs of issuance or capitalized interest. The amount of bonds issued by the University and secured by the State's debt service commitment, except for the



accreted value of any capital appreciation bonds, and the amount of bonds which are authorized to be issued in a fiscal year under the cap are counted against the State's debt limit.

The total amount of University bonds and State general obligation bonds authorized by the enabling legislation is approximately \$336.4 million less than the estimated costs of the infrastructure improvements set forth in the acts. This difference is expected to be addressed by capital cost reductions, deferring certain projects to a future date, and by securing additional funding sources, such as private fundraising and special obligation bonds. Special obligation bonds are to be secured by particular revenues of the University pledged therefore, are not subject to the cap on the University's general obligation bonds and are not counted against the State's debt limit.

The form of master resolution for bonds secured by the State's debt service commitment must be approved by the State Bond Commission, as must any substantive amendment thereto. Each resolution approved by the University to borrow money, including bonds secured by the State's debt service commitment, may be rejected by the Governor within thirty days of submission. All borrowing by the University is to be undertaken by the State Treasurer.

***Lease Financing.*** The State has issued certificates of participation for the development of courthouse facilities and an energy facility at a juvenile training school, each based upon State rental payments under a lease purchase agreement between the State and the project developer. The State has treated this method of lease financing as general obligation debt. However, the State has entered into other leasing arrangements for the development of government facilities which are not treated as general obligation debt, most often in circumstances where the lease is a standard lease or the State is not a participant in the securitization of rental payments under the lease.

***Tax Increment Financing.*** In 1992 the General Assembly authorized the Connecticut Development Authority to issue tax increment bonds for certain types of economic development projects. Under the program the amount of such bonds that may be issued is limited so that the debt service on the bonds may not exceed the estimated increases in the sales tax and the admissions, cabaret and dues taxes generated by the project and allocated by the Authority for debt service on the bonds. Under the General Statutes, debt service on the bonds is required to be paid from such tax receipts (whether or not the actual tax receipts equal or exceed the estimated amount) and is deemed appropriated from the General Fund. The State has classified such tax increment bonds as general obligation debt. No such tax increment bonds may be issued without the approval of the State Bond Commission and no commitments for new projects under this program may be approved by the Authority on or after July 1, 2012.

***Supportive Housing Financing.*** In 2005 the General Assembly directed the Connecticut Housing Finance Authority ("CHFA") in conjunction with other state agencies to develop a collaborative plan to create affordable housing and support services for specified eligible persons and families up to a specified number of units. The program is to be funded in part through mortgages, tax credits and grants from CHFA and the Department of Economic and Community Development. CHFA is authorized to issue bonds in support of the program and the State Bond Commission has authorized the Treasurer and OPM to enter into a contract to provide State assistance and pay debt service on the bonds in the form of payments of principal, interest, interest swap payments, liquidity fees, letter of credit fees, trustee fees and other similar bond-related expenses. Bonds supported by such State assistance shall not exceed \$105 million in the aggregate. As of February 1, 2012, \$76.72 million of such bonds were outstanding. Any provision in the contract providing for the payment of annual debt service will constitute a full faith and credit obligation of the State, and any bonds for which the State provides assistance will be excluded from the State's debt limit.

***Emergency Mortgage Assistance Program.*** In 2008 the General Assembly authorized CHFA to issue up to \$50 million of bonds to fund an Emergency Mortgage Assistance Program and required the Treasurer and the Office of Policy and Management to enter into a contract to provide State assistance to pay debt service on such bonds in the form of payments of principal, interest, interest swap payments, liquidity fees,

letter of credit fees, trustee fees and similar bond-related expenses. As of February 1, 2012, \$49.17 million of such bonds were outstanding and the entire \$50 million authorized was issued. Any provision in the contract providing for the payment of annual debt service will constitute a full faith and credit obligation of the State, and any bonds for which the State provides assistance will be excluded from the State's debt limit.

***Economic Recovery Notes.*** In 2009 the General Assembly authorized the Treasurer to issue notes to fund the State's budget deficit for the fiscal year ending June 30, 2009, to pay costs of issuance of such notes and certain interest payable or accrued on such notes and to exempt these notes from the overall limit on state debt. In December 2009, the State issued \$915,795,000 of such Economic Recovery Notes. As of February 1, 2012, \$747.94 million of such Economic Recovery Notes remain outstanding. Pursuant to legislation enacted in 2009, \$222.4 million of the fiscal year 2011 operating surplus has been reserved for payment of such Economic Recovery Notes.

***Certain Short-Term Borrowings.*** The General Statutes authorize the Treasurer, subject to the approval of the Governor, to borrow such funds, from time to time, as may be necessary, and to issue obligations of the State therefor, which shall be redeemed by the Treasurer whenever, in the opinion of the Treasurer, there are funds in the treasury available for such purpose, or not later than two years from the date of issuance, whichever is earlier. The State has established programs of temporary note issuances from time to time to cover periodic cash flow requirements. In 2009 the Treasurer arranged with a group of banks a 364-day revolving credit facility in the amount of \$580 million. The State did not seek to extend the 364-day revolving credit facility which expired on June 17, 2010. No temporary notes are outstanding and none have been issued since 1991.

***Forms of Debt.*** In addition to the bonds, notes and lease financings described above, the State Treasurer has the authority to issue refunding bonds, bond anticipation notes, and capital appreciation bonds. The State general obligation bond procedure act provides that the Treasurer may issue temporary notes and any renewals thereof in anticipation of the proceeds from the sale of bonds whenever the State Bond Commission has adopted a resolution authorizing bonds. The Treasurer is also authorized by the State general obligation bond procedure act to issue refunding bonds whenever the Treasurer finds that the sale is in the best interests of the State and that the State reasonably expects to achieve net debt service savings as a result of such refunding. Certain of the State's general obligation bonds have been issued as capital appreciation bonds. Capital appreciation bonds are issued at a deep discount and interest on the bonds is compounded semi-annually and only paid at maturity. For purposes of the State's debt tables, the interest which has accrued on capital appreciation bonds up to the date of the table is added to the principal amount of the State's debt. Pursuant to State statute, accrued interest on UConn 2000 capital appreciation bonds is excluded from the calculation of the statutory debt limit.

***Derivatives.*** The Treasurer, with the authorization of the State Bond Commission, has the power to enter into reimbursement and similar agreements in connection with liquidity or credit facilities and to pledge the full faith and credit of the State or other collateral to secure the State's payment obligations under any such agreement. The Treasurer, with the authorization of the State Bond Commission, has the power to enter into contracts to place the obligation of the State as represented by bonds or notes of the State, on such interest rate or cash flow basis as the Treasurer may determine, including swap agreements and other arrangements to manage interest rate risk. When any such arrangement is entered, the counter party to the arrangement must have a rating on its unsecured long-term obligations which is the same as or higher than the underlying rating of the State on the applicable bonds. The State Bond Commission may authorize the Treasurer to pledge the full faith and credit of the State and any other collateral pledged to secure the applicable bonds to also secure the State's payment obligations under any such contract.

The State has entered into swap agreements in connection with various bond issues. The swap agreements typically provide for early termination in certain events, and such "termination events" could result in the State being required to make unanticipated termination payments. Such payments, if any are due, may be substantial. In some cases the State has up to 270 days to make any such termination payments. The

amounts payable to each swap provider under the respective swap agreement, including any termination payments, will be general obligations of the State. The State is obligated to make debt service payments on its bonds regardless of the performance of the swap provider of its obligations under the swap agreement. Listed below is a summary of the various swap agreements the State has entered into in connection with its general obligation bonds. See also **Appendix C, Note 19 – Derivative Financial Instruments**.

<b>Swap Agreements</b>			
<u>Bond Issue</u>	<u>Notional Amount</u>	<u>Termination Date</u>	<u>Fixed Rate Paid by State</u>
2001 Series B	\$ 20,000,000	June 15, 2012	4.33%
2005 Series A	\$140,000,000	March 1, 2023*	3.392
2005 Series A	\$140,000,000	March 1, 2023*	3.401
2005 Series B	\$ 15,620,000	June 1, 2016	3.99
2005 Series B	\$ 20,000,000	June 1, 2017	5.07
2005 Series B	\$ 20,000,000	June 1, 2020	5.20

\*Starting in 2015 the State has the option to terminate the then remaining portion of these swap agreements without making a termination payment.

***Debt Statement***

The following table shows all direct general obligation indebtedness (including the accreted value of capital appreciation bonds) as of February 1, 2012 for the payment of the principal and interest on which the State has pledged its full faith and credit or which is otherwise payable from the State’s General Fund.

**TABLE 8**  
**Direct General Obligation Indebtedness<sup>(a)</sup>**  
**Principal Amount Outstanding as of February 1, 2012**  
**(In Thousands)**

General Obligation Bonds	\$ 11,202,268
Pension Obligation Bonds	2,321,994
UConn 2000 Bonds	952,965
Other <sup>(b)</sup>	<u>221,915</u>
Long Term General Obligation Debt Total	14,699,142
Short Term General Obligation Debt Total	<u>0</u>
Gross Direct General Obligation Debt	14,699,142
Deduct:	
University Auxiliary Services <sup>(c)</sup>	<u>12,847</u>
Net Direct General Obligation Debt	<u><u>\$14,686,295</u></u>

(a) The table does not include refunded bonds for which escrow funds and investments are sufficient to pay all debt service. The table also does not include limited or contingent liabilities of the State or obligations of the State to towns for participation in the construction and alteration of school buildings. See **OTHER FUNDS, DEBT AND LIABILITIES**.

(b) “Other” includes lease financings, tax incremental financings, CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds. Does not include CCEDA Bonds or CHEFA Child Care Facilities Bonds. See **OTHER FUNDS, DEBT AND LIABILITIES – Other Debt Service and Contractual Commitments**.

(c) Considered self-liquidating. The proceeds of such bonds have been used to build facilities for the State University System and the University of Connecticut. Student fees, other than tuition, for use of such facilities, are deposited into enterprise funds and are used for the operation of such facilities and for deposit annually into a debt service fund maintained by the Treasurer for payment of the debt service on such bonds.

SOURCE: State Treasurer’s Office

### *Debt Ratios*

The following table sets forth certain ratios relating to the State's gross and net direct general obligation indebtedness:

**TABLE 9**  
**Debt Ratios - Long Term General Obligation Debt**  
**As of June 30**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Gross Direct Debt <sup>(a)</sup>	\$10,615,810	\$13,076,942	\$13,945,108	\$15,004,732	\$14,574,791
Net Direct Debt <sup>(a)</sup>	\$10,580,359	\$13,042,524	\$13,921,725	\$14,987,088	\$14,561,944
Ratio of Debt to Personal Income <sup>(b)</sup>					
Gross Direct Debt	5.39%	6.47%	7.30%	7.66%	7.44%
Net Direct Debt	5.37%	6.46%	7.29%	7.65%	7.43%
Ratio of Debt to Estimated Full Value of Equalized Grand List <sup>(c)</sup>					
Gross Direct Debt	1.79%	2.29%	2.37%	2.74%	2.71%
Net Direct Debt	1.79%	2.28%	2.36%	2.74%	2.71%
Per Capita Debt <sup>(d)</sup>					
Gross Direct Debt	\$3,010	\$3,688	\$3,915	\$4,197	\$4,070
Net Direct Debt	\$3,000	\$3,678	\$3,908	\$4,192	\$4,066

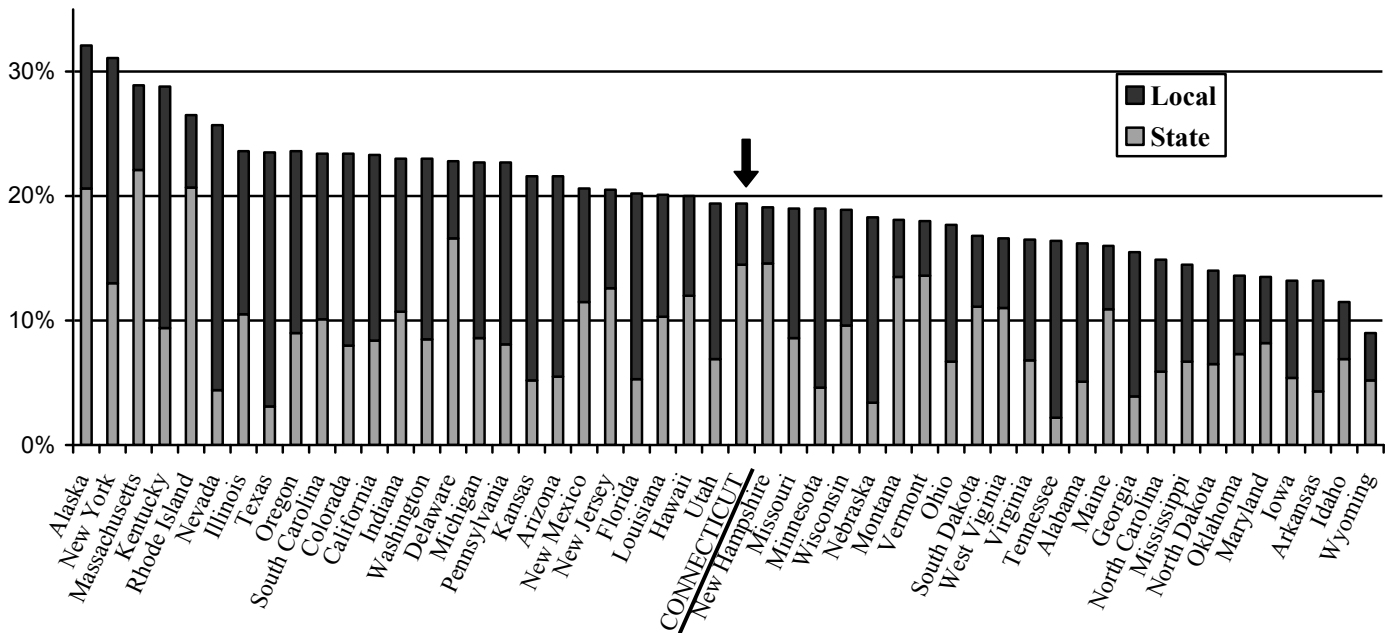
- (a) In thousands. Includes gross and net long-term direct general obligation bonded indebtedness as set out in **Table 11**. 2008 figures include \$2,278,382,011 Pension Obligation Bonds. 2009 figures include \$2,289,598,815 Pension Obligation Bonds. 2010 figures include \$2,301,522,318 Pension Obligation Bonds and \$915,795,000 Economy Recovery Notes. 2011 Figures include \$2,317,525,471 Pension Obligation Bonds and \$915,795,000 Economic Recovery Notes.
- (b) See **Appendix III-B, Table B-2**. Personal Income: 2007 — \$197 billion; 2008 — \$202 billion, 2009 — \$191 billion and 2010 — \$196 billion. The 2011 ratio uses 2010 data.
- (c) Full value estimated by OPM. Uses final equalized net grand lists: 2005 — \$592.4 billion; 2006 — \$571.7 billion; 2007 — \$589.4 billion, 2008 — \$547.4 billion and 2009 — \$537.2 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 2007 ratio uses 2005 data; 2008 ratio uses 2006 data ; 2009 ratio uses 2007 data, 2010 ratio uses 2008 data and 2011 ratio uses 2009 data.
- (d) See **Appendix III-B, Table B-1**. State population in thousands: 2007 — 3,527; 2008 — 3,546; 2009 — 3,562; 2010 — 3,575; and 2011 — 3,581.

### *Aggregate State and Local Debt*

The following chart sets forth the per capita aggregate debt level of each state, including debt issued at both the state and local levels, compared to per capita personal income within the state. As the chart shows, the State of Connecticut is 25<sup>th</sup> among all states in a ranking of states with the least aggregate debt per capita as a percentage of per capita personal income. The chart below also indicates that the State has the sixth lowest ratio of per capita local debt to per capita personal income and fifth lowest ratio of local debt to aggregate debt. This is due in part to the State's practice of financing school construction primarily at the state level and the lack of county-level government in the State.

TABLE 9a<sup>(a)(b)</sup>

Combined State and Local Debt Compared to State Personal Income



- (a) The percentages along the vertical axis are calculated by dividing per capita aggregate debt over per capita personal income. Population figures used in the underlying calculations are the population estimates as of July 1, 2011 from the U.S. Census Bureau, Population Division. State and local debt figures used in the underlying calculations are from the U.S. Census Bureau, 2009 Annual Surveys of State and Local Finances. Per capita income figures used in the underlying calculations are from the Bureau of Economic Analysis, which used data from 2010.
- (b) The Census Bureau state and local debt figures include debt obligations of all dependent agencies of the state and local government, respectively, including agencies, boards, commissions, or other organizations, regardless of the responsibility for debt service. This differs from the components of debt in other places within this Annual Information Statement.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis; U.S. Census Bureau

**Debt Service Schedule**

The following table sets forth the principal, sinking fund and interest payments required on all outstanding long-term direct general obligation debt of the State, as of February 1, 2012. Although not specifically reflected as a result of combining all outstanding long-term direct debt, the State generally issues general obligation bonds maturing within twenty years. The exceptions include thirty-year Rental Housing Term Bonds and certain other bonds with maturities of less than twenty years where required by statute or in instances where the expected period of usefulness of the project or purpose financed does not warrant a maturity of twenty years.

**TABLE 10**  
**Summary of Principal, Mandatory Sinking Fund Payments,**  
**and Interest on Long-Term Direct General Obligation Debt<sup>(a)</sup>**  
**As of February 1, 2012**

<u>Fiscal Year</u>	<u>Principal Payments<sup>(b)</sup></u>	<u>Interest Payments<sup>(b,c)</sup></u>	<u>Total Debt Service</u>
2012	\$ 499,680,396	\$ 313,396,098	\$ 813,076,494
2013	1,166,169,369	690,319,491	1,856,488,860
2014	1,124,415,017	626,252,769	1,750,667,787
2015	1,105,331,365	564,981,620	1,670,312,985
2016	1,081,190,061	515,740,581	1,596,930,642
2017	832,424,988	467,673,974	1,300,098,962
2018	824,737,299	431,245,491	1,255,982,790
2019	774,146,471	390,777,763	1,164,924,234
2020	653,365,614	356,812,473	1,010,178,087
2021	676,976,206	322,771,163	999,747,369
2022	660,909,111	340,913,647	1,001,822,758
2023	683,351,122	319,564,657	1,002,915,779
2024-2032	<u>4,522,006,503</u>	<u>1,301,653,443</u>	<u>5,823,659,946</u>
<b>Totals</b>	<b>\$ 14,604,703,522</b>	<b>\$ 6,642,103,171</b>	<b>\$ 21,246,806,693</b>

- (a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments (\$14,604,703,762), plus accreted interest (\$94,438,834), total the amount of such long-term debt (\$14,699,142,596) as shown in **Table 8**. See footnotes (b) and (c) for further explanation.
- (b) Principal payments include aggregate stated initial values of capital appreciation bonds. Interest payments include the difference between the aggregate stated initial values and the aggregate maturity amounts of capital appreciation bonds, including capital appreciation bonds issued pursuant to the College Savings Bond Program. Capital appreciation bonds mature in fiscal years 2012-2025.
- (c) Some of the State's direct debt pays interest at variable rates. The interest on such debt is calculated based on the following assumed average rates:

<u>Year Issued</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Maturities</u>	<u>Interest Rate</u>
1997	\$ 100,000,000	\$ 30,000,000	2012-2014	4.25%
2001	100,000,000	100,000,000	2018-2021	3.50
2001*	20,000,000	20,000,000	2012	4.33
2003	77,700,000	17,900,000	2012-2013	5.50
2005*	300,000,000	280,000,000	2016-2023	4.50
2005*	15,620,000	15,620,000	2016	3.99
2005*	20,000,000	20,000,000	2017	5.07
2005*	20,000,000	20,000,000	2020	5.20
2008	50,000,000	12,500,000	2012	3.50
2011	337,620,000	337,620,000	2012-2018	3.50
2011	75,000,000	75,000,000	2016, 2019	3.50

\* Assumed average interest rate based on interest rate swap agreement(s), including projected basis risk.

SOURCE: State Treasurer's Office

***Outstanding Long-Term Direct General Obligation Debt***

The following table and graph sets forth the total long-term direct general obligation debt outstanding and the net long-term direct general obligation debt outstanding at the end of each of the last ten fiscal years. Net debt excludes bonds that are considered self-liquidating. See **Table 8**.

**TABLE 11**  
**Outstanding Long-Term Direct General Obligation Debt**  
**As of June 30**  
**(In Thousands)**

<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>	<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>
2002	\$ 8,623,009	\$ 8,496,151	2007	\$10,615,810	\$10,580,359
2003	9,513,380 <sup>(a)</sup>	9,463,962 <sup>(a)</sup>	2008	13,076,942 <sup>(e)</sup>	13,042,524 <sup>(e)</sup>
2004	9,940,945 <sup>(b)</sup>	9,895,717 <sup>(b)</sup>	2009	13,945,108 <sup>(f)</sup>	13,921,725 <sup>(f)</sup>
2005	10,168,006 <sup>(c)</sup>	10,121,035 <sup>(c)</sup>	2010	15,004,732 <sup>(g)</sup>	14,987,088 <sup>(g)</sup>
2006	10,403,634 <sup>(d)</sup>	10,361,226 <sup>(d)</sup>	2011	14,574,791 <sup>(h)</sup>	14,561,944 <sup>(h)</sup>

- (a) Includes \$219,235,000 Economic Recovery Notes.
- (b) Includes \$273,215,000 Economic Recovery Notes.
- (c) Includes \$209,560,000 Economic Recovery Notes.
- (d) Includes \$146,090,000 Economic Recovery Notes.
- (e) Includes \$2,278,382,011 Pension Obligation Bonds.
- (f) Includes \$2,289,598,815 Pension Obligation Bonds.
- (g) Includes \$2,301,522,318 Pension Obligation Bonds and \$915,795,000 Economic Recovery Notes.
- (h) Includes \$2,317,525,471 Pension Obligation Bonds and \$915,795,000 Economic Recovery Notes.

SOURCE: State Treasurer's Office

***Future Issuance of Direct General Obligation Debt***

***Authorized But Unissued Direct General Obligation Debt.*** The General Assembly has empowered the State Bond Commission to authorize direct general obligation bonds pursuant to certain bond acts. The table below shows, as of February 1, 2012, the amount of bonds authorized by bond acts in effect, the amount the State Bond Commission has authorized, the amount of bonds issued pursuant to State Bond Commission authorizations, the balance remaining authorized but unissued and the balance available for authorization. The table shows the same information for UConn 2000 bonds secured by the State's debt service commitment authorized to be issued under the cap through June 30, 2012.

**TABLE 12**  
**Authorized but Unissued Direct General Obligation Debt**  
**As of February 1, 2012**  
**(In Thousands)**

	<u>State Direct Debt<sup>(a)</sup></u>	<u>Pension Obligation Bonds<sup>(b)</sup></u>	<u>UCONN 2000<sup>(c)</sup></u>	<u>Tax Increment<sup>(d)</sup></u>	<u>Total</u>
Bond Acts in Effect	\$26,721,855	\$2,276,578	\$1,694,792	\$52,750	\$30,745,975
Amount Authorized	24,598,897	2,276,578	1,694,792	52,750	28,623,017
Amount Issued	23,104,416	2,276,578	1,598,792	49,155	27,028,942
Authorized but Unissued	1,494,480	0	96,000	3,595	1,594,075
Available for Authorization	2,122,958	0	0	0	2,122,958

- (a) Includes CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds, and excludes CCEDA Bonds, CHEFA Child Care Facilities Bonds, General Obligation Notes (Economic Recovery 2009 Series A) and lease financings.
- (b) The amount available does not include additional amounts which may exceed the cap to finance issuance costs and capitalized interest.
- (c) Includes bonds which may be issued under the cap in effect on the date of the table. The amount available for authorization does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. The amount issued has been adjusted to reflect increases due to closing costs and decreases due to premiums.
- (d) The amount of tax increment bonds authorized is based on the amount authorized by the State Bond Commission, since there is no statutory amount of authorization.

SOURCE: State Treasurer's Office; Office of Policy and Management

***Bond Authorizations and Reductions.*** The General Assembly authorizes bonds in various public and special acts each year or each biennium. In addition to authorizing bonds for new projects and purposes, the General Assembly reviews prior authorizations and may repeal certain projects and bond authorizations or otherwise reduce prior bond authorizations. The table and graph below list the amount of new authorizations of general obligation debt which take effect during the fiscal year listed, and the net amount after subtracting prior bond authorizations which have been repealed or reduced. Pension obligation bonds and economic recovery notes are not included since they are not recurring authorizations.



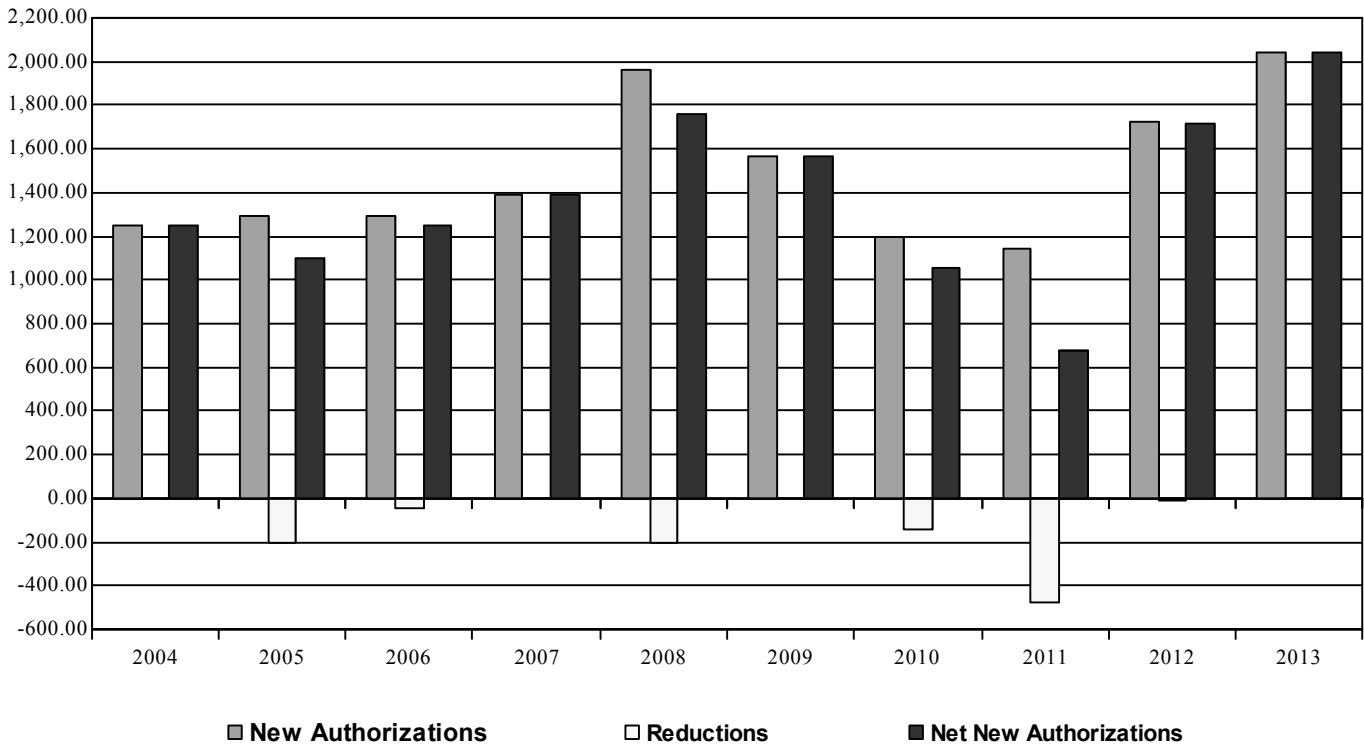
**TABLE 13**  
**Statutory General Obligation Bond Authorizations and Reductions<sup>(a)</sup>**  
**(In Millions)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
New Authorizations	\$1,246.1	\$1,296.5	\$1,290.4	\$1,388.7	\$1,965.0	\$1,564.5	\$1,195.4	\$1,147.2	\$1,724.8	\$2,038.3
Reductions	<u>0.0</u>	<u>(200.3)</u>	<u>(41.3)</u>	<u>0.0</u>	<u>(206.9)</u>	<u>0.0</u>	<u>(140.5)</u>	<u>(474.6)</u>	<u>(10.8)</u>	<u>0.0</u>
Net New Authorizations	\$1,246.1	\$1,096.2	\$1,249.1	\$1,388.7	\$1,758.1	\$1,564.5	\$1,054.9	\$ 672.6	\$1,714.0	\$2,038.3

(a) Does not include Pension Obligation Bonds, Economic Recovery Notes, lease financings, tax increment or cash flow borrowings. Includes amount for UConn 2000 available under the cap for 2004 through 2013, as amended, but does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Amounts are listed in the fiscal year that the bond authorizations become effective. Does not include any authorizations which take effect after 2013. See Table 14.

SOURCE: Office of Policy and Management

**Statutory Bond Authorizations and Reductions**  
**(In Millions)**



**Purposes of Recent Bond Authorizations.** The purposes for which the State issues its general obligation bonds include those described in the next table. The amounts authorized for each of these purposes for recent fiscal years is reflected in the following table, including amounts authorized for UConn 2000. The table does not reflect any statutory reductions of authorized items from prior years, nor are tax increment or cash flow borrowings, CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds, CHEFA Child Care Facilities Bonds, lease financings, economic recovery notes or pension obligation bonds included.

**TABLE 14<sup>(a)</sup>**  
**New Agency Authorizations (Does Not Include Reductions)**  
**(In Thousands)**

<b>Purpose</b>	<b>2007-2008</b>	<b>2008-2009</b>	<b>2009-2010<sup>(d)</sup></b>	<b>2010-2011<sup>(d)</sup></b>	<b>2011-2012<sup>(d)</sup></b>	<b>2012-2013<sup>(d)</sup></b>
Office of Policy and Management <sup>(e)</sup> .....	\$ 136,900	\$ 106,500	\$ 85,000	\$ 117,500	\$ 126,700	\$ 144,620
Secretary of the State.....	0	0	0	0	3,000	2,000
State Comptroller.....	960	1,115	0	0	15,000	7,000
Attorney General.....	0	0	0	0	2,125	0
Revenue Services.....	2,950	0	0	0	0	0
Special Revenue <sup>(e)</sup> .....	220	0	0	0	0	0
Information Technology <sup>(e)</sup> .....	12,910	6,311	0	0	0	0
Veterans Affairs.....	1,250	1,000	0	0	2,000	0
Administrative Services <sup>(e)</sup> .....	0	0	0	0	35,000	34,000
Public Works <sup>(e)</sup> .....	53,200	30,600	2,500	2,500	0	0
Construction Services <sup>(e)</sup> .....	0	0	0	0	543,900	601,800
Public Safety <sup>(e)</sup> .....	18,385	11,965	0	0	0	0
Fire Prevention and Control <sup>(e)</sup> .....	0	0	0	0	0	0
Emergency Management and Homeland Security <sup>(e)</sup> .....	250	0	0	0	0	0
Emergency Services and Public Protection <sup>(e)</sup> .....	0	0	0	0	6,000	2,212
Motor Vehicles.....	14,000	0	3,000	0	0	0
Military.....	2,000	1,500	1,000	1,000	8,250	5,000
Agriculture.....	8,500	10,000	2,500	10,500	15,000	10,000
Agricultural Experiment Station.....	1,800	9,000	0	0	3,500	0
Public Utility Control <sup>(e)</sup> .....	50,000	0	0	0	0	0
Environmental Protection <sup>(e)</sup> .....	212,746	152,100	81,000	40,000	0	0
Energy and Environmental Protection <sup>(e)</sup> .....	0	0	0	0	161,600	133,000
Labor.....	0	0	0	1,300	10,000	10,000
Culture and Tourism <sup>(e)</sup> .....	18,498	4,600	0	0	0	0
Economic and Community Development <sup>(e)</sup> :						
Housing.....	11,000	9,000	0	0	55,000	25,000
Housing Trust Fund.....	20,000	30,000	20,000	0	25,000	25,000
Economic Development.....	59,100	63,000	0	0	236,000	355,000
Other.....	58,930	25,278	12,000	6,100	5,000	5,000
Connecticut Innovations, Incorporated.....	92,000	12,000	0	5,000	59,163	110,113
Public Health.....	46,779	0	7,000	0	2,000	2,000
Developmental Services.....	5,000	5,000	0	2,500	7,000	7,000

<b>Purpose</b>	<b>2007-2008</b>	<b>2008-2009</b>	<b>2009-2010<sup>(d)</sup></b>	<b>2010-2011<sup>(d)</sup></b>	<b>2011-2012<sup>(d)</sup></b>	<b>2012-2013<sup>(d)</sup></b>
Mental Health and						
Addiction Services.....	12,100	6,000	0	0	8,000	10,000
Social Services.....	12,496	1,000	5,000	0	10,000	10,000
Education <sup>(e)</sup> .....	746,550	658,900	694,300	646,200	34,250	28,000
State Library.....	10,428	8,500	0	0	0	0
Charter Oak State College <sup>(e)</sup> .....	0	0	2,500	0	0	0
Regional Community-						
Colleges <sup>(e)</sup> .....	53,681	70,719	3,366	56,129	0	0
State University System <sup>(e)</sup> .....	80,000	0	0	0	0	0
Board of Regents for Higher						
Education <sup>(e)</sup> .....	0	0	0	0	57,321	76,723
Correction.....	11,000	42,095	0	0	0	0
Children & Families.....	24,232	22,415	32,700	0	6,751	6,285
Judicial.....	51,325	23,500	0	0	11,000	11,000
CPTV.....	2,500	0	0	0	0	0
Legislative Management.....	6,810	1,450	0	9,000	0	0
UConn.....	0	0	0	0	18,000	154,500
UConn 2000 <sup>(b)</sup> .....	115,000	140,000	140,500	146,500	157,200	143,000
Transportation.....	11,500	16,000	8,000	8,000	6,000	25,000
CSUS 2020 <sup>(c)(e)</sup> .....	0	95,000	95,000	95,000	95,000	95,000
<b>Totals</b> .....	<b>\$1,965,000</b>	<b>\$1,564,548</b>	<b>\$1,195,366</b>	<b>\$1,147,229</b>	<b>\$1,724,760</b>	<b>\$2,038,253</b>

- (a) Does not include authorizations which take effect after fiscal year 2012-13. Does not include Pension Obligation Bonds, Economic Recovery Notes, tax increment or cash flow borrowings, CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds, CHEFA Child Care Facilities bonds, or lease financings.
- (b) To be issued by University of Connecticut based on cap for the year indicated prior to actual bond issuance. Does not include additional amounts which may exceed cap to finance reserve funds, issuance costs and capitalized interest.
- (c) The Connecticut State University Infrastructure Act authorizes \$95 million per year from FY 2008-09 through FY 2017-18.
- (d) Includes authorizations enacted in prior years that become effective during the biennium.
- (e) During the 2011 session of the General Assembly the following agency consolidations and realignment of programs were prescribed: The Department of Public Works was eliminated and its responsibilities were divided among the Department of Administrative Services and the newly created Department of Construction Services. The Division of Special Revenue was consolidated into the Department of Consumer Protection. The Department of Information Technology was consolidated into the Department of Administrative Services. The Department of Construction Services was created and assumed the design and construction duties of the former Department of Public Works, the Building Inspection and Fire Marshal duties of the former Department of Public Safety and the Bureau of School Facilities of the Department of Education. The Department of Emergency Services and Public Protection was created and assumed the duties of the former Department of Public Safety, the former Department of Emergency Management and Homeland Security, the former Commission on Fire Prevention and Control and the former Police Officer Standards and Training Council. The Commission on Culture and Tourism was consolidated into the Department of Economic and Community Development. The Department of Energy and Environmental Protection was created and assumed the duties of the Department of Environmental Protection, the former Department of Public Utility Control and the energy division of the Office of Policy and Management. The Board of Regents for Higher Education was created and Charter Oak State College, the Community College System and the State University System were consolidated under the administration of the Board of Regents. Additional consolidations have been proposed in the 2012 session of the General Assembly

SOURCE: Office of Policy and Management

## OTHER FUNDS, DEBT AND LIABILITIES

The State conducts certain of its operations through State funds other than the State General Fund and, pursuant to legislation, may issue debt secured by the special taxes or revenues pledged to certain of such funds. In addition, the State is contingently liable or has limited liability, from the resources of the State's General Fund, for payment of debt service on certain obligations of quasi-public State agencies and municipalities of the State. The State also has committed to apply moneys for debt service on loans to finance child care facilities. The State also has made commitments to municipalities to make future grant payments for school construction projects, payable over a period of years, and has certain other contingent liabilities for future payments.

### Transportation Fund and Debt

In 1984 the State adopted legislation establishing a transportation infrastructure program and authorizing special tax obligation ("STO") bonds to finance the program. The infrastructure program is a continuous program for planning, construction and improvement of State highways and bridges, projects on the interstate highway system, alternate highway projects in the interstate highway substitution program, waterway facilities, mass transportation and transit facilities, aeronautic facilities (excluding Bradley International Airport; however, see **Other Special Revenue Funds and Debt - Bradley Airport**), the highway safety program, maintenance garages and administrative facilities of the Department of Transportation, payment of the State's share of the costs of the local bridge program established under the act, and payment of State contributions to the local bridge revolving fund established under the act. The infrastructure program is administered by the Department of Transportation.

The cost of the infrastructure program for State fiscal years 1985-2016, which will be met from federal, State, and local funds, is currently estimated at \$29.1 billion. The State's share of such cost, estimated at \$11.9 billion, is to be funded from transportation related taxes, fees and revenues deposited in the Special Transportation Fund, as described below, and from the proceeds of STO bonds. The portion of State program costs not financed by STO bonds is estimated at \$0.7 billion and includes the expenses of the infrastructure program which either are not sufficiently large or do not have a long enough life expectancy to justify the issuance of long-term bonds. Such expenses currently include liquid resurfacing, minor bridge repairs, highway maintenance activities, safety improvements, and other minor transportation improvements.

The State's share of the cost of the Infrastructure Program for State fiscal years 1985-2016 to be financed by STO bonds currently is estimated at \$11.2 billion. The actual amount may exceed \$11.2 billion in order to finance reserves and cost of issuance amounts. The issuance of such STO bonds has eliminated the need for the authorization of additional general obligation bonds of the State for surface transportation purposes. STO bonds also may be issued for the purpose of refunding general obligation bonds of the State issued for transportation infrastructure purposes.

During fiscal years 1985-2013, \$25.9 billion of the total infrastructure program was approved by the appropriate governmental authorities. The remaining \$3.2 billion is required for fiscal years 2014-2016. The \$3.2 billion of such infrastructure costs is anticipated to be funded by the issuance of \$966 million in STO bonds, \$68 million in anticipated revenues, and \$2.2 billion in anticipated federal funds.

The State has established the Special Transportation Fund for the purpose of budgeting and accounting for all transportation related taxes, fees and revenues credited to such Fund and securing the STO bonds. STO bonds are payable solely from revenues of the Special Transportation Fund. The aggregate of certain motor fuel taxes, motor vehicle receipts, motor vehicle related licenses, permits and fees, and portions of the oil companies tax and sales tax on motor vehicles and other transportation related revenue sources, including enacted adjustments to all the foregoing sources, and any direct pay federal interest subsidy received by the State in connection with the issue of any taxable STO bonds (Build America Bonds) are intended to cover the cost of the State's share of the infrastructure program, including debt service requirements. After

providing for debt service requirements, the balance of the receipts from such revenue sources may be applied to the payment of general obligation bonds of the State issued for transportation purposes and for the payment of annually budgeted expenses of the Department of Transportation and the Department of Motor Vehicles.

The table below shows, as of February 1, 2012, the amount of STO bonds authorized by bond acts in effect, the amount the State Bond Commission has authorized, the amount of bonds issued pursuant to State Bond Commission authorizations, the balance remaining authorized but unissued, the balance available for authorization, and the amount outstanding. It is anticipated that additional STO bonds will be authorized by the General Assembly annually in an amount necessary to finance and to complete the infrastructure program. Such additional bonds may be issued on an equal rank with the outstanding bonds provided certain pledged revenue coverage requirements of the STO indentures controlling the issuance of such bonds are met. The State expects to continue to offer bonds for this program.

**TABLE 15**  
**Special Tax Obligation Bonds**  
**As of February 1, 2012**  
**(In Millions)**

	<u>New Money</u>	<u>Refundings<sup>(a)</sup></u>	<u>Total</u>
<b>Bond Acts in Effect</b>	\$ 10,520	N/A	\$ 10,520
<b>Amount Authorized</b>	10,020	N/A	10,020
<b>Amount Issued</b>	7,518	3,762	11,280
<b>Authorized but Unissued</b>	2,502	N/A	2,502
<b>Available for Authorization</b>	500	N/A	500
<b>Amount Outstanding</b>	2,789	498	3,287

(a) Refunding Bonds do not require legislative approval.

SOURCE: State Treasurer's Office

In addition to STO Bonds, the State has issued direct general obligation bonds for transportation purposes and the debt service on these bonds may be paid from resources of the Special Transportation Fund provided there is sufficient funding first to pay all STO debt service. For the year ended June 30, 2011 the Special Transportation Fund paid \$1.0 million of State direct general obligation transportation debt service payments. The amount budgeted by the Special Transportation Fund for State direct general obligation transportation debt service payments for fiscal year 2011-12 is \$1.2 million.

The Special Transportation Fund's revenues and expenses undergo periodic legislative adjustment. In 2011 legislation (i) increased the base diesel tax rate to 29 cents per gallon, for an annual revenue gain of \$8.7 million, (ii) reduced the transfer to the Transportation Strategy Board by \$0.3 million annually, (iii) increased the sales tax rate from 6.0% to 6.35%, which will impact revenue collection, (iv) increased the scheduled transfers to the Fund from the State's General Fund from Oil Companies Tax revenue by \$61.6 million to \$226.9 million in fiscal year 2011-12, by \$34.1 million to a total of \$199.4 million in fiscal year 2012-13, and positively thereafter through fiscal year 2015-16, and (v) adjusted various transportation related fees which are projected to result in an additional \$19.2 million in fiscal year 2011-12 and \$19.1 million in fiscal year 2012-13. The 2011 legislation also reduced the transfer from the General fund by \$42.5 million in fiscal year 2011-12 to a total of \$81.55 million. Future transfers remain unchanged at \$172.8 million. In the aggregate, these changes are projected to result in net revenue gains in the Fund of \$48.3 million in fiscal year 2011-12 and \$62.2 million in fiscal year 2012-13.

A Transportation Strategy Board (“TSB”) was established in 2001 to propose a transportation strategy, an implementation cost estimate and funding approaches to the Governor and General Assembly. In order to implement the strategy-related projects submitted by the TSB, legislation was passed in 2005 that established fixed transfers from the Special Transportation Fund to the TSB project accounts in the amounts of \$25.3 million in fiscal year 2005-06, \$20.3 million in fiscal year 2006-07, \$15.3 million in each of fiscal years 2007-08 through 2014-15 and \$.3 million in fiscal year 2015-16 and thereafter. In September 2007 legislation authorized the transfer of \$5.5 million on deposit in the Special Transportation Fund to the TSB’s project account for various transportation related studies. Legislation passed in 2005 and 2006 authorized the issuance of more than \$2.1 billion of special tax obligation bonds for the ten-year period from 2005 to 2014 for transportation system improvements, many of which are TSB recommended projects. The entire \$2.1 billion authorization is included in **Table 15**. Legislation passed in 2006 also authorized the issuance of \$1.3 billion in bonds in anticipation of future federal transportation funds and is not included in **Table 15**. Legislation passed in 2011 eliminated the TSB. The 2011 legislation retains the TSB projects enumerated by law and maintains the TSB project accounts within the Special Transportation Fund. Future legislation is required to identify projects and funding sources necessary to implement the transportation strategy originally recommended by the TSB.

## **Other Special Revenue Funds and Debt**

### ***Bradley Airport***

Bradley International Airport, located in Windsor Locks, Connecticut, currently is owned by the State and operated by the Bureau of Aviation and Ports in the State’s Department of Transportation. The General Assembly has authorized the issuance of revenue bonds for improvements at Bradley International Airport, payable from all or a portion of the revenues generated at the Airport. Legislation passed in 2001 removed a bond issuance cap for Bradley Airport but retained the requirement for State Bond Commission approval of any new bond issue. As of February 1, 2012, there were \$155.8 million of Bradley International Airport Revenue Bonds outstanding. In addition, the State is a party to certain interest rate swap agreements with respect to certain outstanding bonds. Any obligations of the State under the interest rate swap agreements are payable from all or a portion of the revenues generated at the Airport.

Additional special obligation bonds to finance self-sustaining special facilities at Bradley International Airport payable solely from the revenues derived from such special facilities were authorized in 1993. In March 2000 the State issued \$53.8 million Bradley International Airport Special Obligation Parking Revenue Bonds to finance the construction of a five story parking garage facility at the airport and as of February 1, 2012 \$39.385 million of such bonds are outstanding.

Legislation passed in 2011 created the Connecticut Airport Authority (“CAA”), a new quasi-public authority of the State that is governed by an eleven member board responsible for the management and operation of Bradley International Airport and the State’s five owned and operated general aviation airports. The new board replaces the Bradley Board of Directors and the legislation provides for the transition of the management and operations of Bradley Airport and the State’s other general aviation airports from the State’s Department of Transportation to CAA. See *Quasi Public Agencies- Connecticut Airport Authority (“CAA”)*.

### ***Clean Water Fund***

The General Assembly has authorized the issue of revenue bonds for up to \$2,186.82 million, of which \$1,591.655 million have been issued for the purpose of funding various State and federally mandated water pollution control and drinking water projects. The revenue bonds are payable solely from the revenues or other receipts, funds or moneys of the Clean Water Fund. The proceeds of the revenue bonds are loaned primarily to Connecticut municipalities and public water systems to finance water pollution control and drinking water improvements, and the loan repayments by the municipalities and public water systems secure the revenue bonds. The loans are evidenced by interim funding obligations and project loan obligations of the

municipalities and public water systems, pursuant to which either the full faith and credit of each such entity, or the revenues and other funds of a municipal sewer or public water system are pledged. As of February 1, 2012 \$842.17 million revenue bonds were outstanding (including refunding bonds).

### ***Unemployment Compensation***

The State pays unemployment compensation benefits from the State's Unemployment Compensation Fund, which is funded by unemployment compensation taxes collected from employers. To fund possible shortfalls, the State has reserved the authority to issue bonds in an aggregate amount outstanding at any time not in excess of \$1.0 billion, plus amounts for certain reserves and costs of issuance. In addition, the State may borrow from the Federal Unemployment Trust Fund to fund a deficit in the State's Unemployment Compensation Fund. As of February 1, 2012, the State had borrowed \$709.9 million from the Federal Unemployment Trust Fund and anticipates borrowing approximately an additional \$100 million during calendar year 2012.

### ***Second Injury Fund***

The Second Injury Fund is a State-run workers' compensation insurance fund which pays lost wages and medical benefits to qualified injured workers. The State established the Second Injury Fund in 1945 to encourage the hiring of persons with pre-existing physical impairments, such as veterans and provide relief to employers when an injured worker, who already had a pre-existing injury or condition, was hurt on the job and the second injury was made worse by the existence of the first injury. In 1995 and 1996, the State enacted legislation to close the Second Injury Fund to future second injury claims. Those laws authorized the issuance of an amount not to exceed \$750 million in revenue bonds and notes outstanding at any one time to provide funds for paying past claims. No bonds or short term borrowings are currently outstanding. The State's management objective is to pay additional claims and settlements from current income and, if necessary, short term borrowings.

### **Contingent Liability Debt**

The General Assembly has the power to impose limited or contingent liabilities upon the State in such a manner as it may deem appropriate and as may serve a public purpose. This power has been used to support the efforts of quasi-public agencies, municipalities and other authorities formed to carry out essential public and governmental functions by authorizing these entities to issue indebtedness backed, partially or fully, by General Fund resources of the State. Not all entities that are authorized to issue such indebtedness have done so, and the description below of the State's limited or contingent liability is restricted only to specific indebtedness backed by the State.

### ***Special Capital Reserve Funds***

The primary vehicle through which the State has undertaken contingent or limited liability is the special capital reserve fund. A special capital reserve fund, if established, provides additional security for bonds issued by the entity authorized to establish such a reserve fund. Subject to exceptions in the legislation authorizing the establishment of a particular special capital reserve fund, monies held in and credited to a special capital reserve fund are intended to be used solely for the payment of the principal of bonds secured by such special capital reserve fund, the purchase of such bonds, the payment of interest on such bonds or the payment of any redemption premium required to be paid when such bonds are redeemed prior to maturity. The special capital reserve fund is frequently funded with bond proceeds to a specified amount (the minimum of which is often the maximum annual principal and interest payments due on the bonds). The State undertakes the obligation to restore a special capital reserve fund to its minimum level. The method for determining such required minimum capital reserve is set out in the legislation authorizing the special capital reserve fund. If the special capital reserve fund should fall below the required minimum capital reserve amount, an official of the authority or municipality which established the special capital reserve fund shall certify to the Secretary of the

Office of Policy and Management or the State Treasurer or both the amount necessary to restore such special capital reserve fund to the required minimum capital reserve amount. On or before December 1, annually, there will be deemed to be appropriated from the State's General Fund such amount as specified in the certificate, which amount shall be allotted and paid to the entity that established the special capital reserve fund. On an annual basis, the State's liability under any special capital reserve fund mechanism is limited to its obligation to restore that fund to its minimum capital reserve amount.

### ***Quasi-Public Agencies***

The State has established by legislation several quasi-public agencies. These quasi-public agencies are not departments, institutions or agencies of the State. They are, however, bodies politic and corporate that constitute public instrumentalities and political subdivisions of the State and whose exercise of authority granted to them is deemed to be the performance of an essential public and governmental function. These organizations provide a wide range of services that might otherwise be provided directly by the State.

Among the public authorities are: the Connecticut Development Authority, the Connecticut Health and Educational Facilities Authority, the Connecticut Higher Education Supplemental Loan Authority, the Connecticut Housing Finance Authority, the Connecticut Resources Recovery Authority, the Connecticut Airport Authority and the Capital City Economic Development Authority. Each of these public authorities is authorized to issue bonds in its own name to facilitate its activities and each has issued bonds secured by a special capital reserve fund, or other contractual arrangement, for which the State has limited contingent liability.

***Capital City Economic Development Authority ("CCEDA").*** CCEDA was created in 1998 and was granted the power to issue revenue bonds for a convention center project in Hartford. The bonds are to be backed by State contractual assistance equal to annual debt service. In 2004 a public act authorized CCEDA to use a special capital reserve fund in connection with any such revenue bonds, but there are currently no plans for such an issue. CCEDA has issued revenue bonds backed by the State's contract assistance agreement equal to annual debt service on the revenue bonds. See **Other Debt Service and Contractual Commitments - Capital City Economic Development Authority.**

The Board of Directors of CCEDA is comprised of seven members, one of whom is a resident of the City of Hartford recommended by the Mayor of Hartford, appointed jointly by the Governor, the speaker of the House of Representatives, the majority leader of the House of Representatives, the minority leader of the House of Representatives, the president pro tempore of the Senate, the majority leader of the Senate and the minority leader of the Senate, and includes members who have expertise in the fields of commercial and residential real estate construction or development and financial matters.

At the start of the 2012 legislative session, the Governor introduced legislation to create a new Capital Region Development Authority, which will be a successor to the Capital City Economic Development Authority. The proposed legislation permits the newly created Capital Region Development Authority to be administered by the State Department of Economic and Community Development.

***Connecticut Airport Authority ("CAA").*** Legislation passed in 2011 created the Connecticut Airport Authority ("CAA"), a new quasi-public authority of the State, which is responsible for the management and operation of Bradley International Airport and the State's other state-owned and operated general aviation airports. The Board of Directors of CAA is comprised of eleven members including: the State Treasurer, the Commissioner of Transportation, and the Commissioner of Economic and Community Development, each serving *ex officio*; four members appointed by the Governor; and a member appointed by each of the President Pro Tempore of the State Senate, the minority leader of the State Senate, the Speaker of the State House of Representatives and the minority leader of the State House of Representatives. Appointed directors shall have business and management experience, and shall have experience in one or more of the following areas: financial planning, budgeting and assessment, marketing, master planning, aviation and transportation



management. The new board replaces the Bradley Board of Directors and the legislation provides for the transition of the management and operations of Bradley Airport and the State's other general aviation airports from the State's Department of Transportation to CAA. The legislation authorizes the issuance of revenue bonds, including bonds backed by a Special Capital Reserve Fund.

**Connecticut Development Authority ("CDA").** The CDA was established in 1973 as a successor Authority. In order to discharge its responsibilities and fulfill its purposes, the CDA is authorized to offer various financing programs including The Mortgage Insurance and Loan Program (the "Insurance Fund"). As of February 1, 2012, \$20.45 million of State bonds have been authorized but remain unissued to fund the Insurance Fund and loans insured by the Insurance Fund totaled \$4.0 million. Other CDA programs include the Umbrella Bond Program, the Self-Sustaining Bond Program, the Connecticut Growth Fund, the Connecticut Works Fund, the Connecticut Works Guarantee Fund, the Connecticut Capital Access, the Environmental Assistance Revolving Loan Fund, the Tax Incremental Financing Program, the High-Technology Infrastructure Fund and the General Obligation Bond Program. Currently, the only outstanding CDA bonds secured by special capital reserve funds were issued pursuant to the General Obligation Bond Program. Although there remains legislative authority for the issue of bonds secured by special capital reserve funds under the Umbrella Bond Program, no loans have been initiated under that program since 1985, and the CDA does not anticipate a resumption of any lending activity under that program.

Under the General Obligation Bond Program, the CDA issues bonds to finance eligible economic development and information technology projects. General revenues of the CDA, which are not otherwise pledged, are made available to service the debt of bonds issued under the General Obligation Bond Program. Although such bonds may also be secured by a special capital reserve fund, to date only \$30.56 million 1993 Series A (Hartford Whalers Project) bonds have been secured by such a fund. As of February 1, 2012, \$3.05 million of such bonds remain outstanding.

The Board of Directors of the CDA is comprised of eleven members: the State Treasurer, the Commissioner of Economic and Community Development, the Secretary of the Office of Policy and Management, as *ex officio* members; four members appointed by the governor and experienced in the field of financial lending or the development of commerce, trade or business; and a member appointed by each of the President Pro Tempore of the State Senate, the minority leader of the State Senate, the Speaker of the State House of Representatives and the minority leader of the State House of Representatives.

At the start of the 2012 legislative session, the Governor introduced legislation to transfer to Connecticut Innovations, Incorporated all powers and duties of the CDA.

**Connecticut Health and Educational Facilities Authority ("CHEFA").** CHEFA was established to assist in the financing of facilities for educational or health care purposes, including colleges and universities, secondary schools, nursing homes, hospitals, child care facilities, and any other qualified non-profit institutions through the issuance of bonds and other obligations. Payments from institutions provide funds to service the debt on loans made pursuant to the issuance of bonds and other obligations by CHEFA. CHEFA is also authorized to issue tax-exempt and taxable revenue bonds secured by one or more special capital reserve funds solely to finance projects for "participating nursing homes," or for housing, student centers, food service facilities and other auxiliary service facilities at public institutions of higher learning, including the Connecticut State University system, or for clinical services projects for The University of Connecticut Health Center, and up to \$100.0 million to finance equipment acquisitions by hospitals.

Under CHEFA's nursing home program, loans are secured by mortgages on the nursing homes and pledges of gross receipts. Minimum debt service coverage ratios of 1.0 to 1.25 times annual debt service are required and restrictions are placed on the issuance of additional debt. Participating nursing homes are required to fund a debt service reserve fund in an amount equal to one year's maximum annual debt service and a working capital fund reserve account in an amount equal to 60 days of operating expenses or three year's maximum annual debt service. If a participating nursing home is in default or is likely to become in default

under its loan agreement with CHEFA due to the failure to make any payment(s) required, CHEFA may request that the Commissioner of the Department of Social Services withhold any funds in the State's custody that are due and payable to the nursing home via a Medicaid intercept. Funds subject to withholding under this section include federal and state grants, contracts, allocations and appropriations.

The State Treasurer has applied appropriated funds and General Fund budget surplus to defease certain bonds for nursing homes in order to avoid any draw on the special capital reserve fund which secures such bonds. Legislation enacted in 1998 provides that no bonds secured by a special capital reserve fund are to be issued by CHEFA in the future for nursing homes, except for bonds that at least in part, refund, refinance, or otherwise restructure bonds under certain circumstances where the aggregate liability of the State with respect to such bonds will be less than the aggregate liability of the State with respect to the bonds being refunded, refinanced or restructured and that doing so is in the best interest of the State.

CHEFA is also allowed to issue revenue bonds to finance facility improvements for the Connecticut State University System (the "System") which are secured by one or more special capital reserve funds. The System has pledged University Student Fees and certain student parking fees as a source of funds for the payment of debt service on the bonds. The types of facilities of the System financed through CHEFA were financed in the past through self-liquidating general obligation bonds of the State, so implementation of this program should limit the need for the State to issue such bonds in the future.

Although CHEFA is authorized to issue bonds secured by a special capital reserve fund to finance equipment acquisitions by hospitals and clinical services projects for The University of Connecticut Health Center, these programs have not yet been implemented.

CHEFA also is authorized to issue bonds and loan the proceeds to various entities to finance child care facilities. The State Department of Education is committed to pay a portion of the debt service on these loans, in amounts sufficient to cover a portion of the debt service on the bonds, subject to annual appropriation. See **Other Debt Service and Contractual Commitments - Connecticut Health and Educational Facilities Authority**. In August 2011, CHEFA issued \$28,840,000 State Supported Child Care Revenue Bonds, Series 2011. The State Treasurer provided written confirmation to CHEFA that the State Treasurer will (i) pay 100% of the principal and interest payments required to be made on such bonds, provided that the agreement of the State Treasurer to make such payments each year is expressly conditioned upon the appropriation of such payments by the State legislature, such appropriation being in effect when such payments are due, (ii) make payment to the trustee for such bonds on or prior to the due dates for such payments and (iii) include such payments in the State Treasurer's proposed annual budget for each year that such bonds are outstanding.

The Board of Directors of CHEFA is comprised of ten members including the State Treasurer and Secretary of OPM, both serving *ex officio*, and eight members appointed by the governor based on their qualifications in the areas of health care, higher education, or public finance.

At the start of the 2012 legislative session, the Governor introduced legislation to provide for the administrative consolidation of the Connecticut Higher Education Supplemental Loan Authority within CHEFA as a subsidiary of CHEFA. See **Connecticut Higher Education Supplemental Loan Authority ("CHESLA")** below.

**Connecticut Higher Education Supplemental Loan Authority ("CHESLA").** CHESLA provides financial assistance in the form of education loans to students in or from the State, their parents or others responsible for the cost of their education and provides an alternative method to enable institutions for higher education in the State to assist qualified students to attend such institutions. CHESLA is authorized to issue bonds the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayment of such loans service the debt on CHESLA bonds. CHESLA, in connection with the issuance of its bonds has made certain covenants with respect to such loans, including a covenant to

do or cause to be done all such acts and things necessary to receive and collect all revenues due with respect to such loans. CHESLA bonds are further secured by a special capital reserve fund.

The Board of Directors of CHESLA is comprised of eight members including the State Treasurer, the Secretary of OPM and the President of the Board of Regents for Higher Education, serving *ex officio*, and five members appointed by the Governor based on their qualifications in the areas of higher education and/or public finance. At the start of the 2012 legislative session, the Governor introduced legislation to provide for the administrative consolidation of CHESLA within the Connecticut Health and Educational Facilities Authority (“CHEFA”), as a subsidiary of CHEFA. See *Connecticut Health and Educational Facilities Authority (“CHEFA”)* above.

**Connecticut Housing Finance Authority (“CHFA”).** CHFA was established in 1969 to meet the needs of low and moderate income families and persons for decent housing and to encourage and assist the development and construction of multifamily housing by reducing the cost of mortgage financing therefor. CHFA is authorized to issue bonds the proceeds of which are used to fund mortgage loans to applicants meeting certain eligibility requirements including unrestricted statutory income limits in certain urban areas. The enabling act authorizes CHFA to make or purchase construction and permanent mortgage loans which are guaranteed or insured by the United States of America or any agency or instrumentality thereof, by the Federal Home Loan Mortgage Corporation, by a private mortgage insurance company or the State or the Authority itself without limitation as to amount and to make or purchase mortgage loans not so insured or guaranteed in an aggregate amount not to exceed \$1.5 billion. In order to finance these activities CHFA has established a Housing Mortgage Finance Program and has issued its general obligation bonds under a General Bond Resolution pursuant to which CHFA has pledged all revenues which it may receive in connection with the mortgages financed thereunder including its fees and charges therefor and any recoveries of principal therefrom from any source and any monies received from investments, as well as other mortgages specifically pledged. In addition, such General Bond Resolution provides for general covenants such as a covenant to do all things necessary with respect to the operation of such Housing Mortgage Finance Program in order to pay principal of and interest on its bonds and provides for certification as to self-sufficiency in order to issue any additional bonds. Bonds issued under CHFA’s General Bond Resolution are further secured by a special capital reserve fund.

CHFA has also established a Special Needs Housing Mortgage Finance Program (formerly known as the Group Home Mortgage Finance Program) and has issued and expects to issue additional State-Supported Special Obligation Bonds under a separate indenture, including bonds for group homes, assisted living facilities, and residential care homes, which bonds are and will be secured by a special capital reserve fund. CHFA also issues bonds for supportive housing and emergency mortgage assistance for which the debt service is paid by the State pursuant to contracts for State assistance. See **State Debt – Types of Direct General Obligation Debt – Supportive Housing Financing and Emergency Mortgage Assistance Program.**

The Board of Directors of CHFA is comprised of fifteen members: the Commissioner of Economic and Community Development, designated by statute as Chairman of the Board, the Secretary of OPM, the Commissioner of Banking and the State Treasurer, serving *ex officio*; seven members appointed by the Governor; and a member appointed by each of the President Pro Tempore of the State Senate, the minority leader of the State Senate, the Speaker of the State House of Representatives and the minority leader of the State House of Representatives who among them are experienced in all aspects of housing design, development, finance, management and state and municipal finance.

**Connecticut Resources Recovery Authority (“CRR”).** CRR was created in 1973 to assist municipalities in meeting their solid waste disposal and recycling needs. To further its purpose CRR develops, finances and supervises solid waste management facilities and contracts. CRR has developed four integrated solid waste systems that serve over 100 municipalities in the State. CRR bonds may be secured by a special capital reserve fund. CRR bonds are generally secured by service agreements with participating municipalities under which the municipalities agree to deliver a minimum amount of waste to a specified

facility each year or to pay the tipping fee for any amount that does not meet the minimum commitment. These service agreements are generally secured by the municipality's full faith and credit. CRRA bonds are additionally secured by revenues from the sale of energy generated by the facility and waste from non-municipal sources.

The Board of Directors of CRRA is comprised of eleven members: three members appointed by the Governor; two members appointed by each of the president pro-tempore of the Senate, the speaker of the House of Representatives, the minority leader of the Senate, the minority leader of the House of Representatives. There is one vacancy. In addition, there are eight ad hoc members, two representing each of the four facilities. Such ad hoc members may only vote on matters pertaining to their respective facility. As of February 1, 2012, only four ad hoc seats were filled.

***UConn 2000 Special Obligation Financing.*** The University of Connecticut may issue special obligation bonds which may be secured by a special capital reserve fund which the State undertakes to restore to its minimum level. Before issuing special obligation bonds secured by such a special capital reserve fund, the act requires the board of trustees of the University to determine that project revenues, other than those derived from the State's debt service commitment and the State's minimum operating provision, are estimated to be sufficient to pay the debt service on the special obligation bonds, to maintain reserves and to operate the physical infrastructure of the University. The act requires the Treasurer to confirm that such determination is not unreasonable or arbitrary. The University may also issue special obligation bonds which are not secured by such a special capital reserve fund.

#### ***Assistance to Municipalities***

In addition to the limited or contingent liabilities that the State has undertaken in connection with the activities of its quasi-public agencies, the State has undertaken certain limited or contingent liabilities to assist municipalities. The State currently has limited or contingent liabilities outstanding in connection with bonds or other obligations issued by the City of Waterbury and the Southeastern Connecticut Water Authority. The State previously was obligated pursuant to the establishment of a special capital reserve fund to secure certain bonds issued by the City of Bridgeport to fund its past budget deficits; however such bonds were refunded by the City in 1996. The State previously had guaranteed debt service on bonds of the City West Haven, but an irrevocable escrow has been established to pay such bonds. Legislation also authorized distressed municipalities, in certain circumstances and subject to various conditions, to issue deficit funding obligations secured by a special capital reserve fund. There are no such obligations currently outstanding.

***The City of Waterbury.*** In 2001 the State adopted legislation to assist the City of Waterbury in financing its budget deficits. The legislation authorized the City to issue bonds for the purpose of funding the City's past budget deficits. The legislation also provided for the establishment of a special capital reserve fund to secure up to \$100 million bonds issued by the City. The State is contingently obligated to restore the special capital reserve fund to its required minimum.

***Southeastern Connecticut Water Authority.*** The Southeastern Connecticut Water Authority was established for the purpose of developing a reliable water supply for southeastern Connecticut. The State Bond Commission is authorized to approve a State guarantee of obligations of the Southeastern Connecticut Water Authority. Amounts borrowed by the Authority are to be repaid by July 1, 2045.

#### ***State Treasurer's Role***

By statute, CDA, CHEFA, CHFA, CHESLA, CRRA, and CCEDA may not owe any money or issue any bonds or notes which are guaranteed by the State of Connecticut or for which there is a special capital reserve fund of any kind which is in any way contributed to or guaranteed by the State until or unless such borrowing or issuance is approved by the State Treasurer or the Deputy State Treasurer. The approval shall be based on documentation provided by the authority that the authority anticipates receiving sufficient revenues to

(1) pay the principal of and interest on the bonds and notes issued, (2) establish, increase and maintain any reserves deemed by the authority to be advisable to secure the payment of the principal of and interest on such bonds and notes, (3) pay the cost of maintaining, servicing and properly insuring the purpose for which the proceeds of the bonds and notes have been issued, if applicable, and (4) pay such other costs as may be required.

Similarly, no municipality may issue any obligation for which there is a special capital reserve fund of any kind which is in any way contributed to or guaranteed by the State unless and until such obligation and the agreement establishing the capital reserve fund are approved by the State Treasurer. The State Treasurer's approval shall be based upon factors delineated in the general statutes, including the establishment of a property tax intercept procedure to service the municipality's debt.

***Outstanding Special Capital Reserve Fund Debt***

The amount of outstanding debt which is secured by special capital reserve funds or State guarantees of municipal debt as described above is outlined in the following table.

**TABLE 16**

**Special Capital Reserve Fund Debt  
(In Millions)**

	<b>Authorized SCRF or Guaranteed Debt <u>As of 2/1/12</u></b>	<b>Outstanding SCRF or Guaranteed Debt <u>As of 2/1/12</u></b>	<b>Minimum Capital Reserve Requirement <u>As of 2/1/12</u></b>
<b>Indebtedness Secured by Special Capital Reserve Funds or Guaranteed by State</b>			
<b>Capital City Economic Development Authority</b>	(a)	\$ 0.0	\$ 0.0
<b>Connecticut Airport Authority</b> .....	(a)	0.0	0.0
<b>Connecticut Development Authority</b>			
Umbrella Bond Program .....	\$300.0	0.0	0.0
General Obligation Bond Program .....	30.6	3.05	1.5
<b>Connecticut Health and Educational Facilities Authority</b>			
Nursing Home Program .....	(a)	17.0	2.6
Connecticut State University System .....	(a)	260.2	26.7
Hospital Equipment Program .....	100.0	0.0	0.0
UCONN Health Center Program .....	(a)	0.0	0.0
<b>Connecticut Higher Education Supplemental Loan Authority</b> .....	300.0	169.6	19.4
<b>Connecticut Housing Finance Authority</b>			
Housing Mortgage Finance Program .....	(a)	3,685.7	273.1
Special Needs Housing Mortgage Finance Program .....	(a)	65.3	4.6
<b>Connecticut Resources Recovery Authority</b> .....	725.0	26.9	10.9

	<b>Authorized SCRF or Guaranteed Debt <u>As of 2/1/12</u></b>	<b>Outstanding SCRF or Guaranteed Debt <u>As of 2/1/12</u></b>	<b>Minimum Capital Reserve Requirement <u>As of 2/1/12</u></b>
<b>University of Connecticut Student Fee Revenue Bonds</b> .....	(a)	0.0	0.0
<b>City of Waterbury Special Capital Reserve Fund Bonds</b> .....	100.0	30.11	6.7
<b>Southeastern Connecticut Water Authority</b> .....	15.0	1.3	N.A.

(a) No statutory limit.

### Other Debt Service and Contractual Commitments

**Capital City Economic Development Authority.** The State Bond Commission approved up to \$122.5 million of revenue bonds and other borrowings for the Hartford convention center project. CCEDA has issued \$110 million of its revenue bonds backed by the State’s contract assistance agreement equal to annual debt service on the revenue bonds, of which \$100.2 million was outstanding as of February 1, 2012. The State’s obligation under the contract assistance agreement is limited to \$9.0 million per year, and the Authority’s debt obligations are structured not to exceed this amount. An additional \$12.5 million of borrowing, not backed by the contract assistance agreement, has also been incurred. Debt service on the revenue bonds is payable from debt service appropriations in the General Fund and CCEDA is obligated to reimburse the State for such contract assistance payments from parking and energy fee revenues after payment of operating expenses of the parking garage and the energy facility. Under the agreement between CCEDA and the State, after completion of the convention center project, CCEDA is required to maintain pledged revenues equal to 1.2 times debt service, after operating expenses. The State’s obligation under the assistance agreement is not included in any of the debt calculations in **Tables 7, 8, 9, 10, 11, 12 or 16.**

The convention center portion of the project opened in June 2005. Other elements of the project include an adjacent parking structure which opened later in 2005, a second adjacent parking structure underlying the Connecticut Science Center and a retail and entertainment district, including two additional parking structures. The entire project is not expected to be fully placed in service until 2017 at the earliest. Since June 2006, the delay in completion of the additional elements of the project, along with higher than anticipated startup expenses and operating expenses have resulted in insufficient parking revenues, after operating expenses, to fully reimburse the State for debt service payments. This situation is expected to continue at least until all elements of the project are completed and placed in service. As debt service on CCEDA's revenue bonds continues to be paid under the contract assistance agreement, CCEDA’s reimbursement obligation will increase, and this reimbursement obligation will need to be satisfied before excess parking revenues are available to fund the operations of the convention center, which itself is partially funded by General Fund appropriations from the State to CCEDA.

**Connecticut Health and Educational Facilities Authority.** Legislation enacted in 1997 authorized CHEFA to issue bonds and loan the proceeds to various entities to finance child care facilities. Legislation enacted in 2011 transferred the responsibility for the child care facilities loan programs from the Department of Social Services to the State Department of Education. The State Department of Education may enter into commitments to apply monies for each such entity to pay the debt service on the loans in amounts sufficient to cover a portion of the debt service on CHEFA’s Child Care Facilities Bonds. Legislation enacted in 1999 provides for the obligation of the State Department of Education to make debt service payments to be made by the State Treasurer. Any obligation by the State Department of Education or the State Treasurer to pay is

subject to annual appropriation. CHEFA first issued special obligation bonds under this program in 1998. As of February 1, 2012 CHEFA had approximately \$63.3 million in Child Care Facilities Bonds outstanding under this program with annual debt service of approximately \$5.1 million, of which the State Department of Education is committed to pay approximately \$0.5 million. The remaining portion of debt service is to be paid from State Department of Education intercepts of revenues from providers. The State's obligation under the assistance agreement is not included in any of the debt calculations in **Tables 7, 8, 9, 10, 11, 12 or 16**. In August 2011, CHEFA issued \$28,840,000 State Supported Child Care Revenue Bonds, Series 2011. The State Treasurer provided written confirmation to CHEFA that the State Treasurer will (i) pay 100% of the principal and interest payments required to be made on such bonds, provided that the agreement of the State Treasurer to make such payments each year is expressly conditioned upon the appropriation of such payments by the State legislature, such appropriation being in effect when such payments are due, (ii) make payment to the trustee for such bonds on or prior to the due dates for such payments and (iii) include such payments in the State Treasurer's proposed annual budget for each year that such bonds are outstanding.

Two other Child Care Facilities programs also authorize the Commissioner of the State Department of Education to enter into guaranties of loans made to entities to finance the development of child care and child development centers or programs. CHEFA is administering this program on behalf of the Department, and is currently limiting the aggregate amount of guaranties to the balance of monies in the reserve funds for the respective programs. The State's obligations in connection with these programs are not included in any of the debt calculations in **Tables 7, 8, 9, 10, 11, 12 or 16**.

***School Construction Grant Commitments.*** The State is obligated to various cities, towns and regional school districts under a grant-in-aid public school building program to fund certain of the costs of construction and alteration of school buildings or to support part of the debt service payments on municipal debt issued to fund the State's share of such school building projects. For certain school projects approved by the General Assembly, cities, towns and districts are ranked according to their adjusted equalized net grand list per capita and based on such rankings a percentage is assigned which determines the amount of grant money a town or regional school district is eligible to receive for a project or type of project authorized by the legislature and approved by the Commissioner of Construction Services.

For school construction projects approved during the 1997 legislative session and thereafter, the State pays the costs of its share of construction projects on a progress payment basis during the construction period. Each year the legislature authorizes grant commitments which vary in amounts from year to year. The State has authorized new school construction grant commitments of approximately \$285 million which take effect in the 2011-12 fiscal year. As of June 30, 2011, the Commissioner estimates that current grant obligations under this program are approximately \$2,505 million which includes approximately \$7,735 million in grants approved as of such date less payments already made of \$5,230 million.

Prior to 1997 the grant program was conducted differently. For certain school projects grants for construction costs are paid to the cities, towns and districts in installments which correspond to the number and time of principal payments due on municipal bonds, or temporary notes renewed for a third or subsequent year, issued to finance project costs. If a project is fully paid from sources other than borrowing, such grants are paid in five annual installments. Grants in support of interest payments correspond to the number and time of such interest payments. As of June 30, 2011, under the grant program prior to 1997 the State is obligated to various cities, towns and regional school districts for approximately \$258 million in aggregate principal installment payments and \$39 million in aggregate interest subsidies, for a total of \$297 million. Funding for these payments may come from future State direct general obligation bond sales. No new grant commitment can be authorized under this program.

The legislature has authorized bonds for both grant programs based on the amount of grants that the Commissioner of Construction Services estimates will be paid during each fiscal year. Since there is generally a lapse of one or more years from the time grant commitments are approved to the time grant payments are

required to be made, the amount of unpaid grant commitments will be significantly greater than the amount of bonds authorized to fund the grant commitments.

***Connecticut Lottery Corporation.*** The Connecticut Lottery Corporation (the “Corporation”) was created in 1996 as a public instrumentality of the State to operate the State’s lottery pursuant to the Connecticut Lottery Corporation Act (the “CLC Act”). The State and the Corporation purchase annuities under contracts with insurance companies which provide payments corresponding to the obligation for payments to lottery prize winners. The State has transferred to the Corporation all annuities purchased by it, and the Corporation has assumed responsibility for the collection of revenue generated from the lottery and for the payment of all lottery prizes. Under the CLC Act, the termination of the Corporation would not affect any outstanding contractual obligation of the Corporation and the State would succeed to the obligations of the Corporation under any such contract. As of June 30, 2011 the current and long term liabilities of the Corporation total \$207.633 million.



## PENSION AND RETIREMENT SYSTEMS

The State sponsors several public employee retirement systems discussed below. Actuarial valuations are performed with respect to such systems at regular intervals. The purpose of the actuarial valuation is to calculate an actuarial accrued liability for each of the pension plans which estimates on the basis of demographic and economic assumptions the present value of accrued benefits the pension plan will pay to its retired members and active members upon retirement. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms an unfunded actuarial accrued liability. The actuarial valuations express the percentage the pension is funded through a “funded ratio” which represents the quotient obtained by dividing the actuarial value of assets of the pension plan by the actuarial accrued liability of the pension plan. The actuarial valuation also will state an actuarially recommended contribution which is the recommended payment of the State to the applicable pension plan. The actuarially recommended contribution consists of two components: (1) normal costs, which represents the portion of the present value of retirement benefits that are allocable to active members’ current year of service, and (2) an amortized portion of the unfunded actuarial accrued liability.

### **State Employees’ Retirement Fund**

The State Employees’ Retirement Fund is one of the systems maintained by the State with approximately (i) 47,778 active members, consisting of 12,164 vested members and 35,614 non-vested members, (ii) 1,589 deferred vested members, and (iii) 42,555 retired members and beneficiaries as of June 30, 2011.

Since fiscal year ending June 30, 1979, payments into the State Employees’ Retirement Fund and investment income in each fiscal year, with the exception of fiscal years ending June 30, 2004, June 30, 2009, June 30, 2010 and June 30, 2011, have been sufficient to meet benefits paid from the fund in such year. Payments into the fund are made from employee contributions, General and Special Transportation Fund appropriations and grant reimbursements from Federal and other funds. State contributions to the fund are made monthly on the basis of transfers submitted by the Office of the State Comptroller.

Full actuarial valuations are performed as of June 30th of each even-numbered year. The actuarial valuation uses recognized actuarial methods to calculate the actuarial value of assets and the actuarial accrued liability of the State Employees’ Retirement Fund. The actuarial accrued liability is determined directly as the present value of benefits accrued to date, where the accrued benefits for each member is the pro-rata portion (based on service to date) of the projected benefit payable at death, disability, retirement or termination. The valuation uses an asset valuation method that smoothes the difference between the market value of assets and actuarial value of assets to prevent extreme fluctuations that may result from short-term or cyclical economic and market conditions. The actuarial value of assets is determined by first projecting the actuarial value forward from the beginning of the prior fiscal year based on the actual cash flow during the fiscal year and the assumed investment rate of return. One fifth of any difference between this expected actuarial value and the actual market value is added to or subtracted from the expected actuarial value to arrive at the actuarial value of assets in order to “smooth” year to year changes in market values. The unfunded actuarial liability is the actuarial accrued liability less the actuarial value of assets. The valuation includes a projection from the valuation date to future years based on certain key assumptions such as the investment return on the market value of assets, the active population count for hazardous and nonhazardous duty members, total payroll growth, age and salary distributions for new entrants, and actual plan experience with respect to terminations, retirement, mortality, and cost of living increases, among other things.

### ***November 2010 Actuarial Valuation***

The market value of the State Employees’ Retirement Fund’s investment assets, as reported in the actuarial valuation dated November 15, 2010, was \$7,322.6 million as of June 30, 2009 and \$7,791.3 million as of June 30, 2010. As of June 30, 2011, the market value of the fund’s investment assets was \$8,980.6

million. The market value of the fund's investment assets is continually subject to change based on a variety of factors, including changes in the financial and credit markets and general economic conditions. The actuarial valuation also indicated that the State Employees' Retirement Fund had assets with an actuarial value of \$8,787.2 million as of June 30, 2009 and \$9,349.6 million as of June 30, 2010. The November 2010 actuarial valuation indicated that as of June 30, 2010, the State Employees' Retirement Fund had actuarial accrued liabilities of \$21,054.2 million and an unfunded actuarial accrued liability of \$11,704.6 million. Based on a market value of assets, the State Employees' Retirement Fund had a funded ratio of 37.0% as of June 30, 2010. The November 2010 actuarial valuation indicated that as of June 30, 2010 the State Employees' Retirement Fund had a funded ratio of 44.4% based on the actuarial value of the assets.

The November 2010 actuarial valuation was based upon an 8.25% earnings assumption, projected salary increases of 4% to 20%, cost-of-living adjustments of 2.7%-3.6%, a social security wage base of 3.5%, inflation at 4% and the impact of phasing in an approximately 4.9% negative return on plan assets for fiscal year ending June 30, 2010. In addition, the valuation recalculated the actuarial value of assets for the past four valuations so that the actuarial value of assets recognizes 20% of the difference between the market value of assets and the expected actuarial value of assets. These recalculations are not reflected in **Table 17** below or in the notes to the June 30, 2011 Basic Financial Statements included as **Appendix III-C** hereto or in the required PERS Supplementary Information accompanying the Basic Financial Statements. Benefits for members retiring from service on or after the *Longley v. State Employees Retirement Commission* decision were assumed to increase by 0.084% as a result of the revised treatment of longevity pay. Retroactive application of *Longley* has been reflected in the valuation to the extent impacted retiree benefits have been recalculated. The valuation used an amortization period of 21 years.

The November 2010 actuarial valuation uses the projected unit credit actuarial cost method to calculate the annual amortization payments needed to amortize the State Employees' Retirement Fund's unfunded actuarial accrued liability ("UAAL"). Pursuant to the statutory provisions applicable to the State Employees' Retirement Fund and agreements between the State and the State Employees Bargaining Agent Coalition ("SEBAC"), the Fund's UAAL is amortized as a level percent of payroll over a declining period of years, beginning with 40 years as of July 1, 1991. The State is currently in year 20 of an initial 40 year amortization period. While this method of funding does lead to full funding by the end of the amortization period, the repayment of the UAAL is not level. Because of this, even if the State were to contribute the full amount of the actuarially recommended contributions and all other actuarial assumptions were met, the UAAL for the State Employee's Retirement Fund is not projected to be reduced significantly until the latter years of the amortization period. Following full amortization of the UAAL, the actuarially recommended contribution would decrease substantially as it would consist solely of the funding of normal costs representing the portion of the present value of retirement benefits that are allocable to active members' current year of service. Two collective bargaining agreements with SEBAC negotiated in 1996 and 1997 ("SEBAC IV" and "SEBAC V", respectively) designed to take advantage of sizable market gains in plan assets at the time, have the effect of extending the period that the UAAL is expected to increase.

The November 2010 actuarial valuation determined the following employer contribution requirements, which contributions are sufficient to meet Governmental Accounting Standards Board ("GASB") standards: (i) \$1,023.5 million for fiscal year ending June 30, 2012; (ii) \$1,045.0 million for fiscal year ending June 30, 2013, and (iii) \$1,125.6 for fiscal year ending June 30, 2014. The State appropriated \$722.1 million for fiscal year ending June 30, 2012 and \$715.5 million for fiscal year ending June 30, 2013, which together with anticipated grant reimbursements from federal and other funds will be sufficient to fully fund the employer contribution requirements for fiscal years ending June 30, 2012 and June 30, 2013 pursuant to the requirement determinations contained in the November 2010 actuarial valuation. The amount determined for fiscal year ending June 30, 2014 has not yet been included in any adopted budget by the State as the budget for the year is not yet due.

### ***February 2012 Interim Actuarial Valuation***

The State Employees Retirement Commission has received an interim actuarial valuation dated February 8, 2012. The purpose of the interim actuarial valuation was to update certain of the contribution calculations from those determined in the November 2010 valuation, and therefore determined the contribution amounts for certain of the same fiscal years as included in the November 2010 valuation. The February 2012 actuarial valuation incorporates no changes to the actuarial assumptions or actuarial methods as presented in the November 2010 valuation. The February 2012 actuarial valuation, however, incorporates changes to the retirement plan provisions as contained in the collective bargaining agreement with SEBAC negotiated in 2011 ("SEBAC 2011"), a recommendation of an additional assumption concerning the cost-of-living increase provided for post-October 1, 2011 retirees, the incorporation of additional data pertaining to retirements that occurred after June 30, 2011 through October 1, 2011, and the proposed elimination of the SEBAC IV and SEBAC V provisions related to the deferral of pension funding as described in the discussion below of the changes to the funding plan for the State Employees' Retirement Fund recommendations in the Governor's proposed midterm budget adjustments for fiscal year ending June 30, 2013, dated February 8, 2012.

The market value of the State Employees' Retirement Fund's investment assets, as reported in the February 2012 actuarial valuation, was \$8,984.9 million as of June 30, 2011, including cash in custody and certain receivables. The actuarial valuation also indicated that the State Employees' Retirement Fund had assets with an actuarial value of \$10,122.8 million as of June 30, 2011. The February 2012 actuarial valuation indicated that as of June 30, 2011, the State Employees' Retirement Fund had actuarial accrued liabilities of \$21,126.7 million and an unfunded actuarial accrued liability of \$11,004.0 million. Based on the stated market value of assets, the State Employees' Retirement Fund had a funded ratio of 42.5% as of June 30, 2011. The February 2012 actuarial valuation indicated that as of June 30, 2011 the State Employees' Retirement Fund had a funded ratio of 47.9% based on the actuarial value of the assets. The February 2012 actuarial valuation determined the following employer contribution requirements, which contributions are sufficient to meet GASB standards: (i) \$926.4 million for fiscal year ending June 30, 2012, a decrease of \$97.1 million from the November 2010 valuation calculation; and (ii) \$1,059.7 million for fiscal year ending June 30, 2013, an increase of \$14.7 million from the November 2010 valuation calculation. The incorporation into the February 2012 actuarial valuation of the proposed elimination of the SEBAC IV and SEBAC V provisions related to the deferral of pension funding increases the projected employer contribution requirement for fiscal year ending June 30, 2013 by \$123.4 million. The Governor's proposed midterm budget adjustments for fiscal year ending June 30, 2013 would increase the State's General Fund appropriation for the employer contribution requirements by \$6.0 million to \$721.5 million. Anticipated grant reimbursements from federal and other funds would also be applied to the funding of the employer contribution requirement for fiscal year ending June 30, 2013.

The agreement to eliminate the SEBAC IV and SEBAC V provisions related to the deferral of pension funding was approved by SEBAC on February 3, 2012. The agreement was reflected in the February 2012 actuarial valuation, which was certified by the State Employees Retirement Commission on February 16, 2012. The agreement was submitted by the State Office of Labor Relations to the clerks of the houses of the General Assembly on February 6, 2012, and was deemed filed on February 8, 2012, the first day of the 2012 regular session of the General Assembly. Section 5-278(b) of the Connecticut General Statutes provides that the General Assembly may approve any such agreement as a whole by a majority vote of each house or may reject such agreement as a whole by a majority vote of either house. The agreement shall be deemed approved if the General Assembly fails to vote to approve or reject such agreement within thirty days after filing. The agreement will be deemed approved if the General Assembly does not act on the agreement by March 9, 2012.

### ***Investment Returns***

For periods ending June 30, 2011, the Treasurer has realized annualized net returns on investment assets in the State Employees' Retirement Fund of 7.90% over the past twenty years, of 7.13% over the past fifteen years, of 5.28% over the past ten years and of 4.55% over the past five years. These annualized net

returns reflect the impact of the negative return on investment assets resulting from the downturn in the financial markets during the Fall of 2008 through Spring of 2009. The November 2010 actuarial valuation and the February 2012 interim actuarial valuation were based upon an 8.25% earnings assumption.

Set forth below are State contributions to the State Employees' Retirement Fund, Federal grant programs, employee contributions, investment income, net realized gains and losses, net unrealized gains and losses, benefits paid, actuarial recommended contributions and market value of assets for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of fund assets, the resulting unfunded accrued liabilities and the funded ratios on an actuarial and market basis for the actuarial valuations as of June 30, 2006, June 30, 2008, and June 30, 2010, and the interim actuarial valuation as of June 30, 2011.

**TABLE 17**  
**State Employees' Retirement Fund**

	<b>Year Ending June 30</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
General Fund					
Contributions.....	\$ 477,219,351	\$ 481,878,589	\$ 454,805,009	\$ 478,096,904	\$ 563,329,057
Transportation Fund					
Contributions.....	63,819,000	67,058,000	71,426,000	70,413,000	82,437,000
Federal and other					
Reimbursements.....	122,892,384	162,618,685	173,538,851	172,016,675	180,034,856
Employee Contributions....	<u>61,794,719</u>	<u>67,389,585</u>	<u>70,808,970</u>	<u>65,662,494</u>	<u>67,610,417</u>
Total Contributions .....	\$ 725,725,454	\$ 778,944,859	\$ 770,578,830	\$ 786,189,073	\$ 893,411,330
Investment Income <sup>(a)</sup> .....	\$ 352,538,549	\$ 371,620,098	\$ 252,399,209	\$ 207,642,999	\$ 291,056,178
Net Realized Gains (Losses) <sup>(b)</sup> .....	\$ 300,610,772	\$ 323,533,563	\$ 12,284,308	\$ 346,416,872	\$ 156,110,714
Net Unrealized Gains (Losses) .....	<u>856,560,402</u>	<u>(1,171,995,109)</u>	<u>(1,973,178,423)</u>	<u>401,053,718</u>	<u>1,176,408,235</u>
Total Net Gains (Losses)...	\$ 1,157,171,174	\$ (848,461,546)	\$(1,960,894,115)	\$ 747,470,590	\$1,335,518,949
Benefits Paid <sup>(c)</sup> .....	\$ 951,353,124	\$ 1,008,131,838	\$ 1,063,286,151	\$ 1,263,784,641	\$ 1,315,660,456
Actuarial Recommended Contribution .....	\$ 663,926,351	\$ 716,944,264	\$ 753,698,039	\$ 897,428,000	\$ 944,076,932
Percentage of Actuarial Recommended Contribution Made .....	100.0%	99.2%	92.8%	80.3%	87.5%
Actuarial Accrued Liabilities .....	\$17,888,065,116	\$19,243,372,754	N/A <sup>(d)</sup>	\$21,054,196,685	\$21,126,725,492
Actuarial Values of Assets.....	<u>9,584,970,345</u>	<u>9,990,247,212</u>	<u>8,787,160,426</u>	<u>9,349,604,896</u>	<u>\$10,122,765,430</u>
Unfunded Accrued Liabilities .....	\$ 8,303,094,771	\$ 9,253,125,542	N/A <sup>(d)</sup>	\$11,704,591,789	\$11,003,960,062
Market Value of Assets (as reported in Actuarial valuation).....	\$10,041,047,120	\$ 9,329,175,038	\$ 7,322,633,688	\$ 7,791,337,413 <sup>(e)</sup>	\$ 8,984,875,027 <sup>(d)</sup>
Funded Ratio (actuarial value).....	53.6%	51.9%	N/A <sup>(d)</sup>	44.4%	47.9%
Funded Ratio (market value).....	56.1%	48.5%	N/A <sup>(d)</sup>	37.0%	42.5%

	<b>Year Ending June 30</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Ratio of Actuarial Value of Assets to Market Value of Assets .....	95.5%	107.1%	N/A <sup>(d)</sup>	120.0%	112.7%

- (a) Investment Income (exclusive of net realized gains and losses).
- (b) Net realized gain (loss) on shares redeemed.
- (c) Does not include refunds with respect to withdrawals of account balances by inactive members who terminate membership.
- (d) Information not available in actuarial valuation.
- (e) This amount includes \$2,087,879 of receivables as of the valuation date.
- (f) This amount includes \$2,509,578 of receivables as of the valuation date.

***Governor’s Proposed FYE 2013 Midterm Budget Adjustments***

The Governor’s proposed midterm budget adjustments for fiscal year ending June 30, 2013, dated February 8, 2012, recommends changes to the funding plan for the State Employees’ Retirement Fund intended to avoid a spike in the State’s obligation in the fiscal year ending June 30, 2032. Under the current contribution plan, the State would have to make a one-time payment of \$4,500.0 million in fiscal year ending June 30, 2032 in order to reach full funding. The Governor’s proposal estimates that the funding plan changes would result in anticipated aggregate savings of \$5,800.0 million through fiscal year ending June 30, 2032. The proposed funding plan changes include: (1) elimination of the SEBAC IV and SEBAC V provisions related to the deferral of pension funding, which is anticipated to increase the annual required employer contribution by approximately \$123.4 million in fiscal year ending June 30, 2013, with declining additional contributions in subsequent years through fiscal year ending June 30, 2023; (2) commencing in fiscal year ending June 30, 2014, appropriation annually of approximately \$177.4 million above the annual required employer contribution in order to achieve 80% funding as of June 30, 2025, and reaching 100% as of June 30, 2031; and (3) amendment of the expenditure cap to exclude pension contributions in excess of the annual required employer contribution. Under the Governor’s proposal the annual required employer contribution in any fiscal year is not anticipated to exceed \$2,042.4 million. The Governor’s proposed budget for fiscal year ending June 30, 2013 includes a General Fund appropriation of \$721.5 million to implement the first year of the proposed funding plan.

In connection with the preparation of the proposed midterm budget adjustments for fiscal year ending June 30, 2013, the Governor’s Office and the Office of Policy and Management requested the consulting actuary for State Employees’ Retirement Fund to prepare various models of future annual employer contribution requirements for the State Employees’ Retirement Fund through fiscal year ending June 30, 2043. These models included a base-line model, modeling of the employer contribution requirements incorporating the elimination of the SEBAC IV and SEBAC V provisions related to the deferral of pension funding, and of the employer contribution requirements incorporating the implementation of the funding plan recommended in the Governor’s proposed midterm budget adjustments described above. The modeling was a policy tool for evaluating possible approaches to improving the funding ratio of State Employees’ Retirement Fund, and was prepared for that limited purpose. The modeling does not represent a forecast, estimate or projection, but represents only modeling based on the assumptions used for the actuarial valuation and actuarial methods, of future annual employer contribution requirement figures. The modeling does not reflect future factors or conditions that would cause the actual future experience of State Employees’ Retirement Fund to diverge from the model. In particular, future actuarial valuations mandated by statute over the period of the modeling will result in recalculation of the annual employer contribution requirements for each biennial budget. No representation is made that future annual employer contribution requirements or funded ratios will conform to the modeling.

**TABLE 18**  
**Modeling Of State Employees' Retirement Fund**  
**Future Annual Employer Contribution Requirements and Funded Ratios**  
**(In Millions)**

The annual employer contribution requirement for each fiscal year has been modeled based on the assumption of an actuarial valuation prepared as of the June 30 two years prior to the end of such fiscal year.

<u>Fiscal Year Ending June 30</u>	<u>Valuation Date June 30</u>	<u>Prior Base-Line Model</u>		<u>Current Model (With Elimination Of The SEBAC IV And SEBAC V Deferral Provisions)<sup>(b)</sup></u>		<u>Model With Implementation of Governor's Mid-Term Budget Adjustment Proposal</u>	
		<u>Annual Employer Requirement for Fiscal Year</u>	<u>Funded Ratio as of Valuation Date</u>	<u>Annual Employer Requirement for Fiscal Year</u>	<u>Funded Ratio as of Valuation Date</u>	<u>Annual Employer Requirement for Fiscal Year</u>	<u>Funded Ratio as of Valuation Date</u>
2013	2011	\$936.3	47.6%	\$1,059.7	47.6%	\$1,059.7	47.6%
2014	2012	1,027.1	45.5	1,155.4	45.5	1,332.8	45.5
2015	2013	1,117.7	44.0	1,241.0	44.6	1,418.3	44.6
2016	2014	1,164.9	45.0	1,281.1	46.2	1,458.5	47.0
2017	2015	1,212.7	46.2	1,320.4	48.0	1,497.8	49.7
2018	2016	1,278.3	46.8	1,376.0	49.2	1,553.3	51.7
2019	2017	1,348.8	47.5	1,434.5	50.5	1,611.9	53.9
2020	2018	1,423.8	48.4	1,495.3	52.0	1,672.7	56.3
2021	2019	1,504.5	49.4	1,559.2	53.5	1,736.6	58.8
2022	2020	1,592.1	50.6	1,626.9	55.3	1,804.3	61.6
2023	2021	1,689.5	52.1	1,700.4	57.2	1,877.8	64.6
2024	2022	1,797.0	53.8	1,779.4	59.4	1,956.8	67.9
2025	2023	1,917.3	55.8	1,865.1	61.8	2,042.4	71.5
2026	2024	2,051.2	58.2	1,956.6	64.5	1,435.8	75.5
2027	2025	2,204.3	61.1	2,056.5	67.6	1,376.0	80.0
2028	2026	2,383.2	64.5	2,167.1	71.1	1,422.1	82.5
2029	2027	2,601.5	68.5	2,293.5	75.2	1,500.4	84.9
2030	2028	2,887.4	73.4	2,445.8	79.8	1,603.3	87.6
2031	2029	3,318.2	79.3	2,625.7	85.1	1,749.7	90.7
2032	2030	4,498.8	86.6	3,034.3	91.2	2,030.9	94.4
2033 <sup>(a)</sup>	2031	282.1	100.0	282.1	100.0	282.1	100.0
2034	2032	289.0	100.0	289.0	100.0	289.0	100.0
2035	2033	298.1	100.0	298.1	100.0	298.1	100.0
2036	2034	309.2	100.0	309.2	100.0	309.2	100.0
2037	2035	322.2	100.0	322.2	100.0	322.2	100.0
2038	2036	337.2	100.0	337.2	100.0	337.2	100.0
2039	2037	353.5	100.0	353.5	100.0	353.5	100.0
2040	2038	371.4	100.0	371.4	100.0	371.4	100.0
2041	2039	390.0	100.0	390.0	100.0	390.0	100.0
2042	2040	409.9	100.0	409.9	100.0	409.9	100.0
2043	2041	430.7	100.0	430.7	100.0	430.7	100.0

(a) Under all three models, in fiscal year ending June 30, 2033 and thereafter the annual employer contribution requirement consists only of the payment of the normal costs, which represents the portion of the present value of retirement benefits that are allocable to active members' current year of service. There no longer remains an unfunded actuarial accrued liability to be amortized.

(b) The agreement to eliminate the SEBAC IV and SEBAC V provisions related to the deferral of pension funding has been approved by SEBAC, and has been submitted to the General Assembly for approval, as described above.

***Contribution, Eligibility and Benefits Requirements***

Generally, State employees hired before July 2, 1984 participate in the Tier I plan of the State Employees' Retirement Fund, which requires employee contributions. As of July 1, 2011 approximately 7% of the total work force was covered under the Tier I Plan. Other employees generally participate in the Tier II plan, which is non-contributory for certain members and provides somewhat lesser benefits. As of July 1, 2011, approximately 37% of the total workforce was covered under the Tier II plan. Employees hired after July 1, 1997 participate in the Tier IIA plan, which requires contributions from its employee members. As of July 1, 2011, approximately 56% of the total work force was covered under the Tier IIA Plan. SEBAC 2011 provides for two new retirement plans for state employees first hired on and after July 1, 2011, Tier III and, for unclassified employees of the Connecticut State System of Higher Education and the central office staff of the Department of Higher Education only, the Hybrid Plan. SEBAC 2011 also provides a one time, irrevocable opportunity for current members of the Connecticut Alternate Retirement Program to transfer membership to the new Hybrid Plan and purchase credit their prior state service in that plan at the full actuarial cost.

The average annual benefit payable to a retired Tier I, Tier II or Tier IIA member in fiscal year ending June 30, 2011 was approximately \$36,516, \$23,004 and \$11,508, respectively. The State Employees' Retirement Fund also provides disability and pre-retirement death benefits.

Member contribution requirements, and the eligibility for and calculation of normal retirement benefits varies by tier and plan, as set forth below:

**TABLE 19**

**State Employees' Retirement System Member Contribution Requirements, Eligibility Requirements and Normal Retirement Benefits**

<b><u>Tier</u></b>	<b><u>Member Contribution Requirements</u></b>	<b><u>Eligibility For Normal Retirement Benefits</u></b>	<b><u>Normal Retirement Benefits Based On Final Average Earnings ("FAE")<sup>(a)</sup></u></b>
Tier I - Hazardous	4% of earnings up to the Social Security Taxable Wage Base plus 5% of earnings above that level	20 years of hazardous duty credited service	50% of FAE plus 2% for each year of service in excess of 20
Tier I - Plan A Or C	5% of earnings	Earliest of age 55 with 25 years of service, age 60 with 10 years of service, or age 70 with 5 years of service	2% of FAE times years of service, with a minimum benefit with 25 years of service of \$833.34 per month

<u>Tier</u>	<u>Member Contribution Requirements</u>	<u>Eligibility For Normal Retirement Benefits</u>	<u>Normal Retirement Benefits Based On Final Average Earnings ("FAE")<sup>(a)</sup></u>
Tier I - Plan B	2% of earnings up to Social Security Taxable Wage Base plus 5% of earnings above that level	Earliest of age 55 with 25 years of service, age 60 with 10 years of service, or age 70 with 5 years of service	2% of FAE times years of service up to age 65; for retirements after age 65, 1% of FAE up to \$4,800, plus 2% of FAE in excess of \$4,800 times years of service, with a minimum benefit with 25 years of service of \$833.34 per month; for retirements at or after age 70, the greater of 1.25% of FAE up to \$4,800 plus 2.5% of FAE in excess of \$4,800 times years of service (maximum 20 years) or 1.0% of FAE up to \$4,800 plus 2% of FAE in excess of \$4,800 times year of service
Tier II – Hazardous	4% of earnings	20 years of hazardous duty credited service	2.5% of FAE times years of service up to 20 years plus 2.0% of FAE times years of service in excess of 20 years, if any, with a minimum benefit with 25 years of service of \$360 per month
All Other Tier II	None	<p>Prior to July 1, 2022: Earliest of age 62 with 10 years of vesting service (effective July 1, 1992), age 60 with 25 years of vesting service, age 70 with 5 years of vesting service, or age 62 with 5 years of actual state service for terminations on or after July 1, 1997</p> <p>Effective July 1, 2022: Earliest of age 63 with 25 years of vesting service or age 65 with at least 10 but less than 25 years of vesting service</p>	(a) 1.333% of FAE plus 0.50% of FAE in excess of the year's breakpoint (which breakpoint equals \$10,700 increased by 6% each year after 1982, rounded to nearest \$100 but not greater than Social Security Covered Compensation), times (b) years of service from October 1, 1982 up to 35 years, plus (c) 1.625% of FAE times any years of service in excess of 35 years, with a minimum benefit with 25 years of service of \$360 per month
Tier IIA – Hazardous	5% of earnings	20 years of hazardous duty credited service	2.5% of FAE times years of service up to 20 years plus 2.0% of FAE times years of service in excess of 20 years, if any, with a minimum benefit with 25 years of service of \$360 per month



<u>Tier</u>	<u>Member Contribution Requirements</u>	<u>Eligibility For Normal Retirement Benefits</u>	<u>Normal Retirement Benefits Based On Final Average Earnings ("FAE")<sup>(a)</sup></u>
All Other Tier IIA	2% of earnings	<p>Prior to July 1, 2022: Earliest of age 62 with 10 years of vesting service (effective July 1, 1992), age 60 with 25 years of vesting service, age 70 with 5 years of vesting service, or age 62 with 5 years of actual state service for terminations on or after July 1, 1997</p> <p>Effective July 1, 2022: Earliest of age 63 with 25 years of vesting service or age 65 with at least 10 but less than 25 years of vesting service</p>	(a) 1.333% of FAE plus 0.50% of FAE in excess of the year's breakpoint (which breakpoint equals \$10,700 increased by 6% each year after 1982, rounded to nearest \$100 but not greater than Social Security Covered Compensation), times (b) years of service from October 1, 1982 up to 35 years, plus (c) 1.625% of FAE times any years of service in excess of 35 years, with a minimum benefit with 25 years of service of \$360 per month
Tier III - Hazardous	5% of earnings	25 years of hazardous duty credited service or age 50 with at least 20 years of hazardous duty credited service	2.5% of FAE times years of service up to 20 years plus 2% for each year of service in excess of 20
All Other Tier III	2% of earnings	Earliest of age 63 with 25 years of vesting service or age 65 with at least 10 but less than 25 years of vesting service	1.33% of FAE plus 0.50% of FAE in excess of the year's breakpoint times years of service up to 35 years and 1.625% of FAE times any years of service in excess of 35 years

<u>Tier</u>	<u>Member Contribution Requirements</u>	<u>Eligibility For Normal Retirement Benefits</u>	<u>Normal Retirement Benefits Based On Final Average Earnings ("FAE")<sup>(a)</sup></u>
Hybrid Plan	<p>5% of earnings for members first hired on or after July 1, 2011</p> <p>5% of earnings for members with original date of hire on or after July 1, 1997</p> <p>3% of earnings for members with original date of hire prior to July 1, 1997</p>	<p>Earliest of age 63 with 25 years of vesting service or age 65 with at least 10 but less than 25 years of vesting service</p>	<p>1.33% of FAE plus 0.50% of FAE in excess of the year's breakpoint times years of service up to 35 years and 1.625% of FAE times any years of service in excess of 35 years <sup>(b)</sup></p>

- (a) For all members of all Tiers other than Tier III and Hybrid, "FAE" is defined as the average salary of the three highest paid years of service, provided that, effective January 1, 1986, no one year's earnings can be greater than 130% of the average of the two preceding years for purposes of calculating the FAE. For Tier III and the Hybrid Plan members, FAE is defined as the average salary of the five highest paid years of service, provided that no one year's earnings can be greater than 130% of the average of the preceding two years. Effective July 1, 2014, this limit will be 150% for Tier III and the Hybrid Plan members with mandatory overtime earnings.
- (b) The Hybrid Plan provides members with the option to receive at retirement a lump sum payment of their contributions plus a five percent (5%) employer match and four percent (4%) interest in lieu of their receipt of monthly benefit payments.

The State Employees' Retirement Fund provides annual cost-of-living allowance adjustments each July 1 as set forth below:

**TABLE 20**  
**State Employees' Retirement Benefit Cost-Of-Living Allowances<sup>(a)</sup>**

<u>Retirement Date</u>	<u>Adjustment Based On</u>	<u>Minimum Increase</u>	<u>Maximum Increase</u>	<u>Maximum Increase For Members And Beneficiaries Not Covered By Social Security And Age 62 And Over</u>
Prior to July 1, 1980	Increase in National Consumer Price Index for Urban Wage Earners and Clerical Workers ("CPI-W")	3.0%	5.0%	6.0%
On and after July 1, 1980 but prior to July 1, 1997	N/A	3.0%	3.0%	6.0%
On and after July 1, 1997 but prior to July 1, 1999, an irrevocable choice between one of the two following plans required:				
	(1) 60% of the increase in "CPI-W" up to 6.0% and 75.0% of the increase in the CPI-W over 6.0%	2.5%	6.0%	N/A
	(2) N/A	3.0%	3.0%	N/A
On or after July 1, 1999, but prior to October 1, 2011	60% of the increase in CPI-W up to 6.0% and 75.0% of the increase in the CPI-W over 6.0%	2.5%	6.0%	N/A
On or after October 1, 2011	60% of the increase in CPI-W up to 6.0% and 75.0% of the increase in the CPI-W over 6.0%	2.0%	7.0%	N/A

(a) An employee from Tier IIA must have at least 10 years of actual State service or directly make the transition into retirement in order to be eligible for annual adjustments.

From time-to-time the State has instituted, and in the future may institute, early retirement incentive plans which may impact retirement plan eligibility and benefits.

### **Teachers' Retirement Fund**

The Teachers' Retirement Fund, administered by the Teachers' Retirement Board, provides benefits for any teacher, principal, supervisor, superintendent or other eligible employee in the public school systems of the State, with certain exceptions. The Governor's proposed midterm budget adjustments for fiscal year ending June 30, 2013, dated February 8, 2012, recommend the consolidation of the Teachers' Retirement Board into the Office of the State Comptroller. While setting and paying salaries for teachers, municipalities do not provide contributions to the maintenance of the fund. As of June 30, 2011, there were (i) 66,638 active and former employees, consisting of 53,969 active members, 1,108 inactive vested members and 11,561

inactive non-vested members, (ii) 31,796 retired members and beneficiaries, and (iii) 268 members on disability allowance.

Since fiscal year ending June 30, 2004, payments into the Teachers' Retirement Fund and investment income in each fiscal year, with the exception of fiscal year ending June 30, 2008, have been less than the benefits paid from the fund in such year. Contributions to the fund are made by employees and by General Fund appropriations from the State. State contributions to the fund are made quarterly on the basis of certifications submitted by the Teachers' Retirement Board and are funded with annual appropriations from the General Fund. State contributions to the Fund for fiscal year ending June 30, 2008 included \$2.0 billion of the proceeds of the State's \$2,276,578,270.75 Taxable General Obligation Bonds (Teachers' Retirement Fund 2008 Series), as discussed below.

### ***November 2010 Actuarial Valuation***

Actuarial valuations are performed as of June 30th of each even-numbered year. The actuarial valuation uses recognized actuarial methods to calculate the actuarial value of assets and the actuarial accrued liability of the Teachers' Retirement Fund. The actuarial accrued liability is determined using the entry age normal cost method as the portion of the present value of future benefits allocated to years of service prior to the valuation date. The valuation uses an asset valuation method of smoothing the difference between the market value of assets and actuarial value of assets to prevent extreme fluctuations that may result from short-term or cyclical economic and market conditions. The actuarial value of assets is determined by first projecting the actuarial value forward from the beginning of the prior fiscal year based on the actual cash flow during the fiscal year and the assumed investment rate of return. One fourth of any difference between this expected actuarial value and the actual market value is added to or subtracted from the expected actuarial value to arrive at the actuarial value of assets in order to "smooth" year to year changes in market values. The unfunded actuarial liability is the actuarial liability less the actuarial value of assets. The valuation includes a projection from the valuation date to future years based on certain key assumptions such as the investment return on the market value of assets, the rates of withdrawal of active members who leave covered employment before qualifying for any monthly benefit, the rates of mortality, the rates of disability, the rates of pay increases and the assumed age or ages at actual retirement.

The market value of the Teachers' Retirement Fund's investment assets, as reported in the actuarial valuation dated November 3, 2010, was \$11,397.1 million as of June 30, 2009 and \$12,273.6 million as of June 30, 2010. As of June 30, 2011, the market value of the fund's investment assets was \$14,143.9 million. The market value of the fund's investment assets is continually subject to change based on a variety of factors, including changes in the financial and credit markets and general economic conditions. The actuarial valuation also indicated that the Teachers' Retirement Fund had assets with an actuarial value of \$14,875.4 million as of June 30, 2009 and \$14,430.2 million as of June 30, 2010. The November 2010 actuarial valuation indicated that as of June 30, 2010, the Teachers' Retirement Fund had actuarial accrued liabilities of \$23,495.9 million and an unfunded actuarial accrued liability of \$9,065.7 million. Based on a market value of assets, the Teachers' Retirement Fund had a funded ratio of 52.2% as of June 30, 2010 and 60.2% as of June 30, 2011. The November 2010 actuarial valuation indicated that as of June 30, 2010 the Teachers' Retirement Fund had a funded ratio of 61.4% based on the actuarial value of the assets.

The November 2010 actuarial valuation was based upon an 8.50% earnings assumption, and projected salary increases of 4% and cost-of-living adjustments of 3.0% annually for members retired before September 1992 and 2.0% for members retired on and after September 1, 1992. The November 2010 actuarial valuation uses an amortization method that calculates the amortization payment for the Teachers' Retirement Fund's unfunded actuarial accrued liability, that is included in the actuarially recommended employer contribution requirement rate of contribution based on a level percentage of payroll payments over a declining period of years, starting with 40 years as of July 1, 1991 for the contribution for fiscal year beginning July 1, 1992. The net effective amortization period for the computed State contribution amounts for fiscal years ending June 30, 2010 and June 30, 2011 is 25.3 years. While this method of funding does lead to full funding by the end of the

amortization period, the repayment of the UAAL is not level. Because of this, even if the State were to contribute the full amount of the actuarially recommended contributions and all other actuarial assumptions were met, the UAAL for the Teachers' Retirement Fund is not anticipated to be reduced significantly until the latter years of the amortization period. Following full amortization of the UAAL, the actuarially recommended contribution would decrease substantially as it would consist solely of the funding of normal costs representing the portion of the present value of retirement benefits that are allocable to active members' current year of service.

The November 2010 actuarial valuation determined the following employer contribution requirements, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions, which contributions are sufficient to meet GASB standards: (i) \$757.2 million for fiscal year ending June 30, 2012, and (ii) \$787.5 million for fiscal year ending June 30, 2013. To meet the annual contribution requirements, the State appropriated \$757.2 million for fiscal year ending June 30, 2012 and \$787.5 million for fiscal year ending June 30, 2013, which amounts will be sufficient to fully fund the employer contribution requirements for those fiscal years.

### ***Investment Returns***

For periods ending June 30, 2011, the Treasurer has realized annualized net returns on investment assets in the Teachers' Retirement Fund of 8.03% over the past twenty years, of 7.29% over the past fifteen years, of 5.46% over the past ten years and of 4.79% over the past five years. These annualized net returns incorporate the negative return on investment assets resulting from the general market downturn during the Fall of 2008 through the Spring of 2009. The November 2010 actuarial valuation was based upon an 8.50% earnings assumption.

Set forth below are State contributions to the Teachers' Retirement Fund, employee contributions, investment income, net realized gains and losses, net unrealized gains and losses, benefits paid, actuarial recommended contributions and market value of assets for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of fund assets, the resulting unfunded accrued liabilities and the funded ratios on an actuarial and market basis for the actuarial valuations as of June 30, 2008 and June 30, 2010.

**TABLE 21**  
**Teachers' Retirement Fund <sup>(a)</sup>**

	<b>Year Ending June 30</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
General Fund					
Contributions.....	\$ 412,101,958	\$ 2,518,560,263 <sup>(b)</sup>	\$ 539,302,674	\$ 559,224,244	\$ 581,593,216
Employee					
Contributions <sup>(c)</sup> .....	<u>239,077,395</u>	<u>233,971,635</u>	<u>243,124,657</u>	<u>254,062,668</u>	<u>256,146,274</u>
Total Contributions .....	\$ 651,179,353	\$ 2,752,531,898	\$ 782,427,331	\$ 813,286,912	\$ 837,739,490
Investment Income <sup>(d)</sup> .....	\$ 482,745,492	\$ 519,183,177	\$ 393,748,965	\$ 321,398,381	\$ 456,449,949
Net Realized Gains					
(Losses) <sup>(e)</sup> .....	\$ 650,696,447	\$ 188,080,715	\$ 24,937,167	\$ 502,466,817	\$ 202,550,683
Net Unrealized Gains					
(Losses) .....	<u>967,671,640</u>	<u>(1,414,057,911)</u>	<u>(2,958,832,005)</u>	<u>648,184,236</u>	<u>1,857,979,982</u>
Total Net Gains (Losses)...	\$ 1,618,368,087	\$ (1,225,977,196)	\$ (2,933,894,838)	\$ 1,150,651,053	\$ 2,060,530,665
Benefits Paid <sup>(f)</sup> .....	\$ 1,159,443,441	\$ 1,266,950,462	\$ 1,381,129,716	\$ 1,415,903,458	\$ 1,499,898,601
Actuarial Recommended					
Contribution .....	\$ 412,098,510	\$ 518,560,263	\$ 539,302,674	\$ 559,224,000	\$ 581,593,000
Percentage of Actuarial					
Recommended Contribution					
Made .....	100.0%	485.7% <sup>(b)</sup>	100.0%	100.0%	100.0%
Actuarial Accrued					
Liabilities .....	N/A	\$21,801,020,991	N/A	\$23,495,916,000	N/A
Actuarial Values of					
Assets <sup>(g)</sup> .....	N/A	<u>15,271,012,785</u>	N/A	<u>14,430,187,000</u>	N/A
Unfunded Accrued					
Liabilities .....	N/A	\$ 6,530,008,206	N/A	\$ 9,065,729,000	N/A
Market Value of Assets					
(as reported in					
Actuarial Valuation).....	\$13,744,769,795	\$14,551,467,434	\$11,397,053,000	\$12,273,604,000	\$14,143,881,048
Funded Ratio					
(actuarial value).....	N/A	70.0%	N/A	61.4%	N/A
Funded Ratio					
(market value) .....	N/A	66.7%	N/A	52.2%	N/A
Ratio of Actuarial Value					
of Assets to Market					
Value of Assets .....	N/A	105%	N/A	117%	N/A

- (a) As actuarial valuations are performed every two years, not all of the data is available for each year.
- (b) In April 2008 the State issued \$2,276,578,270.75 Taxable General Obligation Bonds (Teachers' Retirement Fund 2008 Series) and \$2.0 billion of the proceeds of such bonds were deposited into the Teachers' Retirement Fund.
- (c) Includes municipal contributions under early retirement incentive programs (\$2,659,720 during fiscal year 2006-07, \$1,667,810 during fiscal year 2007-08, \$1,573,023 during fiscal year 2008-09, \$857,420 during fiscal year 2009-10 and \$902,153 during fiscal year 2010-11). Does not include employee contributions to the Teachers' Retirement Health Insurance Fund.
- (d) Investment Income (exclusive of net realized gains and losses).
- (e) Net realized gain (loss) on shares redeemed.
- (f) Does not include refunds with respect to withdrawals of account balances by inactive members who terminate membership (\$6,212,663 during fiscal year 2006-07, \$16,314,549 during fiscal year 2007-08, \$14,691,011 during fiscal year 2008-09, \$12,382,933 during fiscal year 2009-10 and \$16,181,894 during fiscal year 2010-11).
- (g) For fiscal year 2006-2007, includes cost-of-living adjustment reserve account. As of June 30, 2007 the fund was dissolved and its assets combined with Teachers' Retirement Fund assets.

### ***2011 Experience Study***

The Teachers' Retirement Board received an experience study dated April 7, 2011 prepared by the actuaries for the Teachers' Retirement Fund for the five-year period ending June 30, 2010, assessing the reasonability of the actuarial assumptions and valuation methods used by the retirement system. As a result of the study, the actuaries recommended that revised assumptions be adopted by the Teachers' Retirement Board for future use, which assumptions the Board adopted at its meeting held April 6, 2011. The revised assumptions would be incorporated into the actuarial valuation to be completed as of June 30, 2012, to be used to calculate the State's employer contribution requirements for fiscal years ending June 30, 2014 and June 30, 2015. Generally, the current assumptions, including an 8.50% earnings assumption, were retained, with a change to the annual rate of real wage increase (from 1.00% to 0.75%), minor changes to the current service based rates, a change to the payroll growth assumption (from 4.00% to 3.75%), a minor change to the male rates of withdrawal from the system, and a change to the current assumption for early retirement. The actuaries' analysis of the impact of the recommended changes if applied to the results of the November 2010 actuarial valuation as of June 30, 2010, would result in modest but favorable impacts on the normal cost rate, funded ratio, unfunded actuarial accrued liability and employer contribution rate.

The actuaries performed a statistical analysis of long-term expectations and analyzed the 25<sup>th</sup> and 75<sup>th</sup> percentile of long term return expectations consistent with Actuarial Standards of Practice. The current 8.5% return assumption was found to be in the reasonable range for investment return assumptions and no change was recommended. For comparative purposes, the actuaries also presented in the experience study the impact on the November 2010 actuarial valuation results of the recommended changes with the substitution of an 8.25% investment return assumption. Under this alternate scenario, the normal cost rate would increase by 0.33%, the funded ratio on an actuarial basis would be reduced by 1.3% reflecting a \$508.4 million increase in the unfunded actuarial accrued liability, and the employer contribution requirement would increase by 1.26%, with the expected employer contribution requirement for fiscal year ending June 30, 2012 increasing by \$45.7 million.

### ***Pension Obligation Bonds***

Public Act No. 07-186 authorized the issuance of general obligation bonds ("TRF Bonds") of the State in amounts sufficient to fund a \$2.0 billion deposit to the Teachers' Retirement Fund plus amounts required for costs of issuance and up to two years of capitalized interest. The Secretary of the Office of Policy and Management and the State Treasurer subsequently determined that issuance of such bonds would be in the best interests of the State, and in April 2008 the State issued \$2,276,578,270.75 of such bonds.

Section 8 of Public Act No. 07-186 provides that in each fiscal year that any TRF Bonds (or any refunding bonds) are outstanding, there shall be deemed appropriated from the General Fund an amount equal to the annual required contribution to the Teachers' Retirement Fund, and such amount shall be deposited in the fund in such fiscal year. The amounts of the annual required contributions for each biennial budget shall be based on the actuarial valuation required to be completed by the December 1 prior to the beginning of the next biennial budget. Under Section 8 the State has pledged to and agreed with the holders of any TRF Bonds that, so long as the actuarial evaluation of the Teachers' Retirement Fund is completed and the certification of the annual contribution amounts is made as required by such Section, no public or special act of the General Assembly shall diminish such required contribution until such bonds, together with interest thereon, are fully met and discharged unless adequate provision is made by law for the protection of the holders of the bonds. Such contributions may be reduced in any biennium, however, if (i) the Governor declares an emergency or the existence of extraordinary circumstances (which may include changes in actuarial methods or accounting standards) in which the provisions of Section 4-85 of the Connecticut General Statutes is invoked, (ii) at least three-fifths of the members of each Chamber of the General Assembly vote to diminish such required contributions during the biennium for which the emergency or extraordinary circumstances are determined, and (iii) the funded ratio of the fund is at least equal to the funded ratio immediately after the sale of the bonds in accordance with the actuarial method used at the time. If such conditions are met, the funding of the annual required actuarial contribution may be diminished, but in no event shall such diminution result in a reduction

of the funded ratio of the fund by more than 5% from the funded ratio which would otherwise have resulted had the State funded the full required contribution, or the funded ratio immediately after the sale of the bonds, whichever is greater.

***Contribution, Eligibility and Benefits Requirements***

Effective July 1, 1992, each member of the Teachers’ Retirement Fund is required to contribute 6% of annual salary for the pension benefit. The State’s contribution requirement is determined in accordance with Section 10-183z of the General Statutes, which requires the retirement system to be funded on an actuarial reserve basis.

Eligibility for normal retirement benefits is available at age 60 for those with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut. The normal retirement benefit is 2% of average annual salary received during three years of highest salary times years of credited service (maximum benefit is 75% of average annual salary received during three years of highest salary), subject to certain maximum dollar limits under the Internal Revenue Code of 1986, as amended. In addition, amounts derived from the accumulation of supplemental account contributions made prior to July 1, 1989 and voluntary contributions by the member are payable. Effective January 1, 1999, there is a minimum monthly retirement benefit of \$1,200 to members who retire under the normal retirement provisions and who have completed at least 25 years of full time Connecticut service at retirement. The plan also provides reduced early retirement and pro-ratable retirement benefit, disability retirement benefits, return with interest on certain contributions upon termination of employment, and pre-retirement death benefits for spouses and dependent children. The average annual benefit payable to a retired member in fiscal year ending June 30, 2011 was approximately \$50,400.

The plan includes cost-of-living allowances as set forth below:

**TABLE 22**  
**Teachers’ Retirement Benefit Cost-Of-Living Allowances**

<u>Retirement Date</u>	<u>Adjustments Consistent With Adjustments To:</u>	<u>Minimum Increase</u>	<u>Maximum Increase</u>	<u>Limitation On Maximum Increase Based On Previous Year’s Plan Assets Return</u>
Prior to September 1, 1992	National Consumer Price Index for Urban Wage Earners and Clerical Workers	3.0% per annum	5.0% per annum	N/A
On or after September 1, 1992, and became System member before July 1, 2007 <sup>(a)</sup>	Social Security benefits on January 1 of the year granted	0.0% per annum	6.0% per annum	If asset return less than 8.5% per annum, the maximum increase is 1.5%
On or after July 1, 2007, and became System member after July 1, 2007 <sup>(a)</sup>	Social Security benefits on January 1 of the year granted	0.0% per annum	5.0% per annum	If asset return less than 11.5% per annum, the maximum increase is 3.0%; if less than 8.5% per annum, maximum increase is 1.0%.

(a) Based on the current cost-of-living allowances formulas no benefit adjustment for fiscal years ending June 30, 2010 and 2011 was granted for members retiring on or after September 1, 1992. For fiscal year ending June 30, 2012, a 3.6% benefit adjustment was granted.

A local or regional board of education may offer a retirement incentive plan. Such plan is required to provide for the purchase by the board of education and a member of the system who chooses to participate in the plan of additional credited service from the Teachers’ Retirement Fund for such member and for payment



by the board of education of not less than 50% of the entire cost of such total cost. Any such plan shall specify a maximum number of years to be purchased, not to exceed five. Members must have attained age 50 and be eligible for retirement with the additional purchased service. The amount of service purchased cannot exceed the lesser of five years or one-fifth of the member's credited service.

### Investment of Pension Funds

Twelve investment funds serve as the investment medium for the State Employees' Retirement Fund and the Teachers' Retirement Fund. They are the Mutual Equity Fund, the Developed Markets International Stock Fund, the Emerging Markets International Stock Fund, the Core Fixed Income Fund, the Emerging Markets Debt Fund, the High Yield Debt Fund, the Inflation Linked Bond Fund, the Liquidity Investment Fund, the Real Estate Fund, the Private Investment Fund, the Commercial Mortgage Fund, and the Alternative Investment Fund. See also **FINANCIAL PROCEDURES** herein. Set forth below are the percentage allocation of holdings for the State Employees' Retirement Fund and the Teachers' Retirement Fund as of June 30, 2011 in each of these twelve funds.

**TABLE 23**  
**Pension Fund Investment Allocations**  
**As of June 30, 2011**

	<u>State Employees'</u> <u>Retirement Fund</u>	<u>Teachers'</u> <u>Retirement Fund</u>
Mutual Equity Fund .....	27.4%	26.5%
Developed Markets International Stock Fund .....	21.9%	21.9%
Emerging Markets International Stock Fund .....	10.6%	10.6%
Core Fixed Income Fund .....	10.3%	10.1%
Emerging Markets Debt Fund ....	4.5%	4.5%
High Yield Fund .....	2.8%	2.8%
Inflation Linked Bonds Fund ....	4.1%	4.1%
Liquidity Investment Fund .....	3.1%	4.2%
Real Estate Fund .....	4.3%	4.3%
Private Investment Fund .....	8.9%	8.9%
Commercial Mortgage Fund <sup>(a)</sup> ....	0.0%	0.0%
Alternative Investment Fund .....	<u>2.1%</u>	<u>2.1%</u>
	100.0%	100.0%

(a) As of June 30, 2011 total net assets of the Fund (including non-retirement fund investments) were \$2,390,274. The sole remaining asset in the fund matures on September 2012.

### Other Retirement Systems

The other minor retirement systems funded by the State include the Judges, Family Support Magistrates and Compensation Commissioners Retirement System (the Judicial Retirement System), the General Assembly Pension System, the State Attorneys' Retirement Fund and the Public Defenders' Retirement Fund. As of June 30, 2011, there were approximately 206 active members of these plans and approximately 173 retired members.

Unclassified employees of the Connecticut State System of Higher Education and the central office staff of the Department of Higher Education are eligible to participate in the Connecticut Alternate Retirement Program. This program is a defined contribution program, and thus the State has no unfunded liability with respect to the program. All member contributions and State appropriations are held in a separate retirement fund by the third party administrator of the plan, who invests the fund's assets allocable to a member at the

direction of such member in the investment funds available under the plan. A member may not withdraw funds from the plan unless such member has reached age 55 and has terminated from service, retired or died, provided that any member with less than five years of participation in the plan who is under the age of 55 and terminates from service may rollover such member's entire account into an eligible retirement plan.

The State is the administrator of the Connecticut Municipal Employees' Retirement System and the Connecticut Probate Judges and Employees' Retirement System. As the administrator of these systems the State owes a fiduciary obligation to these systems; however, the State has no direct financial liability to pay benefits under these systems.

## **Social Security and Other Post-Employment Benefits**

### ***Social Security – State Employees***

State Police whose employment commenced after February 21, 1958 but before May 8, 1984 are not entitled to social security coverage; pursuant to a collective bargaining agreement, State Troopers hired on or after May 8, 1984 are entitled to Social Security coverage. Members of a retirement system other than the State Employees' Retirement Fund (and thus most teachers), whose employment commenced after February 21, 1958 are not entitled to social security coverage except that pursuant to a collective bargaining agreement, members of the Connecticut Alternate Retirement Program hired on or after July 13, 1990 are entitled to social security coverage and members hired prior to that date were provided with the one-time option to elect such coverage effective July 13, 1990. Other State employees are entitled to Social Security coverage. As of June 30, 2011, approximately 58,342 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year ending June 30, 2011 was \$296.5 million. Of this amount, \$217.7 million was paid from the General Fund and \$14.6 million was paid from the Special Transportation Fund. The State has appropriated \$263.5 million for Social Security coverage for fiscal year ending June 30, 2012. Of this amount, \$244.9 million has been appropriated from the General Fund and \$18.6 million has been appropriated from the Special Transportation Fund.

### ***Other Post-Employment Benefits – State Employees***

The State provides post-retirement health care and life insurance benefits to all employees who retire from State employment. The State currently finances the cost of such benefits on a pay-as-you-go basis. The State has established a trust for the accumulation of assets with which to pay post-retirement health care benefits and post-retirement life insurance benefits in future years. All employees hired on or after July 1, 2009 are required to contribute 3% of salary through their tenth year of service, to be deposited into the trust. Commencing July 1, 2010, employees with less than five years of service will be required to contribute 3% of salary through their tenth year of service, to be deposited into the trust. SEBAC 2011 extended the requirement of trust contributions to all other State employees to be phased in beginning July 1, 2013, as follows: 0.5% of salary for fiscal year ending June 30, 2013, 2.0% of salary for fiscal year ending June 30, 2014, and 3.0% of salary for fiscal ending June 13, 2015 and thereafter, with a period of required contribution of ten years or to the beginning of retirement (whichever occurs first). As of June 30, 2011, the fair market value of the trust's investment assets was \$22.9 million. The trust is invested in the Short Term Investment Fund. See also **FINANCIAL PROCEDURES** herein. The State will need to make significant General Fund appropriations for post-retirement health care and life insurance benefits in upcoming fiscal years. For fiscal year ending June 30, 2011, General Fund expenditures on post-retirement health care and life insurance benefits was \$490.9 million. For fiscal year ending June 30, 2012, \$565.1 million has been appropriated for General Fund expenditures for post-retirement health care and life insurance benefits.

Implementation of GASB Statement No. 45 regarding accounting and financial reporting for post-employment benefits other than pensions requires the State to obtain an analysis of the unfunded actuarial accrued liability of such post-retirement health care and life insurance benefits and to recognize the annual required contribution to fund that actuarial liability in its financial statements commencing with those for fiscal

year ending June 30, 2008. The State received an actuarial report dated March 2007 with respect to the State's liability for post-retirement health care benefits for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System. The actuarial liability is determined directly as the present value of benefits accrued to date, where the accrued benefits for each member is the pro-rata portion (based on service to date) of the projected benefit payable. The report indicated an OPEB actuarial accrued liability as of April 1, 2006 estimated to range from \$11.4 billion to \$21.7 billion. The amounts depend upon various assumptions including those with respect to medical cost inflation rates, the establishment of a trust to fund those liabilities, the amount of initial and annual amounts deposited in such a trust and discount rates. The report used discount rates ranging from 4.5% to 8.5%. The amount of the annual required contribution under these various assumptions ranged from \$1.0 billion to \$1.6 billion for fiscal year ending June 30, 2007, based on a projected unit credit actuarial cost method and level percent-of-payroll contributions. Additional assumptions were also tested for sensitivity analysis which produced different results. The annual required contribution included the cost for both current eligible employees and retirees.

The State received an interim actuarial valuation dated February 16, 2009 with respect to the State's liability for post-retirement health care benefits (not including life insurance benefits) for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System, based upon the stated assumptions of the March 2007 actuarial report but reflecting actual increases in the State's medical and dental costs between April 1, 2006 and June 30, 2008. The report indicates an OPEB actuarial accrued liability as of June 30, 2007 of up to \$23.1 billion and a projected actuarial accrued liability as of June 30, 2008 of up to \$24.6 billion on an unfunded basis with no valuation assets available to offset the liabilities of the plan. The interim actuarial valuation determined an employer contribution requirement for fiscal year ending June 30, 2008 of up to \$1.66 billion on an unfunded basis, based on a projected unit credit actuarial cost method and level percent-of-payroll contributions.

In December 2010, the State received an actuarial valuation as of April 1, 2008 with respect to the State's liability for post-retirement health care benefits (not including life insurance benefits) for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System. Several assumptions were revised from the last actuarial valuation performed as of April 1, 2006. The December 2010 valuation indicates an OPEB actuarial accrued liability as of April 1, 2008 of \$26.6 billion on an unfunded basis and \$14.0 billion on a funded basis assuming the baseline medical inflation rate, which rate varies from 7.65% to 4.70% over time. The actuarial valuation determined the amount of the annual required contribution for fiscal year ending June 30, 2009, based on a projected unit credit actuarial cost method, level percent-of-payroll amortization over 30 years, to be \$1.94 billion on an unfunded basis, applying a 4.5% discount rate, and \$1.20 billion on a funded basis, applying an 8.25% discount rate. The annual required contribution included the cost for both current eligible employees and retirees. Additional assumptions were also tested for sensitivity analysis which produced different results. It should be noted that because of the April 1, 2008 valuation date these results do not reflect the impact of the 2009 retirement incentive program or the SEBAC 2009 mandatory OPEB contribution of 3% of salary by certain employees, as noted above. The next valuation will take these changes into account. The December 2010 valuation indicates that annual State payments for OPEB benefits are expected to rise sharply in coming years, both because medical and dental costs are expected to rise over time and because more employees will retire and receive State-paid OPEB benefits. The valuation projected State annual payments for OPEB benefits, net of any cost-sharing payments made by retirees, of \$661.1 million for fiscal year ending June 30, 2012, rising to \$1,179.0 million for fiscal year ending June 30, 2018, assuming the baseline medical inflation rate. The valuation also projected that the OPEB actuarial accrued liability is expected to grow over the ten fiscal year years ending June 30, 2008 through June 30, 2017, reaching approximately \$45 billion, assuming an unfunded scenario.

The State anticipates receiving an actuarial valuation in Spring 2012 with respect to the State's liability for post-retirement health care benefits (not including life insurance benefits) for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System. While the December 2010 valuation indicated that annual State payments for OPEB benefits were

expected to rise sharply in coming years, no assurances can be made that the rate of such increases determined by the new valuation will match the estimates made in the December 2010 valuation. The new valuation will reflect the impact of recent plan changes made pursuant to SEBAC 2011.

For fiscal years ending June 30, 2007 through June 30, 2011, the State paid \$458.4 million, \$498.2 million, \$521.9 million, \$525.5 million and \$524.6 million, respectively, for eligible employees' health care costs. For fiscal years ending June 30, 2007 through June 30, 2011, the State paid \$415.4 million, \$450.4 million, \$434.6 million, \$527.9 million and \$490.9 million, respectively, for retirees' health care costs. The State has appropriated \$644.5 million for eligible employees' and \$565.1 million for retirees' health care costs in fiscal year ending June 30, 2012. The State has appropriated \$706.3 million for eligible employees' and \$614.1 million for retirees' health care costs in fiscal year ending June 30, 2013.

Set forth below for each of the past five fiscal years are the number of employees retired from State employment eligible to receive post-retirement health care and life insurance benefits, the number of retirees, respectively, actually receiving health care benefits and life insurance benefits, and the amount of General Fund appropriations by the State for such coverage.

**TABLE 24**  
**State Employee Retirees Health Care and Life Insurance Benefits**

	<b>Year Ending June 30</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Retirees Eligible to Receive Benefits .....	37,506	38,917	38,736	42,556	43,086
Retirees Receiving Health Care Benefits .....	37,304	37,865	38,613	42,383	42,905
Retirees Receiving Life Insurance Benefits .....	25,565	25,581	25,368	27,694	28,017
General Fund Appropriations for Retiree Health Care and Life Insurance Benefits (millions) .....	\$435.5	\$472.0	\$458.0	\$541.0	\$595.3 <sup>(a)</sup>

(a) Of the \$595.3 million appropriated for fiscal year ending June 30, 2011, \$490.9 million was expended.

***Other Post-Employment Benefits – Teachers***

The State is required to make General Fund appropriations to the Teachers' Retirement Board to cover one-third of retiree health insurance costs plus any portion of the balance of such costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund. Legislation which became effective July 1, 1998 generally requires the State to subsidize the health insurance costs of retired teachers who are not members of the Teachers' Retirement Board's health benefit plan in a manner consistent with its prior practice of subsidizing the health insurance costs of those retired teachers who were members of the Board's health benefit plan. Legislation which became effective July 1, 2008 generally requires the State to subsidize a portion of the health insurance costs of retired teachers who have attained normal retirement age, are ineligible to participate in Medicare Part A and pay to participate in local board of education retiree health benefit plans. No General Fund appropriations to the Teachers' Retirement Fund to cover retiree health insurance costs have been made for fiscal years ending June 30, 2010 and June 30, 2011. The State made General Fund appropriations of \$32.3 million and \$34.4 million for fiscal years ending June 30, 2012 and June 30, 2013, respectively, to subsidize the Teachers' Retirement Health Insurance Fund. The Governor's proposed midterm budget adjustments for fiscal year ending June 30, 2013, would reduce the State's appropriation to \$22.3 million, and would utilize Medicare Part D prescription drug reimbursements to offset in part the State's share of retiree health costs. The Teachers' Retirement Board is monitoring the impact of the reduction in levels of State funding for fiscal years ending June 30, 2010 and June 30, 2011, and the

proposed reduction in State funding for the fiscal year ending June 30, 2013. The Teachers' Retirement Health Insurance Fund is invested in the Short Term Investment Fund. See also **FINANCIAL PROCEDURES** herein. Fund assets do not constitute plan assets for purposes of GASB Statements Nos. 43 and 45, and for actuarial valuation purposes fund assets are not treated as valuation assets available to offset the accrued liability of the plan. Since July 1, 1994, retiree health benefits have been self-insured.

Implementation of GASB Statement No. 45 requires the State to obtain an analysis of the unfunded actuarial accrued liability of such retiree health insurance benefits and to recognize the annual required contribution to fund that actuarial liability in its financial statements commencing with those for fiscal year ending June 30, 2010. The Teachers' Retirement Board has received an actuarial valuation dated November 3, 2010 of the State's liability with respect to post-retirement health care benefits for members of the Teachers' Retirement Fund and for retired teachers who are not members of the Teachers' Retirement Board's health benefit plan. The actuarial liability is determined directly as the present value of benefits accrued to date, where the accrued benefits for each member is the pro-rata portion (based on service to date) of the projected benefit payable. The report indicates an actuarial accrued liability as of June 30, 2010 of \$2,997.9 million on an unfunded basis, based upon certain stated assumptions including a 4.5% earnings assumption and a 30 year amortization period and no valuation assets available to offset the liabilities of the plan. The actuarial valuation determined a \$177.1 million employer contribution requirement for fiscal year ending June 30, 2011 and \$184.1 million for fiscal year ending June 30, 2012, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions.

Set forth below for each of the past five fiscal years are State contributions to the Teachers' Retirement Health Insurance Fund to cover retiree health insurance costs and the portions of such contribution attributable to post-retirement Medicare supplement health insurance and to the health insurance cost subsidy for retired teachers who are not members of the Board's health benefit plan, active and retired teacher's contributions, investment income, Federal drug subsidy receipts, the expenditures from the Fund, and the reported fund balance of the Fund as of June 30.

**TABLE 25**  
**Teachers' Retirement Health Insurance Fund**

	<b>Year Ending June 30</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
General Fund Contribution					
Attributable To Post-Retirement Medicare Supplement Health Insurance .....	\$12,922,673	\$12,909,315	\$ 14,548,169	\$ 2,131,222 <sup>(a)</sup>	\$ 0
General Fund Contribution					
Attributable To Non-Board Health Insurance Cost Subsidy....	7,826,864	<u>7,860,352</u>	<u>7,885,215</u>	<u>1,927,646<sup>(a)</sup></u>	<u>0</u>
Total General Fund Contributions.....	\$20,749,537	\$20,769,667	\$ 22,433,384	\$ 4,058,868 <sup>(a)</sup>	\$ 0
Teacher Contributions (Active and Retired).....	61,423,462	60,272,401	70,809,453	71,992,702	72,388,441
Investment Income .....	1,567,189	1,484,545	1,136,999	180,959	135,395
Federal Drug Subsidy.....	<u>0</u>	<u>4,089,580</u>	<u>7,061,830</u>	<u>8,049,190</u>	<u>5,312,119</u>
Total Receipts .....	\$83,740,188	\$86,616,193	\$101,441,666	\$84,281,719	\$78,835,955
Fund expenditures .....	<u>(\$62,251,292)</u>	<u>(\$71,111,961)</u>	<u>(\$ 85,195,057)</u>	<u>(\$91,944,607)</u>	<u>(\$91,852,759)</u>
Fund Balance as of June 30.....	\$ 42,034,349	\$57,538,581	\$ 73,785,190	\$66,072,302 <sup>(b)</sup>	\$53,055,498

(a) Correcting adjustment as to prior General Fund contributions; does not reflect an actual receipt.

(b) An administrative review of the Fund has determined that the reported fund balance as of June 30, 2010 is overstated by approximately \$2.0 million. A correcting adjustment will be made as of June 30, 2011.

## **October 2010 Report of the Connecticut State Post-Employment Benefits Commission**

Former Governor M. Jodi Rell established the State Post-Employment Benefits Commission (the “Commission”) pursuant to Executive Order, and charged the Commission with delivering a report that identifies the amount and extent of unfunded liabilities for pensions and other post-employment benefits, compares and evaluates advantages and disadvantages of various approaches for addressing unfunded pension liabilities and post-employment benefits, and proposes short and long-term plans for addressing unfunded pension liabilities and post-employment benefits. The Commission issued its Final Report (the “PEBC Report”) on October 28, 2010. The PEBC Report projected the annual costs related to contributions to the State Employees’ Retirement Fund and the Teachers’ Retirement Fund, debt service on the approximately \$2.3 billion general obligation bonds issued in April 2008 to fund a \$2.0 billion deposit to the Teachers’ Retirement Fund (collectively, “Non-OPEB Benefit Cost”), and pay-as-you-go basis cost of other post employment benefits (“OPEB Cost”) to be 11.2% of State expenditures for fiscal year ending June 30, 2011. Using various assumptions and absent no plan changes, the PEBC Report projected these costs will account for an increasing percentage of total State expenditures in the future, rising to 13.7% percent of State expenditures for fiscal year ending June 30, 2021, and 19.0% of State expenditures for fiscal year ending June 30, 2032. The primary component of the projected increases was OPEB Cost, which the PEBC Report assumed would continue to be addressed on a pay-as-you-go basis and have average annual cost increases of 10%. Using the PEBC Report’s assumptions, Non-OPEB Benefit Cost would be projected as 8.1% of State expenditures for fiscal year ending June 30, 2011, rising to 8.6% percent of State expenditures for fiscal year ending June 30, 2021, and 10.3% of State expenditures for fiscal year ending June 30, 2032. The PEBC Report reviewed various potential strategies to address pension and OPEB liabilities and costs, including but not limited to paying the full annual required contribution in each year with respect to pension and OPEB liabilities, various approaches to calculating such annual required contribution, the level of employee contributions with respect to benefits, the issuance of pension obligation bonds, plan design and benefit modification strategies, prefunding of OPEB costs in a trust fund, and healthcare cost benefit management.

### **Additional Information**

The audited financial statements for fiscal year ending June 30, 2011, which are included as **Appendix III-C** hereto, and in particular notes 11 through 15 and note 17 and the required PERS Supplementary Information of the accompanying Basic Financial Statements, provide additional information about the foregoing retirement systems and their funding. In addition, paragraph B of note 26 of such financial statements identifies a contingent liability of the State to pay pension liabilities of certain persons who are not employees of the State.

The cumulative value of the annual differences between the State’s contribution to a public employee pension or OPEB plan and the actuarially recommended contribution to the plan for that fiscal year constitutes the “net pension obligation” or “net OPEB obligation” of the State with respect to such plan, and is reported as a liability in the State’s financial statements. The net pension obligation or net OPEB obligation of the State with respect to a plan is not the equivalent of the State’s actuarial accrued liability with respect to such plan.

GASB requires actuarial valuations of pension or OPEB plans to be performed as of a date not more than two years prior to the date of financial statements in order for the results of the valuation to be reflected in those financial statements. Because as of June 30, 2010, the latest actuarial valuation with respect to the State’s liability for post-retirement health care benefits for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers’ Retirement System, was as of April 1, 2008 and not within such two year period, required disclosures for the plan on funded status, funding progress, and actuarial methods and assumptions could not be included in Note 14 of the June 30, 2011 Basic Financial Statements or in the required PERS Supplementary Information accompanying the Basic Financial Statements. Certain estimates were made to include the net OPEB obligation in the liabilities of the State’s Basic Financial Statements in **Appendix III-C**.

## LITIGATION

The State and its officers and employees are parties to numerous legal proceedings, many of which normally occur in government operations. The final outcomes of most of these legal proceedings are not, in the opinion of the Attorney General, either individually or in the aggregate likely to have a material adverse impact on the State's financial position.

There are, however, several legal proceedings which, if decided adversely against the State, either individually or in the aggregate may require the State to make material future expenditures or may impair revenue sources. It is not possible to determine the impact that the outcomes of these proceedings, either individually or in the aggregate, could have on the State's financial position. Among these proceedings, an adverse judgment in the matters described below, in the opinion of the Attorney General, individually could have a fiscal impact on the State of \$15 million or more.

*Sheff v. O'Neill* is a Superior Court action originally brought in 1989, on behalf of school children in the Hartford school district. In 1996, the State Supreme Court reversed a judgment the Superior Court had entered for the State, and remanded the case with direction to render a declaratory judgment in favor of the plaintiffs. The Court directed the legislature to develop appropriate measures to remedy the racial and ethnic segregation in the Hartford public schools. The Supreme Court also directed the Superior Court to retain jurisdiction of this matter. The 1997 General Assembly enacted P.A. 97-290, An Act Enhancing Educational Choices and Opportunities, in response to the Supreme Court decision.

In December 2000 the plaintiffs filed a motion seeking to have the Superior Court assess the State's compliance with the State Supreme Court's 1996 decision. Before the Court ruled upon that motion the parties reached a settlement agreement, which was deemed approved by the General Assembly and approved by the Superior Court on March 12, 2003. That agreement obliged the State over a four year period to, among other things, open two new magnet schools in the Hartford area each year, substantially increase the voluntary interdistrict busing program in the Hartford area, and work collaboratively with the plaintiffs in planning for the period after the four year duration of the proposed order. That agreement expired in June, 2007, and the anticipated costs of that agreement have been expended.

On August 23, 2006, the City of Hartford moved to intervene in the case, and on January 4, 2007, the Court granted that motion. On July 5, 2007 the plaintiffs filed a motion for an order to enforce the judgment and to order a remedy, alleging that the State remained in material non-compliance with the *Sheff* mandate. In November 2007 the Superior Court began a hearing on the plaintiffs' motion, and in January 2008 completed that hearing. A decision remained pending.

On April 4, 2008, a tentative settlement between the plaintiffs and the State requiring the State to comply with defined benchmarks over a period of time was presented to the legislature in accordance with Section 3-125a of the Connecticut General Statutes. The legislature approved the settlement on May 4, 2008 and the court approved it on June 12, 2008. Thereafter, the City of Hartford also agreed to settle with the parties. The court approved this settlement by stipulation on August 28, 2008. Under these settlements and court orders, the State has ongoing obligations to work toward certain enumerated goals by June 30, 2013 aimed at reducing racial, ethnic and economic isolation in the Hartford public schools, as detailed in the orders themselves.

On December 9, 2009, the plaintiffs filed a motion for breach of the 2008 agreement claiming that the State failed to meet a benchmark for placement of students in reduced isolation educational settings. In light of this alleged breach, they sought appointment of a special master "to ensure prompt and complete compliance" with the stipulation. On February 23, 2010, the trial court denied the plaintiffs' motion. A motion for reconsideration of that ruling was denied.

***State Employees Bargaining Agent Coalition v. Rowland*** is a Federal District Court case in which a purported class of laid off State employees have sued the Governor and the Secretary of the Office of Policy and Management alleging that they were laid off in violation of their constitutional rights. The plaintiffs claim back wages, damages, attorneys' fees and costs. The defendants moved to dismiss the action based on absolute immunity, and that motion was denied on January 18, 2005. The defendants appealed that decision to the U.S. Court of Appeals. On July 10, 2007 the U.S. Court of Appeals remanded the case back to the District Court for trial. The parties subsequently entered into a stipulation of facts and then filed cross-motions for summary judgment on all remaining claims. By ruling dated July 1, 2011, the Court granted the defendants' motion, denied plaintiffs' motion, and ordered the case dismissed. That ruling has been appealed by the plaintiffs to the U.S. Court of Appeals, which appeal remains pending. The same purported class has brought related state law claims in State Court under the caption ***Conboy v. State of Connecticut***. On October 20, 2006 the Superior Court in ***Conboy v. State of Connecticut*** denied the State's motion to dismiss, and the State has appealed. The appeal has been denied and the case has been remanded to the trial court for further proceedings. By agreement of the parties, proceedings in the state court action have been stayed pending disposition of the federal court action.

***State of Connecticut v. Philip Morris, Inc., et al.***, is the action that resulted in the 1998 Master Settlement Agreement ("MSA"), through which Connecticut and fifty-one other states and territories resolved their claims against the major domestic tobacco manufacturers. The Connecticut Superior Court retains continuing jurisdiction over disputes involving the MSA. From 2004 through 2008, the State was engaged in litigation against several tobacco companies that participate in the MSA regarding the calculation of the companies' payments to the State for the year 2003. The litigation focused on whether the parties' payment dispute must be decided by the state courts or by an arbitration panel. In December, 2008, the Connecticut Supreme Court sided with the tobacco companies and ruled that the MSA requires all aspects of the payment dispute to be arbitrated. If an arbitration results in a decision adverse to the State, that determination would likely reduce or eliminate the State's MSA payments for 2004 and possibly even subsequent years. A multi-state arbitration proceeding has commenced and is currently proceeding through the preliminary stages. It is not known when there will be a decision as to Connecticut or any other state.

In ***Connecticut Coalition for Justice in Education Funding et al. v. Rell, et al.***, brought in Hartford Superior Court, the plaintiffs are a non-profit coalition comprised of parents, teachers, school administrators and educational advocates, as well as several parents on behalf of their minor children who reside in selected rural, suburban and urban municipalities in the State. Purporting to represent a class of similarly situated students in selected school districts, plaintiffs claim the students' State constitutional rights to a free public education under Article VIII, Section 1, equality of rights under Article I, Section 1 and equal protection of the laws under Article I, Section 20 are being violated by the alleged inequitable and inadequate financing of their schools by the State. In particular, plaintiffs claim for a variety of reasons that the State's primary statutory mechanism for the distribution of State aid for public schools currently fails to ensure both substantially equal educational opportunities and a suitable education for these students, as purportedly reflected by both the educational challenges they face and their poor performance on state standardized measures. The action seeks a declaratory judgment from the Court, an injunction against the operation of the current system, an order that a new system be devised, the appointment of a special master to oversee such activities, continuing Court jurisdiction and attorney fees and costs under 42 United States Code Section 1983, on the grounds that minority students have been disproportionately impacted. The court ruled that the Coalition, as opposed to the other plaintiffs, lacks legal standing to pursue the claims. The plaintiffs sought to replead to overcome the impact of this ruling. The defendants moved to strike the plaintiffs' claims for a "suitable" education under the State Constitution. On September 17, 2007 the Superior Court issued a ruling granting the State's motion to strike three counts of the plaintiffs' complaint. After the Court's ruling, one count of the plaintiffs' complaint remained, alleging that the plaintiffs have been denied substantially equal education opportunity in violation of the State constitution. The State did not move to strike that count. The plaintiffs sought and obtained permission to appeal immediately to the Connecticut Supreme Court. On March 30, 2010 a plurality of the Supreme Court reversed the trial court, ruled that the State Constitution guarantees public school students a right to suitable educational opportunities and remanded the case for a determination of whether such



opportunities are being provided. The Court has established a schedule for discovery and scheduled a trial to commence in 2014.

**Juan F. v. Weicker.** Since 1991, the State Department of Children and Families has been operating under the provisions of a federal court-ordered consent decree in the *Juan F. v. Weicker* case. In October 2003 the State entered into an agreement with the *Juan F.* Court Monitor and lawyers representing the plaintiff class of children in the child welfare system designed to end judicial oversight of the agency by November 2006. The agreement was approved and ordered by the court. The agreement included the establishment of a Transition Task Force, which included the *Juan F.* Court Monitor, who was given full and binding authority to develop an Exit Plan. The Court Monitor's Exit Plan includes an open-ended funding provision (virtually identical to that contained in the Consent Decree). The State has objected to this provision of the Exit Plan, which was adopted by the court in December 2003, claiming in part that the Exit Plan requires the State to provide open-ended funding to implement the plan which could violate the State's constitutional cap on spending. On February 10, 2004 the court denied the State's request to reconsider the funding provision. In 2005 the Court entered orders that ended the Transition Task Force and revised the monitoring order, but left in place the open-ended funding provision. The State is currently working to meet the requirements of the Exit Plan. By letter dated May 5, 2008, the plaintiffs notified the defendants and the Court Monitor of their view that the defendants "are in actual or likely noncompliance" with two provisions of the revised monitoring order. Pursuant to the order, the parties had to engage in a period of mediation, after which the Court, if there were no negotiated resolution, could make findings and issue orders. As a remedy, the plaintiffs requested the appointment of a limited receiver tailored to address the defendants' performance regarding the two identified provisions. On July 17, 2008 the Court approved a stipulation by the parties resolving the plaintiffs' claims of noncompliance with these two provisions. The State has continued to work with the plaintiffs and the Court Monitor to meet the requirements of the Exit Plan. On April 13, 2010, the State moved to vacate the Consent Decree and the Exit Plan, arguing that DCF had substantially complied with their provisions and that further judicial oversight is, therefore, unwarranted. That motion, which was opposed by plaintiffs and the Child Advocate, acting as amicus curiae, was denied on September 22, 2010. The Court directed the parties to meet with the Court Monitor to determine whether adjustments should be made to the methods of evaluating DCF's performance. On August 17, 2010, the Court ruled that children receiving voluntary services – a program permitting parents to obtain services for disabled children without relinquishing custody – are included in the *Juan F.* class and entered an order prohibiting cessation of new admissions to the program. A motion for reconsideration of that ruling was denied on December 22, 2010. The Court Monitor's report for the period ending September 30, 2011 indicates that DCF was in compliance with 16 of 22 outcome measures during the reporting period. The current Exit Plan requires compliance with all 22 outcome measures as a condition precedent for ending judicial oversight of DCF.

**Indian Tribes.** While the various cases described in this paragraph involving alleged *Indian Tribes* do not specify the monetary damages sought from the State, the cases are mentioned because they claim State land and/or sovereignty over land areas that are part of the State of Connecticut. Several suits have been filed since 1977 in the Federal District Court and the Connecticut Superior Court on behalf of alleged *Indian Tribes* in various parts of the State, claiming monetary recovery as well as ownership to land in issue. Some of these suits have been settled or dismissed. It is possible that other land claims could be brought by other Indian groups, who have petitioned the Federal Government for Federal recognition. In any of the land claims matters, irrespective of whether federal recognition is granted, denied or upheld, a particular tribe could institute or renew land claims against the State or others, or press the claims it has already asserted.

**Golden Hill Paugussett Tribe.** The plaintiff group in one of the suits is the alleged Golden Hill Paugussett Tribe and the lands involved are generally located in Bridgeport, Trumbull and Orange. In June of 2004 the Federal Bureau of Indian Affairs denied recognition to the alleged Golden Hill Paugussett Tribe of Indians. The alleged Tribe filed an appeal with the United States Secretary of Interior, and that appeal was dismissed on March 18, 2005. On November 30, 2006 the federal district court dismissed the Golden Hill Paugussett's land claims. The Golden Hill Paugussett Tribe appealed the dismissal to the U.S. Court of Appeals for the Second Circuit, and on September

10, 2007 that appeal was dismissed. The Golden Hill Paugussett Tribe had until March 2011 to appeal the denial of its petition seeking federal recognition but no appeal was filed.

***Schaghticoke Tribal Nation.*** An additional suit was filed by the alleged Schaghticoke Tribal Nation claiming ownership of privately and town held lands in the Town of Kent. The State is not a defendant to that action. In February 2004 the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Schaghticoke Tribal Nation. The State appealed that decision to the Federal Department of Interior Board of Appeals, which on May 13, 2005 vacated the determination and remanded the matter to the Federal Bureau of Indian Affairs for reconsideration. On October 12, 2005 the Federal Bureau of Indian Affairs declined to acknowledge the Schaghticoke Tribal Nation, and the alleged Tribe appealed that decision to the United States District Court. The District Court dismissed the appeal on August 22, 2008, and the Schaghticoke Tribal Nation appealed that decision to the U.S. Court of Appeals for the Second Circuit. The land claims have been stayed pending the resolution of the federal recognition matter. On October 19, 2009 the Court of Appeals denied the appeal and affirmed the District Court's ruling. The Schaghticoke Tribal Nation filed a petition for writ of certiorari with the U.S. Supreme Court seeking review of the Court of Appeals' decision, and on October 4, 2010, the petition was denied.

***Eastern Pequot Tribe.*** In June 2002 the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Historic Eastern Pequot tribe. The State appealed the decision to the Federal Department of the Interior Board of Appeals, which on May 13, 2005 vacated the determination and remanded the matter to the Federal Bureau of Indian Affairs for reconsideration. On October 12, 2005, the Federal Bureau of Indian Affairs declined to acknowledge this group as an Indian tribe. On January 13, 2012, the Eastern Pequot filed an appeal in the federal district court for the District of Columbia, challenging on various grounds the denial of federal recognition. The State is reviewing the available legal options in response to this appeal.

***State of Connecticut Office of Protection and Advocacy for Persons with Disabilities v. The State of Connecticut, et al.,*** is an action in Federal District Court brought in February of 2006, on behalf of individuals with mental illness in nursing facilities in the State. The plaintiffs claim that the State has violated the Americans with Disabilities Act by failing to provide services for the identified group in the most integrated setting appropriate to the needs of the qualified individuals. In September 2007 the Court dismissed the plaintiff's case for lack of standing, although it left open the ability for proper plaintiffs to replead. On September 8, 2008, the plaintiffs filed an amended complaint adding five nursing home residents as plaintiffs in addition to the Office of Protection and Advocacy for Persons with Disabilities. By ruling and order dated March 31, 2010, the Court denied the defendants' motions to dismiss the amended complaint and granted the plaintiffs' motion for class certification. The Court has recently established a schedule for discovery and anticipated trial date, but the matter has been stayed until at least March 2012 by agreement of the parties while they discuss possible settlement.

***Connecticut Association of Health Care Facilities v. Rell.*** On January 28, 2010, a trade association representing for-profit nursing homes filed a lawsuit in federal court against Governor Rell. The lawsuit alleges that the nursing homes are systemically undercompensated under Connecticut's Medicaid payment system in violation of the federal Medicaid Act and State and federal constitutional guarantees against the taking of private property without just compensation. Although the lawsuit seeks only declaratory and injunctive relief, an adverse ruling requiring substantial modifications to the State's nursing home Medicaid reimbursement system could have a material fiscal impact on the State. The district court granted the defendants' motion to dismiss with the exception of one count of the complaint and denied the plaintiff's request for a preliminary injunction. The plaintiff appealed the denial of the preliminary injunction to the Court of Appeals. The Court of Appeals affirmed the district court's decision denying the preliminary injunction and denied plaintiff's motion for reconsideration and rehearing en banc. The case remains pending in the trial court, where all proceedings are stayed until 45 days after the U.S. Supreme Court issues judgment

in three consolidated cases arising out of the U.S. Court of Appeals for the Ninth Circuit addressing the availability of a claim similar to the Plaintiff's, at which time the parties must jointly report to court.

***Computers Plus Center, Inc. and Malapanis v. Department of Information Technology.*** On January 29, 2010, a State court jury returned a verdict against the Department of Information Technology (DOIT) in favor of counter-claim plaintiff Computers Plus Center (CPC) in the amount of \$18.3 million for breach of due process rights guaranteed by Article First, §10 of the Connecticut Constitution. DOIT alleged that CPC had failed to provide certain components required by a contract for the purchase of nearly 10,000 computers from CPC. CPC's counter-claim, essentially one for reputational harm to CPC's business, arises out of DOIT's termination of the contract and the denial of CPC's bids for other computer contracts, as well as press statements and other communications relating to the matter. The trial court reduced the verdict to \$1.83 million. Both sides have filed appeals that remain pending. The counter-claim plaintiff is challenging the reduction of the verdict, and DOIT is appealing the verdict and award of any damages against it.

***Paul Shafer and Joshua Harder v. Bremby*** is a class action lawsuit filed on January 9, 2012 in federal district court challenging the Department of Social Services' (DSS) failure to process Medicaid applications, including spend down cases as a separate sub-class, in a timely fashion. Plaintiffs allege that DSS has failed to comply with the federal Medicaid statute that requires eligibility to be determined with "reasonable promptness" and the related federal implementing regulations. In addition, plaintiffs claim that DSS' failure to provide timely adequate notice of the denial of eligibility violates their federal due process rights. Plaintiffs seeks declaratory and class wide injunctive relief. The State has until April 1, 2012 to answer the complaint, oppose the preliminary injunction, and oppose class certification.

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## GOVERNMENTAL ORGANIZATION AND SERVICES

### Introduction

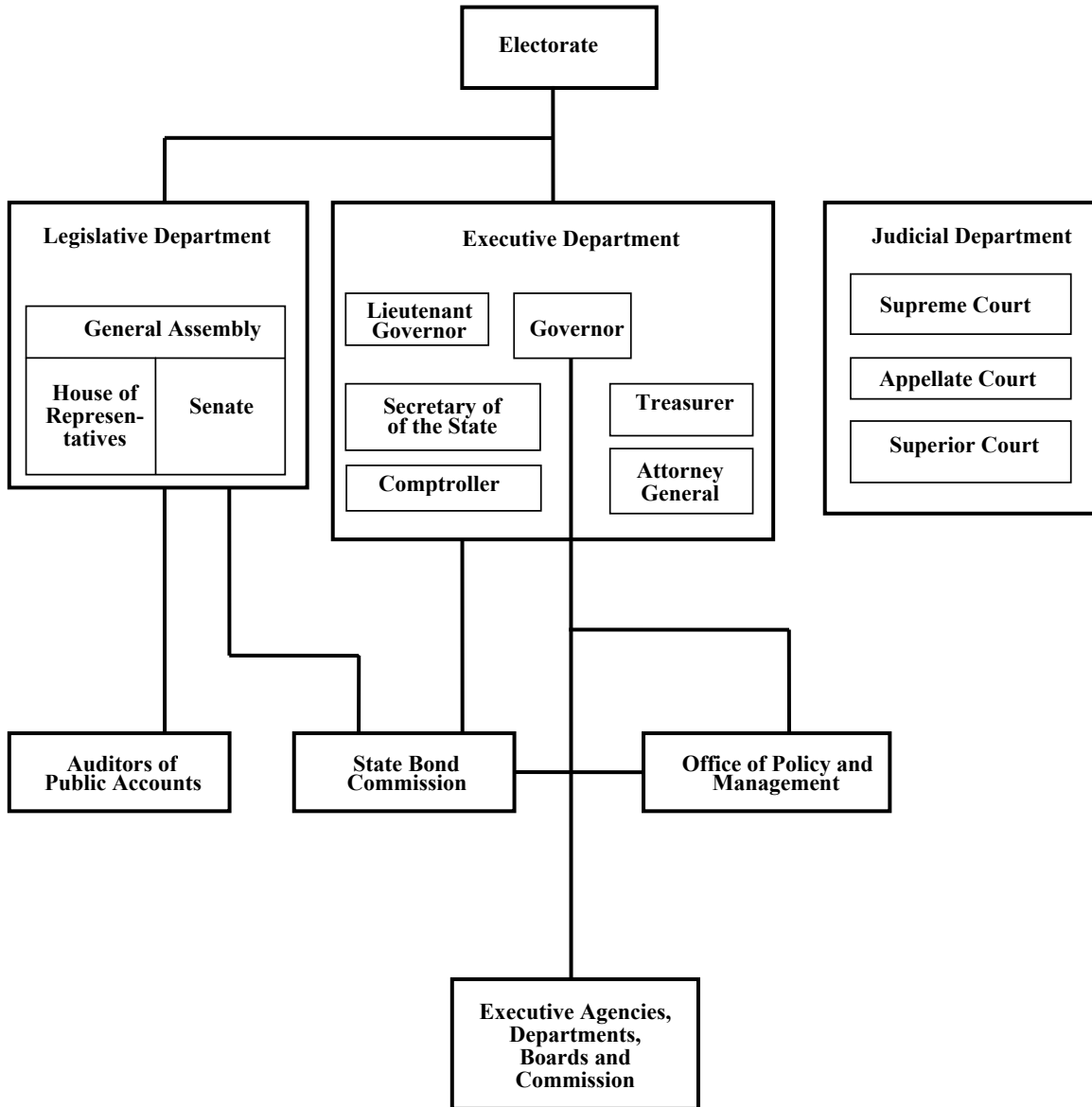
The components and structure of State governmental organization are laid out in the State's Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General Assembly. County government was functionally abolished in Connecticut in 1960. Local governmental functions are generally performed by the 169 cities and towns, or by special purpose authorities, districts and similar bodies located within the cities and towns. A number of regional bodies exist to perform governmental functions that would otherwise be performed at the local level. Most of the State's 169 cities and towns were established or incorporated during the 18th and 19th centuries, and many are still governed under charters enacted by the General Assembly by Special Act. The State's Constitution grants home rule powers to cities and towns, within certain limitations. A large number of smaller municipalities lack charters, and the components and structure of these municipalities are determined directly by the General Statutes. The General Statutes also contain a variety of provisions pertaining to the organization and operation of all units of local government, including both those with charters and those without. In addition to the 169 cities and towns that are the basic units of local government in Connecticut, the General Statutes provide procedures for the creation of many types of local special purpose authorities, districts and similar bodies. These include, among others, local housing authorities, regional school districts, and a variety of special tax and service districts.

Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute to file petitions to become debtors under Chapter Nine of Title 11 of the Federal Bankruptcy Code without the prior written consent of the Governor.

### State Government Organization

Under the State Constitution, the legislative, executive and judicial functions and powers of State government are divided among three distinct branches referred to in the Constitution as "departments": the legislative department, the executive department and the judicial department. The following table shows the structure of the three departments.

**TABLE A-1**  
**Structure of State Government**



**Legislative Department.** Legislative power is vested in the General Assembly, composed of the Senate and House of Representatives. Currently the Senate consists of 36 members, each representing a single senatorial district, and the House of Representatives consists of 151 members, each representing a single assembly district. Both the number of members and the boundaries of the legislative districts may vary in accordance with the requirements of the State's Constitution. The General Assembly is assisted by a full-time staff. General Assembly employees are included under the legislative function in **Tables A-2** and **A-3** below.

General Assembly members are elected biennially at the general election in November in even numbered years and take office in the January following their election. Elections for the General Assembly were held in November 2010, and the new members took office in January 2011.

A regular session of the General Assembly is held each year. These sessions run from January through June in odd-numbered years and February through May in even-numbered years. The General Assembly reconvenes for special sessions in general only in emergencies or to consider bills or appropriations vetoed by the Governor. Even-year sessions are supposed to be limited to budgetary, revenue and financial matters, bills and resolutions raised by committees of the General Assembly and certified emergencies.

Two Auditors of Public Accounts, who cannot be of the same political party, are appointed by the General Assembly to four-year terms. The State Auditors are required to make an annual audit of the accounts of the Treasurer and the Comptroller and, biennially or as frequently as they deem necessary, to audit the accounts of each officer, department, commission, board and court of the State government authorized to expend State appropriations. The Auditors are required to report unauthorized, illegal, irregular or unsafe handling or expenditure of State funds or any actual or contemplated breakdown in the safeguarding of any resources of the State promptly upon discovery to the Governor, the State Comptroller, the Attorney General and appropriate legislative agencies. Each budgeted agency of the State must keep its accounts in such form and by such methods as to exhibit facts required by the State Auditors. A full-time staff assists the State Auditors. Employees of the State Auditors are included under the legislative function in **Tables A-2** and **A-3** below.

**Executive Department.** The Governor, Lieutenant Governor, Secretary of the State, Treasurer, Comptroller and Attorney General, whose offices are mandated by the State's Constitution, were elected at the general election in November 2010 for terms beginning in January 2011. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit.

The supreme executive power of the State is vested in the Governor. The Governor has the constitutional responsibility for ensuring that the laws are faithfully executed, giving the General Assembly information on the state of the government, and recommending to the General Assembly such measures as the Governor may deem expedient. The Governor is empowered to veto bills and line items in appropriations bills, but the General Assembly may reconsider and repass such matters upon a two-thirds vote of each house, whereupon such bills or appropriations become law. Broad appointive and investigative powers are conferred upon the Governor by statute. The Lieutenant Governor serves as President of the Senate and becomes Governor in case of the inability of the Governor to exercise the powers and perform the duties of the office.

The Treasurer is primarily responsible for receiving and disbursing all monies belonging to the State, superintending the collection of State taxes and revenues and the investment of State funds, administering certain State trust funds and managing State property. Subject to the approval of the Governor, the Treasurer is authorized, when necessary, to make temporary borrowings evidenced by State obligations. In addition, the State Bond Commission may delegate to the Treasurer the responsibility for determining the terms and conditions and carrying out the issuance of State debt.

The Secretary of the State administers elections, has custody of all public records and documents, and certifies to the Treasurer and the Comptroller the amount and purpose of each appropriation made by the General Assembly.



The Comptroller's primary duties include adjusting and settling public accounts and demands and prescribing the method of keeping and rendering all public accounts. All warrants and orders for the disbursement of public money are registered with the Comptroller. The Comptroller also has authority to require reports from State agencies upon any matter of property or finance and to inspect all records in any public office, and is responsible for examining the amount of all debts and credits of the State. The Comptroller is required to issue monthly reports on the financial condition of the State, which are prepared on a modified cash basis and are not audited.

The Attorney General has general supervision over all legal matters in which the State is an interested party except those legal matters over which prosecuting officers have discretion. The duties of the office include giving advice and on request rendering legal opinions to the legislative and executive departments as to questions of law. Among the Attorney General's statutory duties concerning State financial matters are membership on the State Bond Commission, the approval of all State contracts or leases and appearing before any committee of the General Assembly to represent the State's best interests when any measure affecting the State Treasury is pending.

In addition to the constitutionally mandated offices, the General Statutes provide for a number of executive branch agencies, departments and commissions, each of which generally has its own agency head appointed by the Governor, in most cases with the advice and consent of one or both houses of the General Assembly. Of these statutorily established offices, the one most directly related to the fiscal operation and condition of the State is the Office of Policy and Management. The Secretary of the Office of Policy and Management is directly responsible to the Governor for policy development in four major areas: budget and financial management, policy development and planning, management and program evaluation, and intergovernmental policy. The Office of Policy and Management has significant responsibility in preparing the State budget, in assisting the Governor in policy development and in representing the State in most collective bargaining negotiations. It is the duty of the Office of Policy and Management to prepare and furnish to the General Assembly and Comptroller financial and accounting statements relating to the State's financial condition and general accounts, and to examine and assist in the organization, management and policies of departments and institutions supported by the State in order to improve their effectiveness. The Secretary of the Office of Policy and Management, like the Comptroller, is empowered to inspect the financial records and to require reports of State agencies.

Employees of the executive department are included in **Tables A-2** and **A-3** below under all function headings except the legislative and judicial functions. A list of the major executive branch agencies, departments and commissions, by function headings, is found in **Table A-5**.

**Judicial Department.** The State's judicial department consists of three principal trial and appellate courts: the Superior Court, the Appellate Court, and the Supreme Court.

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. There are approximately 162 sitting Superior Court judges, each nominated by the Governor and appointed by the General Assembly to eight-year terms.

On July 1, 1983 the Appellate Court was created and the appellate session of the Superior Court was dissolved. The Appellate Court hears appeals from decisions of the Superior Court except for certain matters which are directly appealable to the Supreme Court. There are ten Appellate Court judges nominated by the Governor and appointed by the General Assembly to eight-year terms.

The Connecticut Supreme Court reviews decisions of the Appellate Court and, in certain cases, of the Superior Court. Except in cases where original jurisdiction exists in the Supreme Court, there is no right of review in the Supreme Court unless specifically provided by statute. The Supreme Court consists of seven Justices (one Chief Justice and six Associate Justices) nominated by the Governor and appointed by the General Assembly to eight-year terms.

In addition to the principal trial and appellate courts, there is a Court of Probate in each of 54 probate districts situated throughout the State.

Employees of the judicial department are shown in **Tables A-2** and **A-3** under the judicial function heading.

**Quasi-Public Agencies.** In addition to the budgeted components of State government provided for in the State's Constitution and the General Statutes, important State-wide governmental functions are performed by quasi-public agencies, authorities and similar bodies created under the General Statutes. A number of these entities receive significant funding from the State, although they are not budgeted agencies of the State. Each of these entities is governed by a board of directors chosen in accordance with its respective enabling statute. These boards generally include legislative appointees, gubernatorial appointees and ex officio directors holding certain executive branch offices.

### State Employees

**Employment Statistics.** Statistics regarding approximate filled permanent full-time positions within budgeted components of State government are shown on the following two tables.

**TABLE A-2**  
**State Employees<sup>(a)</sup>**  
**By Function of Government**

<u>Function Headings<sup>(b)</sup></u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Legislative .....	613	571	582	559	631
General Government .....	3,610	3,650	3,563	3,301	3,361
Regulation and Protection .....	4,360	4,338	4,325	4,044	3,940
Conservation and Development .....	1,299	1,325	1,321	1,226	1,275
Health and Hospitals .....	8,018	8,130	7,791	7,091	7,334
Transportation .....	3,220	3,318	3,191	3,064	3,085
Human Services.....	2,010	2,095	2,019	1,912	2,033
Education.....	16,055	16,453	16,720	16,309	16,192
Corrections .....	10,275	10,379	9,919	9,230	9,537
Judicial .....	<u>4,745</u>	<u>4,612</u>	<u>4,616</u>	<u>4,942</u>	<u>4,901</u>
<b>Total.....</b>	<b>54,205</b>	<b>54,871</b>	<b>54,047</b>	<b>51,678</b>	<b>52,289</b>

(a) Table shows approximate filled full-time positions as of June 30 in each of the listed years.

(b) A breakdown of the budgeted agencies, boards, commissions and similar bodies included in each of the listed government function headings is shown in **Table A-5**.

SOURCE: Office of Policy and Management

TABLE A-3

State Employees as of June 30, 2011<sup>(a)(b)</sup>  
By Function of Government and Fund Categories

<u>Function Headings</u>	<u>General Fund</u>	<u>Special Transportation Fund</u>	<u>Other Appropriated Funds</u>	<u>Special Funds – Non-Appropriated</u>	<u>Federal Funds</u>	<u>Private Contributions</u>	<u>TOTALS</u>
Legislative	631	0	0	0	0	0	631
General Government	3,000	5	41	170	145	0	3,361
Regulation and Protection	2,131	594	377	616	222	0	3,940
Conservation and Development	792	0	113	54	316	0	1,275
Health and Hospitals	6,992	0	0	0	342	0	7,334
Transportation	0	2,982	1	102	0	0	3,085
Human Services	1,694	0	0	0	339	0	2,033
Education	4,435	0	7	11,517	233	0	16,192
Corrections	9,435	0	0	79	23	0	9,537
Judicial	4,789	0	0	21	91	0	4,901
<b>Total</b>	<b>33,899</b>	<b>3,581</b>	<b>539</b>	<b>12,559</b>	<b>1,711</b>	<b>0</b>	<b>52,289</b>

(a) Table shows approximate filled full-time positions.

(b) Breakdown for 2011 reflects the funding breakdown on Core-CT chart of accounts coding. Some positions which in years prior to 2005 were designated as being paid out of private contributions are now coded as being paid out of special funds – non appropriated in order to properly reflect how they are coded on Core-CT.

SOURCE: Office of Policy and Management

**Collective Bargaining Units and Process.** The General Statutes guarantee State employees, other than elected or appointed officials and certain management employees and others with access to confidential information used in collective bargaining, the right to organize and participate in collective bargaining units. There are presently 41 such bargaining units representing State employees.

The General Statutes establish the general parameters of the collective bargaining process with respect to bargaining units representing State employees. At any given point in time, there are generally a number of collective bargaining units with agreements under negotiation. All collective bargaining agreements require approval of the General Assembly. The General Assembly may approve any such agreement as a whole by a majority vote of each house or may reject any such agreement as a whole by a majority vote of either house. Subject to certain parameters set forth in the General Statutes, if the State and the bargaining unit are unable to reach an agreement, one or both parties may initiate arbitration. The award of the arbitrator shall be final and binding upon the parties unless rejected by the legislature. An arbitration award may be rejected in whole by a two-thirds vote of either house of the General Assembly upon a determination that there are insufficient funds for full implementation of the award.

The General Statutes deny State employees the right to strike. Questions concerning employment or bargaining practices prohibited by the sections of the General Statutes governing collective bargaining with regard to State employees may generally be brought before the State Board of Labor Relations.

Information regarding employees participating in collective bargaining units and employees not covered by collective bargaining is shown on the following table:

**TABLE A-4**  
**Full-Time Work Force**  
**Collective Bargaining Units and**  
**Those Not Covered by Collective Bargaining**

<u>Bargaining Unit/Status Group</u>	<u>Percentage of State Employees Represented<sup>(a)</sup></u>	<u>Contract Status, if any</u>
<b><u>Covered by Collective Bargaining</u></b>		
Correctional Officers	9.40%	Contract in place through 6/30/2016
Correctional Supervisor	0.98%	Contract in place through 6/30/2012
Administrative Clerical	7.68%	Contract in place through 6/30/2016
Service/Maintenance	7.42%	Contract in place through 6/30/2016
Health Care Non-Professional	6.87%	Contract in place through 6/30/2016
Social and Human Services	7.07%	Contract in place through 6/30/2016
Administrative and Residual	5.70%	Contract in place through 6/30/2016
Health Care Professional	5.69%	Contract in place through 6/30/2016
Engineering, Scientific and Technical	4.74%	Contract in place through 6/30/2016
UConn Faculty	2.95%	Contract in place through 6/30/2016
UHC University Health Professionals	3.88%	Contract in place through 6/30/2016
UConn - Non-Faculty	3.18%	Contract in place through 6/30/2016
State University Faculty	2.83%	Contract in place through 6/30/2016
Judicial – Non-Professional	2.82%	Contract in place through 6/30/2016
Judicial - Professional	2.59%	Contract in place through 6/30/2016
Community College Faculty – AFT	0.31%	Contract in place through 6/30/2016
Community College Faculty – CCCC	1.19%	Contract in place through 6/30/2016
Community College Administration – CCCC	1.19%	Contract in place through 6/30/2016
Community College Administration – AFSCME	0.15%	Contract in place through 6/30/2016
Community College AFT Counsel/Librarian	0.03%	Contract in place through 6/30/2016
Vocational Technical School Faculty	2.11%	Contract in place through 6/30/2016
State Police	2.19%	Contract in place through 6/30/2012
Protective Services	1.58%	Contract in place through 6/30/2016
Education A	0.50%	Contract in place through 6/30/2016
Education B	1.40%	Contract in place through 6/30/2016
American Federation of School Administration	0.10%	Contract in place through 6/30/2016
State University Non-Faculty Professional	1.33%	Contract in place through 6/30/2016
UHC – Faculty	0.97%	Contract in place through 6/30/2016
UConn – Law School Faculty	0.08%	Contract in place through 6/30/2016
Judicial Judges	0.46%	Contract in place through 6/30/2016
Judicial – Law Clerks	0.14%	Contract in place through 6/30/2016
Connecticut Association Prosecutors	0.47%	Contract in place through 6/30/2016
Criminal Justice Residual	0.24%	Contract in place through 6/30/2016
Higher Education – Professional Employees	0.08%	Contract in place through 6/30/2016
Board State Academic Awards Professional	0.11%	Contract in place through 6/30/2016
Judicial – Judicial Marshalls	1.34%	Contract in place through 6/30/2016
DPDS Public Defenders	0.35%	Contract in place through 6/30/2016
DPDS Chief Public Defenders	0.04%	Contract in place through 6/30/2016
Criminal Justice Inspectors	0.15%	Contract in place through 6/30/2016
Division Public Defender Services – Statutory	0.00%	Contract in place through 6/30/2016
Judicial – Supervisor Judicial Marshals	<u>0.12%</u>	Contract in place through 6/30/2013
Total Covered by Collective Bargaining	90.44%	
<b><u>Not Covered by Collective Bargaining</u></b>		
Auditors of Public Accounts	0.22%	Not Applicable
Other Employees	<u>9.33%</u>	Not Applicable
Total Not Covered by Collective Bargaining	<u>9.55%</u>	
<b>Total Full-Time Work Force</b>	<b>100.00%</b>	

(a) Percentage expressed reflects approximately 52,289 filled full-time positions as of June 30, 2011.

SOURCE: Office of Policy and Management

## Governmental Services

Services provided by the State or financed by State appropriations are classified under one of ten major government function headings or are classified as “non-functional”. These function headings are used for the State’s General Fund and for other funds of the State used to account for appropriated moneys. State agencies, boards, commissions and other bodies are each assigned to one of the function headings for budgeting purposes. The following table shows a breakdown of the government function headings according to the major agencies, boards, commissions and other bodies assigned to them.

**TABLE A-5**  
**Function of Government Headings<sup>(a)(b)</sup>**

<b><u>Legislative</u></b> Legislative Management Auditors of Public Accounts Commission on Aging Commission on the Status of Women Commission on Children Latino and Puerto Rican Affairs Commission African-American Affairs Commission Asian Pacific American Affairs Commission	<b><u>Regulation and Protection</u></b> Department of Emergency Services and Public Protection Department of Motor Vehicles Military Department Department of Banking Insurance Department Office of Consumer Counsel Office of the Health Care Advocate Department of Consumer Protection Department of Labor Commission on Human Rights and Opportunities Office of Protection and Advocacy for Persons with Disabilities Workers’ Compensation Commission	<b><u>Transportation</u></b> Department of Transportation
<b><u>General Government</u></b> Governor’s Office Lieutenant Governor’s Office Secretary of the State Office of Governmental Accountability State Treasurer State Comptroller Department of Revenue Services Office of Policy and Management Department of Veterans’ Affairs Department of Administrative Services Department of Construction Services Attorney General Division of Criminal Justice	<b><u>Conservation and Development</u></b> Department of Agriculture Department of Energy and Environmental Protection Council on Environmental Quality Department of Economic and Community Development Agricultural Experiment Station	<b><u>Human Services</u></b> Department of Social Services State Department on Aging Soldiers’, Sailors’, and Marines’ Fund
	<b><u>Health and Hospitals</u></b> Department of Public Health Office of the Chief Medical Examiner Department of Developmental Services Department of Mental Health and Addiction Services Psychiatric Security Review Board	<b><u>Education, Libraries and Museums</u></b> Department of Education Bureau of Rehabilitative Services State Library University of Connecticut University of Connecticut Health Center Board of Regents for Higher Education Office of Financial and Academic Affairs for Higher Education Teachers’ Retirement Board
		<b><u>Corrections</u></b> Department of Correction Department of Children and Families
		<b><u>Judicial</u></b> Judicial Department Public Defender Services Commission

- (a) In addition to the ten listed government function headings, the State also employs a “non-functional” heading under which are grouped various miscellaneous accounts including debt service and State employee fringe benefit accounts.
- (b) Listing of agencies, boards, commissions and similar bodies is as of January 1, 2012.

SOURCE: Office of Policy and Management

In addition to services provided directly by the State, various State-wide and regional quasi-public agencies, authorities and similar bodies also provide services. Such entities principally assist in the financing of various types of facilities and projects. In addition to their own budgetary resources and the proceeds of their borrowings, a number of such entities have received substantial funding from the State, which the entities generally use to provide financial assistance to the general public and the private and nonprofit sectors.

Because Connecticut does not have an intermediate county level of government between State and local government, local entities provide all governmental services not provided by the State and quasi-public

agencies. Such services are financed principally from property tax revenues, State funding of various types and federal funding.

***Department of Emergency Services and Public Protection.*** Effective July 1, 2011, the Department of Emergency Management and Homeland Security, which was established in January 2005 to provide a coordinated and integrated program for statewide emergency management and homeland security, was consolidated with the Department of Public Safety to form the new Department of Emergency Services and Public Protection. The new Department is responsible for directing and coordinating all available resources to protect the life and property of the citizens of Connecticut in the event of a disaster or crisis, through a collaborative program of prevention, planning, preparedness, response, recovery and public education. Among the Department's primary functions is the administration and management of federal grant funds related to emergency management and homeland security. The Department oversees the state Emergency Operations Center during emergencies. In addition, the Department's Commissioner directs the preparation of state emergency plans, which are submitted to the Governor for approval. For planning purposes with respect to events requiring mass evacuations and sheltering in the State, the Department has given priority for preparedness to the following potential scenarios: (i) a Category 3 hurricane hitting the State coast and all of New England, (ii) a large scale terrorist attack in New York City, and (iii) a release of contamination from the Millstone Power Plant. The State has been divided into five regions to facilitate planning, training and response.

Each year, in accordance with its statutory mandate, the Department reviews and approves local emergency operations plans, which are submitted to the Department after having been reviewed and approved by municipal officials. The Department continues to advance emergency planning for the State by bringing together multiple partners at the local, state and federal levels. Recent planning initiatives include: evacuation and shelter guides; commodity distribution; donations management; disaster recovery centers; and debris management. The Department continues to conduct and support many exercises around the state to test plans and first responder preparedness. The Department continues to support the training of emergency volunteers. The Department continues to be heavily invested in interoperable communications, including the distribution, testing and maintenance of numerous communications assets. The Department also operates the state fusion center – the Connecticut Intelligence Center, a multi-agency, multi-jurisdictional entity which collects, analyzes and disseminates intelligence information to law enforcement and other related groups. The Department, in conjunction with other State and local agencies, implements and maintains a statewide geospatial information systems program. The Department conducts and coordinates public education campaigns on a regular basis to increase the public's preparedness for emergencies, including the new, multi-year "See Something, Say Something" campaign. In cooperation with local government, the Department has also created five regional emergency planning teams (REPTs). Each REPT includes representatives from each of the municipalities or tribes within the region. The REPTs develop a regional spending plan for the Homeland Security grant funds for each region. Additionally, Intrastate Mutual Aid legislation creates a legal system whereby each municipality in the State can request aid from, or provide aid to, any other State municipality, regardless of whether a written mutual aid agreement exists between the municipalities. The Department also continues to codify its relationships with many key nongovernmental organizations including American Red Cross, Salvation Army, Civil Air Patrol and United Way. The agency continues to work with local towns by providing funding for, among other things, emergency management, including planning and response. The Department has implemented WEB EOC, a software program which allows all communities to communicate important information to the State during an emergency.

Pursuant to the Connecticut General Statutes, the Commissioner of the Department is required to file an annual report each January to the joint standing committee of the General Assembly having cognizance of matters relating to public safety, which report specifies and evaluates statewide emergency management and homeland security activities during the preceding calendar year.

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## STATE ECONOMY

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. Over one quarter of the total population of the United States and more than 50% of the Canadian population live within a 500-mile radius of the State.

## Economic Resources

**Population Characteristics.** Connecticut had a population count of 3,574,097 in April 2010, an increase of 168,532, or 4.9%, from the 3,405,565 figure of 2000. The State's population growth rate, which exceeded the United States' rate of population growth during the period from 1940 to 1970, slowed substantially and trailed the national average markedly during the past four decades. The following table presents the population trends of Connecticut, New England, and the United States since 1940. Connecticut's population increased 4.3% from 2001 to 2011 versus 3.2% in New England and 9.3% for the nation. The mid-2011 population in Connecticut was estimated at 3,580,709, up 0.1% from a year ago, compared to increases of 0.3% and 0.7% for New England and the United States, respectively. From 2001 to 2011, within New England, only New Hampshire experienced growth higher than Connecticut.

TABLE B-1

Population  
(In Thousands)

Calendar Year	Connecticut		New England		United States	
	Total	% Change	Total	% Change	Total	% Change
1940 Census	1,709		8,437		132,165	
1950 Census	2,007	17.4%	9,314	10.4%	151,326	14.5%
1960 Census	2,535	26.3	10,509	12.8	179,323	18.5
1970 Census	3,032	19.6	11,847	12.7	203,302	13.4
1980 Census	3,108	2.5	12,349	4.2	226,542	11.4
1990 Census	3,287	5.8	13,207	6.9	248,710	9.8
2000 Census	3,406	3.6	13,923	5.4	281,422	13.2
2010 Census	3,574	4.9	14,445	3.7	308,746	9.7
2001....	3,433	0.6	14,041	0.7	284,969	1.0
2002....	3,459	0.8	14,122	0.6	287,625	0.9
2003....	3,484	0.7	14,182	0.4	290,108	0.9
2004....	3,496	0.3	14,207	0.2	292,805	0.9
2005....	3,507	0.3	14,217	0.1	295,517	0.9
2006....	3,517	0.3	14,246	0.2	298,380	1.0
2007....	3,527	0.3	14,279	0.2	301,231	1.0
2008....	3,546	0.5	14,340	0.4	304,094	1.0
2009....	3,562	0.5	14,404	0.4	306,772	0.9
2010....	3,575	0.4	14,454	0.3	309,330	0.8
2011....	3,581	0.1	14,492	0.3	311,592	0.7

Note: 1940-2010, April 1 Census. Figures are for census comparison purposes.

2001-2011 Mid-year estimates. Estimates for New England include the sum of six states – Connecticut, Massachusetts, New Hampshire, Rhode Island, Maine and Vermont.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis



The State is highly urbanized with a 2011 population density of 739 persons per square mile, as compared with 88 for the United States as a whole. Of the eight counties in the State, according to the U.S. Bureau of Census for the 2010 Census count, 75% of the population resides within Fairfield (26%), Hartford (25%), and New Haven (24%) counties.

**Education.** In 2009 Connecticut ranked 4th in the nation with 15.5 % of the state population over the age of 25 holding an advanced degree and 35.6% of the same population holding a college degree or higher.

Connecticut is home to over 45 colleges and universities, including among others: Yale University, Wesleyan College, Trinity College, Connecticut College, University of Connecticut, Southern Connecticut State University, Central Connecticut State University, Eastern Connecticut State University, Western Connecticut State University, Fairfield University, Quinnipiac University, Hartford Seminary, Coast Guard Academy, University of New Haven, University of Hartford, and Sacred Heart University.

**Industry Landscape.** Connecticut is home to some of the country's leading companies, including the following members of the 2011 Fortune 500: General Electric, United Technologies, Aetna, Hartford Financial Services, Xerox, Praxair, Stanley Black & Decker, Pitney Bowes, Emcor Group, Northeast Utilities, W.R. Berkley, and Terex. The historical presence of the insurance industry in the State, and especially in its capital city of Hartford, has caused it to be referred to as the "insurance capital of the world".

**Transportation.** Connecticut has an extensive network of expressways and major arterial highways which provide easy access to local and regional markets. Bradley International Airport, in Windsor Locks, currently offers 107 weekday departures and departures to 28 non-stop destinations and is served by virtually all the major passenger and cargo air carriers. It is accessible from all areas of the State and western Massachusetts.

Railroad freight service is provided to most major towns and cities in the State, and connections are provided with major eastern railroads as well as direct access to Canadian markets. In addition, Connecticut's proximity to the ports of New York and Boston provides it with access to European and South American export markets. The State's harbors at Bridgeport, New Haven, and New London can accommodate deep draft vessels.

The Connecticut Department of Transportation subsidizes and oversees the operations of both rail commuter services and bus services. The New Haven Line (including the Waterbury, Danbury and New Canaan branch lines) and Shore Line East Line provide commuter rail services for stations between New London and New York City for approximately 38 million passengers per year. The State supports urban transit, commuter express bus, rural transit and Americans with Disabilities Act paratransit services carrying approximately 37 million passengers per year. This service is provided by state-owned CT Transit services in 8 urbanized areas, and by 13 independent urban and rural transit districts. In addition, the Department supports carpooling, vanpooling, telecommuting and other transportation demand management programs statewide.

**Utility Services.** The power grid that supplies electricity to the entire State is owned and operated by both private and municipal electric companies. Transmission lines connect Connecticut with New York, Massachusetts and Rhode Island. These interconnections allow the companies serving Connecticut to meet large or unexpected electric load requirements from resources located outside of Connecticut's boundaries. All electric utilities in the State are members of the New England Power Pool and operate as part of the regional bulk power system, the Regional Transmission Organization (RTO) for New England. An independent system operator, ISO New England, Inc., operates this regional system.

Legislation passed in 1998 provided for the restructuring of the electric industry in Connecticut. Since July 2000 most consumers in Connecticut can choose an independent electric supplier as their provider of electricity. The electricity is delivered to the consumer over the wires of the regulated distribution companies (Connecticut Light & Power Company and The United Illuminating Company). Electric suppliers are not

subject to rate regulation by the State Department of Public Utility Control (DPUC), but must receive a license issued by the DPUC before commencing service to consumers. In general, Connecticut consumers located in a municipally owned electric service territory are not subject to the 1998 restructuring legislation. These consumers continue to purchase and receive their electrical needs from the municipal electric company.

Natural gas is delivered to Connecticut through pipelines that traverse the State. Natural gas pipeline supplies are generally shipped to Connecticut from Canada and the Gulf of Mexico area. Connecticut also receives natural gas through the interstate pipelines from a terminal located in Boston, Massachusetts which is supplied by tanker ships. Natural gas service is provided to parts of the State through one municipal and three private gas distribution companies, including Yankee Gas Services Company, Connecticut Natural Gas Company, and Southern Connecticut Gas Company. Over the past few years, Energy East Corp. has acquired both Connecticut Natural Gas and Southern Connecticut Gas. Energy East is a New York-based regional utility holding company. Yankee Gas was acquired by Northeast Utilities.

Since 1996 the DPUC has allowed some competitive market forces to enter the natural gas industry in Connecticut. Commercial and industrial gas consumers can choose non-regulated suppliers for their natural gas requirements. The gas is delivered to the consumer using the local distribution company's mains and pipelines. This competitive market is not yet available to the residential consumer.

In addition to the electric and natural gas industries, telecommunications services are also in the process of being opened to competition. Local exchange telephone service is provided in the State by local exchange carriers (LECs) and competitive local exchange carriers (CLECs). Two LECs currently offer local telephone services in Connecticut. They are AT&T and Verizon New York, Inc. Connecticut also has approximately 105 CLECs certified to provide local exchange services including Comcast Phone of Connecticut, Inc., Cox Connecticut Telecommunication, LLC and Connecticut Telephone and Communications Systems, Inc.

Connecticut is dependent upon oil, including imported oil, for a portion of its energy requirements. This dependence is greatest in the transportation sector. Connecticut also relies on heating oils in both the residential and commercial sectors, and is reliant on residual oils and diesel fuels for the production of electricity. This petroleum dependence can make Connecticut particularly affected by developments in the oil commodity markets. Events that affect the international or domestic production of oil, the domestic and international refining capabilities, or the transportation of petroleum products within the United States or into the New England region can affect Connecticut's local oil markets.

Although Connecticut is heavily dependent upon petroleum, the State is ranked one of the most efficient states for energy consumption. According to the most recent available data from the Energy Information Administration, an independent agency within the U.S. Department of Energy that collects and analyzes energy data, Connecticut consumed 4.0 thousand British Thermal Units (BTU) per 2005 chained dollar of Gross State Product in 2009, the latest available data, ranking the second most efficient state among the 50 states and 45.2% less than the national average of 7.3 thousand BTU. When compared to the national per person average, Connecticut residents use a moderate amount of energy. Connecticut consumed 224 million BTU of energy per person in 2009, ranking it 45th among the 50 states and 27.3% less than the national average of 308.0 million BTU.

Connecticut energy prices, including gasoline, natural gas and heating oil, remained high in most of 2011, due mainly to the slowly recovering economy, with the exception of natural gas prices which have moderated due to increased supply. Higher energy prices impact consumer and investment spending and economic growth.

## Economic Performance

**Personal Income.** Connecticut has a high level of personal income. Historically, the State's average per capita income has been among the highest in the nation. The high per capita income is due to the State's concentration of relatively high paying manufacturing jobs along with a higher portion of residents working in the non-manufacturing sector in such areas as finance, insurance, and real estate, as well as educational services. A concentration of major corporate headquarters located within the State also contributes to the high level of income. In calendar year 2010, per capita personal income in Connecticut equaled \$54,877, the highest of any state in the nation. This high level of personal income is not concentrated in a single county, but is widely distributed throughout the State. County-level data from the United States Department of Commerce, Bureau of Economic Analysis for calendar year 2009 indicates that if they were states, seven of the State's eight counties would each rank within the top ten of all states in the nation for state per capita personal income. The eighth county, Windham, would rank 29th in the nation. The following table shows total and per capita personal income for Connecticut residents during the period from 2001 to 2010 and compares Connecticut per capita personal income as a percentage of both New England and the United States.

**TABLE B-2**  
**Connecticut Personal Income by Place of Residence**

<u>Calendar Year</u>	<u>Connecticut</u>		<u>Connecticut Per Capita as Percent of</u>	
	<u>Total</u> (Millions of Dollars)	<u>Per Capita</u> (Dollars)	<u>New England</u>	<u>United States</u>
2001.....	\$149,537	\$43,561	114.6%	139.8%
2002.....	149,567	43,243	113.4	137.4
2003.....	151,832	43,575	112.3	134.9
2004.....	161,428	46,174	113.1	136.2
2005.....	168,804	48,134	113.6	135.8
2006.....	184,049	52,324	114.7	138.7
2007.....	197,029	55,859	115.8	141.4
2008.....	201,757	56,904	114.5	139.0
2009.....	190,818	53,573	112.4	137.9
2010.....	196,300	54,877	112.0	137.4

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table indicates the annual growth rate of personal income, on a current and constant dollar basis, of Connecticut, New England and the United States.

**TABLE B-3**  
**Annual Growth Rates in Personal Income By Place of Residence**

<u>Calendar Year</u>	<u>Conn.</u> (Current)	<u>New England</u> (Current)	<u>U.S.</u> (Current)	<u>Conn.</u> (Constant)	<u>New England</u> (Constant)	<u>U.S.</u> (Constant)
2001	4.6%	5.9%	3.8%	2.2%	3.5%	1.5%
2002	0.0	0.9	2.0	(1.6)	(0.7)	0.4
2003	1.5	2.2	3.5	(0.6)	0.1	1.3
2004	6.3	5.4	6.0	3.4	2.5	3.1
2005	4.6	3.8	5.5	1.2	0.5	2.1
2006	9.0	7.9	7.4	5.6	4.5	4.1
2007	7.1	5.9	5.7	4.0	3.0	2.7
2008	2.4	3.5	4.6	0.2	1.3	2.4
2009	(5.4)	(3.7)	(4.3)	(6.4)	(4.7)	(5.3)
2010	2.9	3.2	3.7	1.7	2.0	2.5

Note—Constant dollars are adjusted for inflation using the GDP deflator.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table indicates the sources of personal income by place of residence for Connecticut and the United States in 2010.

**TABLE B-4**  
**Sources of Personal Income By Place of Residence**  
**Calendar Year 2010**  
**(In Millions)**

	<u>Conn.</u>	<u>Percent of Total</u>	<u>U.S.</u>	<u>Percent of Total</u>
Wages in Non-manufacturing .....	\$ 90,745	46.23%	\$ 5,726,851	46.34%
Property Income (Div., Rents & Int.).....	36,927	18.81	2,070,501	16.76
Wages in Manufacturing .....	12,806	6.52	674,259	5.46
Transfer Payments less Social Insurance Paid.....	14,081	7.17	1,295,883	10.49
Other Labor Income .....	23,746	12.10	1,551,979	12.56
Proprietor's Income.....	<u>17,995</u>	<u>9.17</u>	<u>1,037,640</u>	<u>8.40</u>
Personal Income—Total.....	<u>\$196,300</u>	<u>100.00%</u>	<u>\$12,357,113</u>	<u>100.00%</u>

Note—Columns may not add due to rounding.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

**Gross State Product.** The State's and the region's economic vitality are evidenced in the rate of growth of their respective Gross State Products. The State's Gross State Product is the current market value of all final goods and services produced by labor and property located within the State.

In 2010, the State produced \$237.3 billion worth of goods and services and \$211.3 billion worth of goods and services in 2005 chained dollars.

The following table shows the Gross State Product in current dollars for Connecticut, New England, and the United States.

**TABLE B-5**  
**Gross State Product**  
**(In Millions of Dollars)**

<u>Year</u>	<u>Connecticut</u>		<u>New England<sup>(a)</sup></u>		<u>United States<sup>(b)</sup></u>	
	<u>\$</u>	<u>Percent Growth</u>	<u>\$</u>	<u>Percent Growth</u>	<u>\$</u>	<u>Percent Growth</u>
2001	168,407	2.7%	587,914	3.4%	10,286	3.4%
2002	169,170	0.5	601,354	2.3	10,642	3.5
2003	174,295	3.0	622,881	3.6	11,142	4.7
2004	188,576	8.2	659,529	5.9	11,853	6.4
2005	197,055	4.5	686,539	4.1	12,623	6.5
2006	210,278	6.7	721,860	5.1	13,377	6.0
2007	222,498	5.8	754,306	4.5	14,029	4.9
2008	225,958	1.6	772,347	2.4	14,292	1.9
2009	227,550	0.7	769,308	(0.4)	13,939	(2.5)
2010	237,261	4.3	802,771	4.3	14,527	4.2

(a) Sum of the New England States' Gross State Products.

(b) Denotes the Gross Domestic Product, which is the total market value of all final goods and services produced in the U.S. Figures for the United States are in billions of dollars.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table shows the Gross State Product in 2005 chained dollars.

**TABLE B-6**  
**Gross State Product**  
**(In Millions of 2005 Chained Dollars\*)**

<b>Year</b>	<b>Connecticut</b>		<b>New England</b>		<b>United States</b>	
	<b>\$</b>	<b>Percent Growth</b>	<b>\$</b>	<b>Percent Growth</b>	<b>\$</b>	<b>Percent Growth</b>
2001	186,643	0.7%	646,712	1.8%	11,337	1.1%
2002	183,640	(1.6)	648,583	0.3	11,543	1.8
2003	184,861	0.7	658,603	1.5	11,836	2.5
2004	194,588	5.3	679,760	3.2	12,247	3.5
2005	197,055	1.3	686,539	1.0	12,623	3.1
2006	204,181	3.6	700,951	2.1	12,958	2.7
2007	210,271	3.0	713,088	1.7	13,206	1.9
2008	208,742	(0.7)	715,717	0.4	13,162	(0.3)
2009	204,995	(1.8)	697,395	(2.6)	12,703	(3.5)
2010	211,345	3.1	721,140	3.4	13,088	3.0

\* 2005 chained dollar series are calculated as the product of the chain-type quantity index and the 2005 current-dollar value of the corresponding series, divided by 100. Figures for the United States are in billions of dollars and represent Gross Domestic Product.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The table below shows the contribution to Connecticut's Gross State Product of the manufacturing and non-manufacturing sectors in the State's economy. The table shows that in 2010 Connecticut's production was concentrated in three areas: finance, insurance and real estate (FIRE), services and manufacturing. Production in these three industries accounted for 70.4% of total production in Connecticut compared to 66.3% for the nation in 2010 and 68.9% in 2001. This demonstrates that Connecticut's economy is more heavily concentrated in a few industries than the nation as a whole and that this concentration has changed little in recent years.

The output contribution of manufacturing, however, has been declining over time as the contributions of FIRE and services have been increasing. The share of production from the manufacturing sector decreased from 12.3% in 2001 to 10.9% in 2010 caused by increased competition with foreign countries and other states. The broadly defined services in the private sector, which excludes industries in agriculture and construction, wholesale and retail trades, but includes industries in information, professional and technical services, health care and education, FIRE, and other services, have increased slightly to 63.3% of the total GSP in 2010 from 60.0% in 2001. The broadly defined services in the private sector increased by 48.5% from 2001 to 2010 compared to 55.5% for the public sector during the comparable period. A stable service sector may help smooth the business cycle, reducing the span and depth of recessions and prolonging the length of expansions. Normally, activities in service sectors relative to manufacturing are less susceptible to pent-up demand, less subject to inventory-induced swings, less intensive in capital requirements, and somewhat less vulnerable to foreign competition. Therefore, this shift to the service sectors may serve to smooth output fluctuations.

**TABLE B-7**

**Gross State Product by Industry in Connecticut  
(In Millions of Dollars)**

<b>Sector</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Manufacturing	\$ 20,718	\$ 23,685	\$ 23,690	\$ 27,222	\$ 27,467	\$ 26,789	\$ 23,895	\$ 25,873
Construction <sup>(a)</sup>	5,857	6,480	7,048	7,542	7,708	7,246	6,151	6,024
Agriculture <sup>(b)</sup>	325	380	363	320	394	380	327	367
Utilities <sup>(c)</sup>	5,710	6,387	6,515	6,919	7,728	7,704	7,401	7,363
Wholesale Trade	9,037	9,656	10,480	11,306	11,945	12,277	11,780	12,035
Retail Trade	10,998	11,230	11,658	11,715	11,864	11,343	11,182	11,683
Information	6,645	7,302	7,802	7,729	8,457	8,773	8,547	8,986
Finance <sup>(d)</sup>	51,674	57,365	60,280	64,750	68,136	68,875	75,410	79,812
Services <sup>(e)</sup>	47,014	49,203	51,248	53,866	57,887	59,579	59,280	61,379
Government	<u>16,317</u>	<u>16,889</u>	<u>17,970</u>	<u>18,909</u>	<u>20,912</u>	<u>22,994</u>	<u>23,579</u>	<u>23,739</u>
Total GSP	\$174,295	\$188,576	\$197,055	\$210,278	\$222,498	\$225,958	\$227,550	\$237,261

Note—Columns may not add due to rounding.

(a) Includes mining.

(b) Includes forestry and fisheries.

(c) Includes transportation, communications, electric, gas, and sanitary services.

(d) Includes finance, insurance and real estate.

(e) Covers a variety of activities, including professional, business, education, health care and personal services.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

**Employment**

Non-agricultural employment includes all persons employed except federal military personnel, the self-employed, proprietors, unpaid workers, and farm and household domestic workers. The following table compares non-agricultural establishment employment for Connecticut, New England, and the United States between 2001 and 2010. Connecticut's nonagricultural employment reached a high in March 2008 of 1,712,700 persons employed, but began declining with the onset of the recession falling to 1,593,500 jobs by January 2010.

**TABLE B-8**  
**Non-agricultural Employment<sup>(a)</sup>**  
**(In Thousands)**

Calendar Year	Connecticut		New England		United States	
	Employment	Percent Growth	Employment	Percent Growth	Employment	Percent Growth
2001	1,681.4	(0.72)	7,036.9	0.18	131,829.9	0.03
2002	1,665.1	(0.97)	6,928.3	(1.54)	130,340.4	(1.13)
2003	1,644.3	(1.25)	6,850.6	(1.12)	129,996.0	(0.26)
2004	1,649.7	0.33	6,874.7	0.35	131,419.2	1.09
2005	1,662.1	0.75	6,918.3	0.64	133,694.1	1.73
2006	1,680.8	1.13	6,985.3	0.97	136,091.5	1.79
2007	1,698.2	1.03	7,045.5	0.86	137,587.3	1.10
2008	1,698.9	0.04	7,044.0	(0.02)	136,778.1	(0.59)
2009	1,626.2	(4.28)	6,787.4	(3.64)	130,788.8	(4.38)
2010	1,609.0	(1.06)	6,767.7	(0.29)	129,822.1	(0.74)

- (a) Non-agricultural employment excludes agricultural workers, proprietors, self-employed individuals, domestic workers, family workers and members of the armed forces.
- (b) According to statistics from the Connecticut Department of Labor, the average non-agricultural employment in Connecticut for the first six months of 2011 was 1,621,300.
- (c) In March 2009, the Connecticut Department of Labor revised and updated employment statistics back to 2004.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

**Composition of Employment.** The following table shows the distribution of non-agricultural employment in Connecticut and the United States in 2010. The table shows that Connecticut has a larger share of employment in services, manufacturing, and finance than the nation as a whole.

**TABLE B-9**  
**Connecticut Non-agricultural Employment, 2010**  
**(In Thousands)**

	Connecticut		United States	
	Total	Percent	Total	Percent
Services <sup>(a)</sup>	691.8	43.0%	54,624.3	42.1%
Trade <sup>(b)</sup>	289.5	18.0	24,609.1	19.0
Manufacturing	166.2	10.3	11,527.1	8.9
Government	244.7	15.2	22,487.1	17.3
Finance <sup>(c)</sup>	135.0	8.4	7,631.8	5.9
Information <sup>(d)</sup>	31.7	2.0	2,710.5	2.1
Construction <sup>(e)</sup>	50.1	3.1	6,232.3	4.8
Total <sup>(f)</sup>	1,609.0	100.0%	129,822.1	100.0%

- (a) Covers a considerable variety of activities, including professional, business, education, health care and personal services.
- (b) Includes wholesale and retail trade, transportation, and utilities.
- (c) Includes finance, insurance, and real estate.
- (d) Includes publishing, broadcasting, telecommunications, internet providers, and data processing.
- (e) Includes natural resources and mining.
- (f) Totals may not equal sum of individual categories due to rounding and seasonal statistical data adjustments.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

Recent trends in the State's non-agricultural employment are reflected in the following table. Throughout the last five decades, while manufacturing employment in Connecticut has been steadily declining, employment in non-manufacturing industries has surged. In calendar year 2010, approximately 89.7% of the State's workforce was employed in non-manufacturing jobs, up from roughly 50% in the early 1950s.

**TABLE B-10**  
**Connecticut Non-agricultural Employment**  
**(Annual Averages In Thousands)**

<u>Year</u>	<u>Manufacturing</u>	<u>Trade<sup>(a)</sup></u>	<u>Services<sup>(b)</sup></u>	<u>Government</u>	<u>Finance<sup>(c)</sup></u>	<u>Information<sup>(d)</sup></u>	<u>Construction<sup>(e)</sup></u>	<u>Total Non-agricultural Employment<sup>(f)</sup></u>
2001	226.70	312.21	644.21	244.49	142.93	44.69	66.14	1,681.38
2002	211.13	309.29	647.52	249.31	142.62	41.02	64.21	1,665.10
2003	199.99	305.49	647.99	245.95	142.66	39.57	62.68	1,644.33
2004	197.18	307.93	655.74	242.78	140.67	38.99	66.40	1,649.69
2005	195.23	310.55	665.44	243.76	142.31	38.10	66.70	1,662.09
2006	193.52	311.03	680.28	245.88	144.30	37.91	67.92	1,680.84
2007	190.70	311.77	694.14	249.23	144.61	38.42	69.37	1,698.23
2008	187.19	309.92	702.07	252.46	143.37	37.81	66.07	1,698.88
2009	171.19	293.23	686.53	248.22	137.61	34.31	55.11	1,626.19
2010	166.18	289.52	691.75	244.70	134.96	31.71	50.13	1,608.96

(a) Includes wholesale and retail trade, transportation, and utilities.

(b) Covers a considerable variety of activities, including professional, business, education, health care and personal services.

(c) Includes finance, insurance, and real estate.

(d) Includes publishing, broadcasting, telecommunications, internet providers, and data processing.

(e) Includes natural resources and mining.

(f) Totals may not equal sum of individual categories due to rounding and seasonal statistical adjustments.

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut Labor Department

### **Manufacturing**

The manufacturing industry, despite its continuing downward employment trend over the past five decades, has traditionally served as an economic base industry and has been of prime economic importance to Connecticut. Based on the level of personal income derived from this sector, Connecticut ranked 17<sup>th</sup> in the nation for its dependency on manufacturing wages in fiscal year 2011. Manufacturing has traditionally been of prime economic importance to Connecticut but has continued to trend down during the last decade. The following table provides a ten-year historical picture of manufacturing employment in Connecticut, the New England region and the United States. This downward movement in manufacturing employment levels is also reflected in the New England region and the nation. The transformation in the State's manufacturing base confirms that the State's employment share in the manufacturing sector is converging to the national average. Thus, Connecticut has been successful in diversifying itself away from dependence on just one type of industry. In calendar year 2010 approximately 10.3% of the State's workforce, versus 8.9% for the nation, was employed in the manufacturing sector, down from roughly 50% in the early 1950s.



**TABLE B-11**  
**Manufacturing Employment**  
**(In Thousands)**

<u>Calendar</u> <u>Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Number</u>	<u>Percent</u> <u>Growth</u>	<u>Number</u>	<u>Percent</u> <u>Growth</u>	<u>Number</u>	<u>Percent</u> <u>Growth</u>
2001	226.7	(3.85)%	900.8	(4.04)%	16,440.4	(4.78)%
2002	211.1	(6.87)	815.9	(9.42)	15,256.8	(7.20)
2003	200.0	(5.28)	765.0	(6.23)	14,508.4	(4.90)
2004	197.2	(1.41)	746.9	(2.36)	14,314.7	(1.34)
2005	195.2	(0.98)	733.8	(1.75)	14,225.3	(0.62)
2006	193.5	(0.88)	720.5	(1.81)	14,156.1	(0.49)
2007	190.7	(1.46)	709.4	(1.55)	13,877.1	(1.97)
2008	187.2	(1.84)	691.2	(2.56)	13,402.3	(3.42)
2009	171.2	(8.55)	623.4	(9.81)	11,845.4	(11.62)
2010	166.2	(2.93)	608.3	(2.43)	11,527.1	(2.69)

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut State Labor Department

Connecticut has a diverse manufacturing sector, with the construction of transportation equipment (primarily aircraft engines and submarines) being the dominant industry. The State is also a leading producer of military and civilian helicopters. Employment in the transportation equipment sector is followed by fabricated metals, computer and electronics, and machinery for the total number employed in 2010.

**TABLE B-12**  
**Manufacturing Employment**  
**By Industry**  
**(In Thousands)**

<u>Calendar</u> <u>Year</u>	<u>Transportation</u> <u>Equipment</u>	<u>Fabricated</u> <u>Metals</u>	<u>Computer &amp;</u> <u>Electronics</u>	<u>Machinery</u>	<u>Other</u> <sup>(a)</sup>	<u>Total</u> <u>Manufacturing</u> <u>Employment</u>
2001	46.87	47.02	33.82	22.41	76.58	226.70
2002	45.33	43.22	29.45	20.27	72.86	211.13
2003	43.35	40.92	26.56	18.92	70.25	199.99
2004	43.17	41.14	25.86	18.48	68.53	197.18
2005	43.50	41.09	25.49	18.14	67.02	195.23
2006	43.59	41.14	24.91	18.05	65.82	193.52
2007	43.57	40.41	25.22	18.18	63.31	190.70
2008	44.28	40.05	25.28	17.71	59.87	187.19
2009	43.05	35.14	23.40	16.04	53.55	171.19
2010	42.37	33.62	23.09	15.08	52.02	166.18

(a) Includes other industries such as wood products, furniture, glass/stone, primary metals, and instruments in the durable sector, as well as all industries such as chemicals, paper, and plastics in the nondurable sector.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

During the past ten years, Connecticut's manufacturing employment was at its highest in 2001 at 226,700 workers. Since that year, employment in manufacturing continued on a downward trend. A number of factors, such as heightened foreign competition, outsourcing to offshore locations, and improved productivity played a significant role in affecting the overall level of manufacturing employment. Total manufacturing jobs in Connecticut continued to decline to a recent low of 166,183 in 2010. The total number of manufacturing jobs dropped 60,517, or 26.7%, from its decade high in 2001.

**Exports.** In Connecticut, the export sector of manufacturing has assumed an important role in overall economic growth. According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER), exports of manufacturing products registered at \$16.1 billion in 2010, accounting for 6.8% of Gross State Product. From 2006 to 2010, the State's export of goods grew at an average annual rate of 11.1% versus 3.7% for the Gross State Product. The following table shows the growth in exports of manufacturing products.

**TABLE B-13**  
**Exports Originating in Connecticut**  
**(In Millions)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Percent of 2010 Total</u>	<u>Average Percent Growth 2006-2010</u>
<b>A. Manufacturing Products</b>							
Transportation Equipment	\$ 5,399.7	\$ 5,813.1	\$ 6,500.2	\$ 6,428.2	\$ 6,987.1	43.5%	12.5%
Computer & Electronics	1,061.0	1,297.6	1,294.2	1,037.6	1,305.6	8.1	9.7
Machinery, Except Electronics	1,387.1	1,618.5	1,555.8	1,439.0	1,549.0	9.6	7.1
Fabricated Metal Production	541.2	585.9	622.3	547.3	615.9	3.8	9.5
Chemicals	748.6	1,447.9	1,575.7	833.4	922.3	5.7	18.5
Misc. Manufacturing	286.2	229.5	272.4	291.3	252.7	1.6	(11.3)
Electrical Equipment	551.1	606.1	603.4	489.8	604.1	3.8	8.2
Plastics & Rubber	204.6	212.4	251.1	228.7	254.8	1.6	7.3
Paper	230.3	147.7	147.2	169.3	181.9	1.1	(1.7)
Primary Metal Mfg.	639.0	480.4	509.0	316.6	536.7	3.3	21.4
Others	<u>1,999.2</u>	<u>1,359.8</u>	<u>2,052.8</u>	<u>2,197.6</u>	<u>2,846.5</u>	<u>17.7</u>	<u>23.7</u>
<b>Total</b>	<b>\$12,248.0</b>	<b>\$13,799.1</b>	<b>\$15,384.1</b>	<b>\$13,978.9</b>	<b>\$16,056.4</b>	<b>100.0%</b>	<b>11.1%</b>
% Growth	25.6%	12.7%	11.5%	(9.1)%	14.9%		
<b>B. Gross State Product<sup>(a)</sup></b>	<b>\$210,278</b>	<b>\$ 222,498</b>	<b>\$ 225,958</b>	<b>\$ 227,550</b>	<b>\$ 237,261</b>		
Mfg Exports as a % of GSP	5.8%	6.2%	6.8%	6.1%	6.8%		6.2%

(a) In millions

SOURCE: United States Department of Commerce, Bureau of Economic Analysis  
Massachusetts Institute for Social and Economic Research, University of Massachusetts (MISER)

**Defense Industry.** One important component of the manufacturing sector in Connecticut is the defense industry. Approximately one quarter of the State's manufacturing employees are employed in defense related business. Nonetheless, this sector's significance in the State's economy has declined considerably since the early 1980s. Connecticut had witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State; however, these amounts have been climbing most years since federal fiscal year 2001. In federal fiscal year 2010 Connecticut received \$11.1 billion of prime contract awards. These total awards accounted for 3.5% of national total awards and ranked 8<sup>th</sup> in total defense dollars awarded and 2<sup>nd</sup> in per capita dollars awarded among the 50 states. In fiscal year 2010, Connecticut had \$3,112 in per capita defense awards, compared to the national average of \$1,032. As measured by a three year moving

average of defense contract awards as a percent of Gross State Product, awards to Connecticut-based firms were 4.6% of Gross State Product in fiscal year 2010, up from 4.4% of Gross State Product in fiscal year 2009.

Connecticut is a leading producer of aircraft engines and parts, submarines, and helicopters. The largest employers in these industries are United Technologies Corporation, including its Pratt and Whitney Aircraft Division with headquarters in East Hartford, and Sikorsky Aircraft Corporation in Stratford, as well as General Dynamics Corporation's Electric Boat Division in Groton.

The following table provides a historical perspective of defense contract awards for the past ten fiscal years. Defense contracts are awarded in their entirety and multi-year awards are credited in the year they are awarded, thus giving rise to some of the fluctuation.

**TABLE B-14**  
**Defense Contract Awards**

<u>Federal Fiscal Year</u>	<u>Connecticut Total Contract Award (Thousands)</u>	<u>Connecticut Rank Among States Total Awards</u>	<u>Percent Change from Prior Year</u>	
			<u>Connecticut</u>	<u>U.S.</u>
2000-01	4,269,544	10 <sup>th</sup>	96.1	9.7
2001-02	5,638,585	9 <sup>th</sup>	32.1	17.4
2002-03	8,064,809	5 <sup>th</sup>	43.0	20.5
2003-04	8,959,424	5 <sup>th</sup>	11.1	6.4
2004-05	8,753,063	7 <sup>th</sup>	(2.3)	16.5
2005-06	7,780,793	10 <sup>th</sup>	(11.0)	8.6
2006-07	8,601,359	9 <sup>th</sup>	10.5	22.6
2007-08	9,696,554	11 <sup>th</sup>	12.7	16.0
2008-09	11,832,737	8 <sup>th</sup>	22.0	(9.5)
2009-10	11,121,517	8 <sup>th</sup>	(0.1)	(2.7)

SOURCE: United States Department of Defense

**Non-manufacturing.** The non-manufacturing sector is comprised of industries that primarily provide services. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently, and it cannot be inventoried. Consumer demand for services is not as postponable as the purchase of goods, making the flow of demand for services more stable. An economy will therefore generally become more stable as it becomes more service oriented. Over the past several decades the non-manufacturing sector of the State's economy has risen in economic importance, from just over 50% of total State employment in 1950 to approximately 89.7% by 2010. This trend has diluted the State's dependence on manufacturing. From 2000 to 2010, Connecticut had a total loss of 72,417 jobs in non-agricultural employment. Of those total losses, only 11,900 jobs, or 16.4%, were in the non-manufacturing sector, versus a loss of 60,517, or 83.6%, in the manufacturing sector.

The table below provides a ten year profile of non-manufacturing employment in Connecticut, New England and the United States.

**TABLE B-15**  
**Non-manufacturing Employment**  
**(In Thousands)**

Calendar Year	Connecticut		New England		United States	
	Number	Percent Growth	Number	Percent Growth	Number	Percent Growth
2001	1,454.7	(0.21)%	6,136.2	0.84%	115,389.5	0.75%
2002	1,454.0	(0.05)	6,112.4	(0.39)	115,083.7	(0.27)
2003	1,444.3	(0.66)	6,085.6	(0.44)	115,487.6	0.35
2004	1,452.5	0.57	6,127.8	0.69	117,104.5	1.40
2005	1,466.9	0.99	6,184.5	0.93	119,468.8	2.02
2006	1,487.3	1.40	6,264.8	1.30	121,935.4	2.06
2007	1,507.5	1.36	6,336.1	1.14	123,710.2	1.46
2008	1,511.7	0.28	6,352.7	0.26	123,375.8	(0.27)
2009	1,455.0	(3.75)	6,164.0	(2.97)	118,943.4	(3.59)
2010	1,442.8	(0.84)	6,159.5	(0.07)	118,295.1	(0.55)

SOURCE: United States Department of Labor, Bureau of Labor Statistics  
Connecticut State Labor Department

Services, retail and wholesale trade, state and local government, as well as finance, insurance, and real estate (FIRE), collectively comprise approximately 90% of the State's employment in the non-manufacturing sector. Connecticut non-manufacturing employment for 2001, 2008, 2009 and 2010 is shown in the table below. Total non-manufacturing employment has been broken down by industry. Percent changes over the year and over the decade are also provided. Between 2001 and 2010, employment in the service industry and by state and local governments expanded by 47,542 workers and 2,192 jobs, respectively, amid a time when all non-manufacturing jobs registered a decrease of 11,900 jobs. Without these two sectors, total non-manufacturing employment would have been down 61,633 jobs.

**TABLE B-16**  
**Connecticut Non-manufacturing Employment By Industry**  
**(In Thousands)**

<b><u>Industry</u></b>	<b><u>Calendar</u></b> <b><u>Year</u></b> <b><u>2001</u></b>	<b><u>Calendar</u></b> <b><u>Year</u></b> <b><u>2008</u></b>	<b><u>Calendar</u></b> <b><u>Year</u></b> <b><u>2009</u></b>	<b><u>Calendar</u></b> <b><u>Year</u></b> <b><u>2010</u></b>	<b><u>Percent</u></b> <b><u>Change</u></b> <b><u>2009-10</u></b>	<b><u>Percent</u></b> <b><u>Change</u></b> <b><u>2001-10</u></b>
Construction <sup>(a)</sup>	66.14	66.07	55.11	50.13	(9.03)%	(24.20)%
Information <sup>(b)</sup>	44.69	37.81	34.31	31.71	(7.58)	(29.05)
Trade <sup>(c)</sup>	312.21	309.92	293.23	289.52	(1.26)	(7.27)
Finance, Insurance & Real Estate Services <sup>(d)</sup>	142.93	143.37	137.61	134.96	(1.93)	(5.58)
Federal Government	644.22	702.07	686.53	691.75	0.76	7.38
State and Local Government	21.61	19.48	19.31	19.63	1.64	(9.18)
Total Non-manufacturing Employment <sup>(d)</sup>	<u>222.88</u>	<u>232.98</u>	<u>228.91</u>	<u>225.07</u>	<u>(1.67)</u>	<u>0.98</u>
	1,454.68	1,511.69	1,455.00	1,442.78	(0.84)	(0.82)

(a) Includes natural resources and mining.

(b) Covers a considerable variety of activities, including professional, business, education, health care and personal services.

(c) Includes wholesale & retail trade, transportation, and utilities.

(d) Totals may not agree with detail due to rounding and seasonal statistical data adjustments.

SOURCE: Connecticut State Labor Department

**Retail Trade.** Personal spending on goods and services generally accounts for two-thirds of the Gross Domestic Product. Approximately half of personal spending is generally done through retail stores. At the State level, retail trade therefore constitutes approximately one third of the State's economic activity, measured by Gross State Product. During the last decade, variations in retail trade closely matched variations in Gross State Product growth, making retail trade an important barometer of economic health.

The following table shows the major group in each North American Industry Classification System (NAICS) code as well as the State's retail trade history for the past four fiscal years. Connecticut retail trade in fiscal year 2011 totaled \$49.4 billion, an increase of 13.0% from fiscal year 2010. Sales in the durable goods category, which were severely impacted during the recession, registering three consecutive yearly declines began to recover in fiscal year 2010 and accelerated further in fiscal year 2011. Durable goods are mostly big ticket items such as appliances, furnishings, and automobiles.

**TABLE B-17**  
**Retail Trade In Connecticut<sup>(a)</sup>**  
**(In Millions)**

NAICS		Percent of Fiscal Year 2007 Total		Percent of Fiscal Year 2008 Total		Percent of Fiscal Year 2009 Total		Percent of Fiscal Year 2010 Total		Percent of Fiscal Year 2011 Total		Average Percent Growth Fiscal Year 2007-2011
		Fiscal Year 2007	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2010	Fiscal Year 2011	Fiscal Year 2011	
441	Motor Vehicle and Parts Dealers	\$ 8,602	18.53%	\$ 8,197	16.78%	\$ 6,475	14.24%	\$ 6,933	15.84%	\$ 7,610	15.39%	(2.2)%
442	Furniture and Home Furnishings Stores	2,635	5.68	1,993	4.08	1,456	3.20	1,275	2.91	1,221	2.47	(17.0)
443	Electronics and Appliance Stores	1,627	3.50	1,686	3.45	1,595	3.51	1,450	3.31	1,582	3.20	(0.4)
444	Building Material and Garden Supply Stores	3,465	7.46	3,243	6.64	2,767	6.09	2,727	6.23	2,845	5.76	(4.6)
445	Food and Beverage Stores <sup>(b)</sup>	6,472	13.94	9,433	19.31	8,927	19.64	7,199	16.45	10,222	20.68	15.8
446	Health and Personal Care Stores	4,219	9.09	3,905	7.99	4,961	10.91	4,920	11.24	5,066	10.25	5.4
447	Gasoline Stations	3,073	6.62	3,403	6.97	2,868	6.31	2,974	6.80	3,426	6.93	3.5
448	Clothing and Clothing Accessories Stores	2,838	6.11	2,947	6.03	2,667	5.87	2,700	6.17	2,739	5.54	(0.7)
451	Sporting Goods, Hobby, Book and Music Stores	1,155	2.49	1,195	2.45	1,052	2.31	995	2.27	1,013	2.05	(3.0)
452	General Merchandise Stores	5,135	11.06	5,193	10.63	5,215	11.47	5,210	11.91	5,275	10.67	0.7
453	Miscellaneous Store Retailers	3,998	8.61	4,037	8.26	3,964	8.72	4,036	9.22	4,757	9.62	4.7
454	Nonstore Retailers	<u>3,209</u>	<u>6.91</u>	<u>3,616</u>	<u>7.40</u>	<u>3,508</u>	<u>7.72</u>	<u>3,338</u>	<u>7.63</u>	<u>3,677</u>	<u>7.44</u>	<u>3.8</u>
	<b>Total<sup>(a)</sup></b>	\$46,428	100.00%	\$48,848	100.00%	\$45,455	100.00%	\$43,757	100.00%	\$49,433	100.00%	1.9%
	Durables (NAICS 441, 442, 443, 444)	\$16,329	35.17%	\$15,119	30.95%	\$12,293	27.04%	\$12,385	28.30%	\$13,258	26.82%	(4.6)%
	Non Durables (all other NAICS)	\$30,099	64.83%	\$33,729	69.05%	\$33,162	72.96%	\$31,373	71.70%	\$36,175	73.18%	5.1%

(a) Totals may not agree with detail due to rounding.

(b) Please note that due to a discrepancy in reporting methodology, figures for Food and Beverage Stores from 2008-2010 filed by several large supermarkets appear inconsistent with past reporting practices and thus the above figures may not be reflective of actual trends.

SOURCE: Connecticut Department of Revenue Services

**Unemployment Rates.** The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. Unemployment rates tend to be high during economic slowdowns and low when the economy is expanding. The rate is widely utilized as a proxy for consumer confidence. In general, when the unemployment rate is high consumer spending is lower and vice versa.

After enjoying an extraordinary boom during the late 1990s, Connecticut, as well as the rest of the Northeast and the Nation, experienced an economic slowdown during the recession of the early 2000s. The unemployment rate in the State reached its low of 2.3% in 2000, compared to New England's average of 2.8% and the national average of 4.0%. After climbing to 5.5% in 2003, Connecticut's unemployment rate declined to 4.4% by 2006, but climbed during the most recent recession to 9.0% in 2010. During the subsequent weak

economic recovery of Connecticut's average unemployment rate fell to 8.9% for 2011 compared to the New England average of 7.8% and the national average of 9.0% for the same period.

The following table compares the unemployment rate averages of Connecticut, New England, and the United States for the calendar years 2001 through 2011.

**TABLE B-18**  
**Unemployment Rate**

<u>Year</u>	<u>Unemployment Rate</u>		
	<u>Connecticut</u>	<u>New England</u>	<u>United States</u>
2001	3.1	3.6	4.7
2002	4.4	4.8	5.8
2003	5.5	5.4	6.0
2004	4.9	4.9	5.5
2005	4.9	4.7	5.1
2006	4.4	4.5	4.6
2007	4.6	4.5	4.6
2008	5.6	5.4	5.8
2009	8.3	8.2	9.3
2010	9.1	8.5	9.6
2011 <sup>(a)</sup>	8.9	7.8	9.0

(a) Connecticut's unemployment rate for the month of December 2011 was 8.2% compared to 8.5% for the U.S. No assurances can be provided that such rates will not change.

SOURCE: Connecticut State Labor Department  
Federal Reserve Bank of Boston  
United States Department of Labor, Bureau of Labor Statistics

## APPENDIX III-C

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STATE OF CONNECTICUT  
OFFICE OF THE STATE COMPTROLLER  
55 ELM STREET  
HARTFORD, CONNECTICUT  
06106-1775

Kevin Lembo  
State Comptroller

Martha Carlson  
Deputy Comptroller

February 27, 2012

The Honorable Denise L. Nappier  
State Treasurer  
55 Elm Street  
Hartford, CT 06106

Dear Ms. Nappier

I have reviewed the accompanying preliminary general purpose financial statements of the State of Connecticut for the Fiscal Year ended June 30, 2011. The statements and the subsequent Independent Auditors' Report are incorporated within the Comprehensive Annual Report of the State of Connecticut, which is prepared by my office using the guidance of generally accepted accounting principles.

Sincerely,

A handwritten signature in cursive script that reads "Kevin Lembo".

Kevin Lembo  
State Comptroller

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

INDEPENDENT AUDITORS' REPORT

Governor Dannel P. Malloy  
Members of the General Assembly

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Connecticut as of and for the year ended June 30, 2011, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Connecticut's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit:

Government-wide Financial Statements

- the financial statements of the Special Transportation Fund account within the Transportation Fund, the Transportation Special Tax Obligations account within the Debt Service Fund, and the Clean Energy Fund account within the Environmental Programs Fund, which in the aggregate, represent six percent of the assets and six percent of the revenues of the Governmental Activities;
- the financial statements of the John Dempsey Hospital account within the University of Connecticut and Health Center, the Connecticut State University, Connecticut Community - Technical Colleges, Bradley International Airport, Bradley International Airport Parking Facility, Connecticut Lottery Corporation, and the Federal accounts for the Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 67 percent of the assets and 39 percent of the revenues of the Business Type Activities;
- the financial statements of the discretely presented component units;

Fund Financial Statements

- the financial statements of the Special Transportation Fund account, which represents 93 percent of the assets and 97 percent of the revenues of the Transportation Fund;
- the financial statements of the Transportation Special Tax Obligations account, which represents 100 percent of the assets and 100 percent of the revenues of the Debt Service Fund;
- the financial statements of the Clean Energy Fund account, which represents 56 percent of the assets and 89 percent of the revenues of the Environmental Programs Fund;
- the financial statements of the John Dempsey Hospital account within the University of Connecticut and Health Center, the Connecticut State University, the Connecticut Community - Technical Colleges, Bradley International Airport, Bradley International Airport Parking Facility, the Connecticut Lottery Corporation, and the Federal accounts for the Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 64 percent of the assets and 39 percent of the revenues of the Enterprise Funds;

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned funds and accounts, is based on the reports of the other auditors. All of the aforementioned audits were conducted in accordance with auditing standards generally accepted in the United States of America. In addition, the audits of the Special Transportation Fund, Transportation Special Tax Obligations Fund, Drinking Water Fund, Clean Water Fund, Bradley International Airport, Connecticut Development Authority, Capital City Economic Development Authority, Connecticut Lottery Corporation, Connecticut Resources Recovery Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, and Connecticut Innovations Incorporated were conducted in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audits of the Bradley International Airport Parking Facility, John Dempsey Hospital, Connecticut State University, Connecticut Community-Technical Colleges and the University of Connecticut Foundation were not conducted in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

The State of Connecticut adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB) in 2008. This standard modifies the method that governments have reported the cost of providing such benefits, primarily retiree health care. It requires the systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and the disclosure of information about the actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. Our audit disclosed that the required actuarial valuation was not performed within the two year window permitted by GASB and the State of Connecticut did not present information pertaining to the Annual OPEB Cost and Net OPEB Obligation, Funded Status and Funding Progress, and Actuarial Methods and Assumptions for the State Employee OPEB Plan in Note 14 of the financial statements in compliance with GASB requirements. Our audit also disclosed that the Annual OPEB Cost and Net OPEB Obligation reported on Note 14 of the financial statements and the Net OPEB Obligation reported as Other Long Term Liabilities on Note 17 of the financial statements for the State Employee OPEB Plan presented data as of June 30, 2010.

In our opinion, except for the matters described in the preceding paragraph, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, for the State of Connecticut, as of June 30, 2011, and the respective budgetary comparison for the General Fund and the Transportation Fund, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2012, on our consideration of the State of Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report will be issued under separate cover in the *State of Connecticut Single*

*Audit Report for the Fiscal Year Ended June 30, 2011*, and is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 25 to the financial statements, the State of Connecticut implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the fiscal year ended June 30, 2011.

The management's discussion and analysis, the schedules of funding progress for pension and other post-employment benefit plans and the schedules of employer contributions for pension and other post-employment benefit plans, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and do not express an opinion on it. As a result of such limited procedures, we found that the State of Connecticut has not presented data in the Schedule of Funding Progress and Schedule of Employer Contributions for the State Employee OPEB plan that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Connecticut's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



John C. Geragosian  
Auditor of Public Accounts



Robert M. Ward  
Auditor of Public Accounts

February 24, 2012  
State Capitol  
Hartford, Connecticut

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is intended to provide readers of the State's financial statements with a narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2011. The information provided here should be read in conjunction with additional information provided in the letter of transmittal and in the basic financial statements.

### **FINANCIAL HIGHLIGHTS**

#### **Government-wide:**

As of June 30, 2011, the State had a combined net asset deficit of \$9.9 billion, an increase of \$502 million when compared to the prior year ending deficit balance. This increase resulted mainly from an increase of \$410 million in the net asset deficit of governmental activities.

#### **Fund Level:**

The governmental funds had a total fund balance of \$1.4 billion at year end. Of this amount, \$2.6 billion represents fund balance that is considered restricted for specific purposes by external constraints or enabling legislation and \$1.8 billion represents unassigned fund balance deficit. The General Fund's share of the deficit is \$1.7 billion, which increased by \$351 million this fiscal year.

The Enterprise funds had total net assets of \$4.2 billion, substantially all of which was invested in capital assets or restricted for specific purposes.

#### **Long-Term Debt:**

Total long-term debt was \$26.8 billion for governmental activities, of which \$18.6 billion was bonded debt.

Total long-term debt was \$2.9 billion for business-type activities, of which \$1.6 billion was bonded debt.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the State's non-fiduciary assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements are intended to distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other

functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include legislative, general government, regulation and protection, conservation and development, health and hospitals, transportation, human services, education, libraries, and museums, corrections, and judicial. The business-type activities of the State include the University of Connecticut and Health Center, State Universities, Bradley International Airport, Connecticut Lottery Corporation, Employment Security, and Clean Water, which are considered major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The government-wide financial statements include not only the State itself (known as the primary government), but also the activities of eight legally separate Component Units for which the State is financially accountable: the Connecticut Housing Finance Authority, the Connecticut Health and Educational Facilities Authority, the Connecticut Development Authority, the Connecticut Higher Education Supplemental Loan Authority, the Connecticut Resources Recovery Authority, Connecticut Innovations, Incorporated, the Capital City Economic Development Authority, and the University of Connecticut Foundation, Incorporated. Financial information for these Component Units is reported separately from the financial information presented for the primary government itself. Financial information of the individual component units can be found in the basic financial statements following the fund statements, and complete financial statements of the individual component units can be obtained from their respective administrative offices.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund, the Transportation Fund, and the Restricted Grants and Accounts Fund, all of which are considered major funds. Data from other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Starting in fiscal year 2011, governmental fund balance (difference between assets and liabilities) is classified as nonspendable, restricted, and unrestricted (committed, assigned or unassigned).

The State adopts a biennial budget for the General Fund, the Transportation Fund, and other Special Revenue funds. A budgetary comparison statement has been provided for the General Fund and the Transportation Fund to demonstrate compliance with the current fiscal year budgets.

### **Proprietary Funds**

Proprietary funds (Enterprise funds and Internal Service funds) are used to show activities that operate more like those of commercial enterprises. Enterprise funds charge fees for services provided to outside customers. They are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the State's various functions. The State uses Internal Service funds to account for correction industries, information technology, and administrative services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held by the State in a trustee or agency capacity for others. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes information regarding the State's progress on funding its obligation to provide pension and other postemployment benefits to its employees.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also contains the following information.

- Combining Fund Statements and Schedules – Nonmajor funds
- Statistical Section



**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

**NET ASSETS**

As noted earlier, net assets may serve over time as a useful indicator of the State's financial position. During the current fiscal year, the combined net asset deficit of the State increased 5.4 percent to \$9.9 billion. In comparison, last year the combined net asset deficit increased 58 percent.

**State Of Connecticut's Net Assets  
(Expressed in Millions)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010*	2011	2010	2011	2010*
<b>ASSETS:</b>						
Current and Other Assets	\$ 4,228	\$ 4,601	\$ 4,236	\$ 4,051	\$ 8,464	\$ 8,652
Capital Assets	<u>10,924</u>	<u>10,570</u>	<u>3,468</u>	<u>3,382</u>	<u>14,392</u>	<u>13,952</u>
<b>Total Assets</b>	<u>15,152</u>	<u>15,171</u>	<u>7,704</u>	<u>7,433</u>	<u>22,856</u>	<u>22,604</u>
<b>LIABILITIES:</b>						
Current Liabilities	3,824	4,417	787	792	4,611	5,209
Long-term Liabilities	<u>25,378</u>	<u>24,394</u>	<u>2,724</u>	<u>2,356</u>	<u>28,102</u>	<u>26,750</u>
<b>Total Liabilities</b>	<u>29,202</u>	<u>28,811</u>	<u>3,511</u>	<u>3,148</u>	<u>32,713</u>	<u>31,959</u>
<b>NET ASSETS:</b>						
Invested in Capital Assets,						
Net of Related Debt	4,905	4,910	2,819	2,671	7,724	7,581
Restricted	1,810	1,778	1,152	1,264	2,962	3,042
Unrestricted	<u>(20,765)</u>	<u>(20,328)</u>	<u>222</u>	<u>350</u>	<u>(20,543)</u>	<u>(19,978)</u>
<b>Total Net Assets (Deficit)</b>	<u>\$ (14,050)</u>	<u>\$ (13,640)</u>	<u>\$ 4,193</u>	<u>\$ 4,285</u>	<u>\$ (9,857)</u>	<u>\$ (9,355)</u>

\* Restated for comparative purposes. See Note 23.

The net asset deficit of the State's governmental activities increased \$410 million (3.0 percent) to \$14.1 billion during the current fiscal year. Of this amount, \$4.9 billion was invested in capital assets (buildings, roads, bridges, etc.) and \$1.8 billion was restricted for specific purposes, resulting in an unrestricted net asset deficit of \$20.8 billion. This deficit is the result of having long-term obligations that are greater than currently available resources. Specifically, the State has recorded the following outstanding long-term obligations which contributed to the deficit; a) general obligation bonds issued in the amount of \$5.7 billion to finance various municipal grant programs (e.g., school construction) and \$2.3 billion issued to finance a contribution to a pension trust fund, and b) other long-term obligations in the amount of \$8.2 billion, which are partially funded or not funded by the State (e.g., net pension and OPEB obligations and compensated absences).

Net assets of the State's business-type activities decreased \$91 million (2.1 percent) to \$4.2 billion during the current fiscal year. Of this amount, \$2.8 billion was invested in capital assets and \$1.2 billion was restricted for specific purposes, resulting in unrestricted net assets of \$0.2 billion. These resources cannot be used to make up for the net asset deficit of the State's governmental activities. The State can only use these net assets to finance the ongoing operations of its Enterprise funds (such as the University of Connecticut and Health Center, Bradley International Airport, and others).

**CHANGE IN NET ASSETS**

Changes in net assets for the years ended June 30, 2011 and 2010 were as follows:

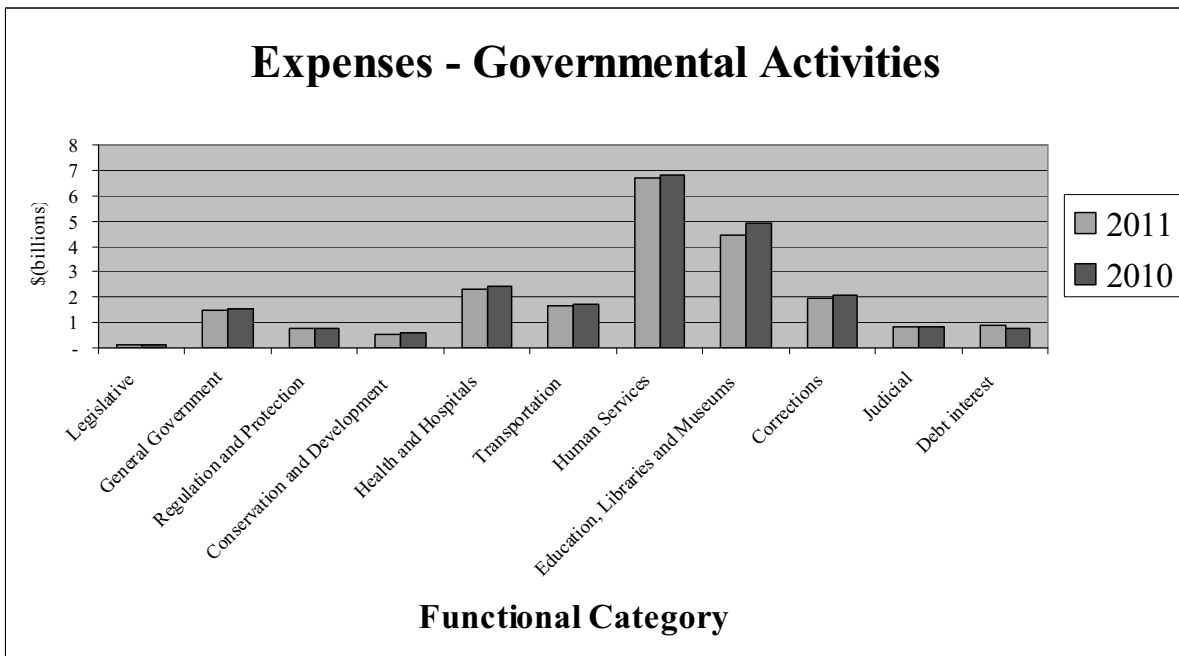
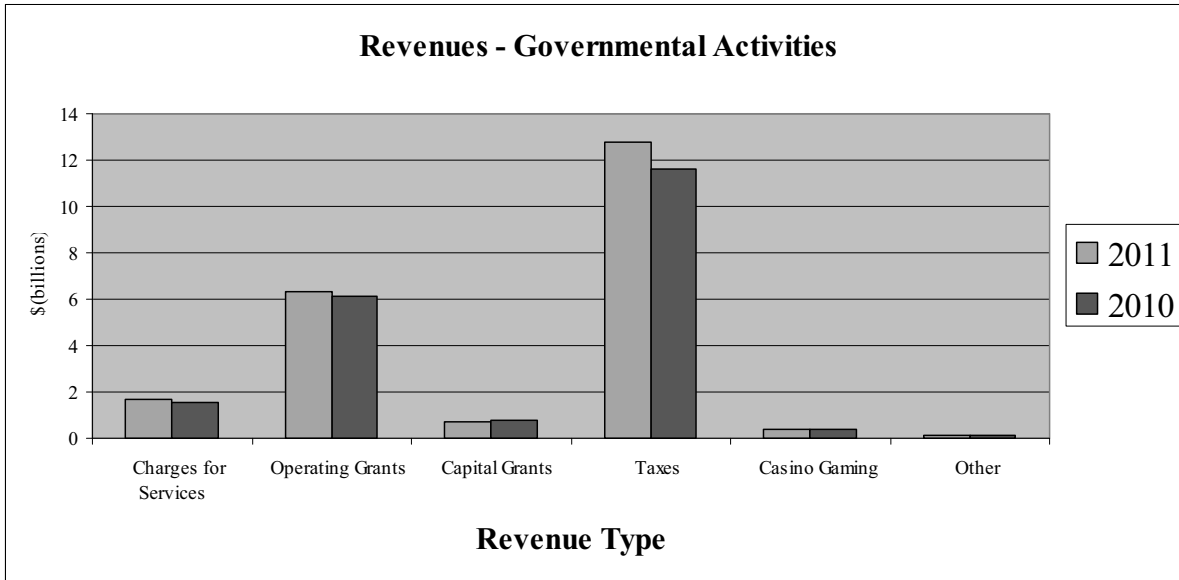
**State of Connecticut's Changes in Net Assets  
(Expressed in Millions)**

	Governmental Activities		Business-Type Activities		Total		%change 11-10
	2011	2010*	2011	2010	2011	2010*	
<b>REVENUES</b>							
Program Revenues							
Charges for Services	\$ 1,647	\$ 1,522	\$ 3,416	\$ 3,223	\$ 5,063	\$ 4,745	6.7%
Operating Grants and Contributions	6,350	6,113	1,790	1,885	8,140	7,998	1.8%
Capital Grants and Contributions	725	766	40	18	765	784	-2.4%
General Revenues							
Taxes	12,788	11,583	-	-	12,788	11,583	10.4%
Casino Gaming Payments	360	384	-	-	360	384	-6.3%
Other	141	156	32	40	173	196	-11.7%
<b>Total Revenues</b>	<b>22,011</b>	<b>20,524</b>	<b>5,278</b>	<b>5,166</b>	<b>27,289</b>	<b>25,690</b>	<b>6.2%</b>
<b>EXPENSES</b>							
Legislative	100	106	-	-	100	106	-5.7%
General Government	1,509	1,566	-	-	1,509	1,566	-3.6%
Regulation and Protection	780	796	-	-	780	796	-2.0%
Conservation and Development	529	566	-	-	529	566	-6.5%
Health and Hospitals	2,301	2,443	-	-	2,301	2,443	-5.8%
Transportation	1,638	1,741	-	-	1,638	1,741	-5.9%
Human Services	6,676	6,830	-	-	6,676	6,830	-2.3%
Education, Libraries and Museums	4,463	4,921	-	-	4,463	4,921	-9.3%
Corrections	1,932	2,083	-	-	1,932	2,083	-7.2%
Judicial	828	828	-	-	828	828	0.0%
Interest and Fiscal Charges	874	793	-	-	874	793	10.2%
University of Connecticut & Health Center	-	-	1,807	1,703	1,807	1,703	6.1%
State Universities	-	-	652	650	652	650	0.3%
Bradley International Airport	-	-	68	69	68	69	-1.4%
CT Lottery Corporation	-	-	738	723	738	723	2.1%
Employment Security	-	-	2,307	2,701	2,307	2,701	-14.6%
Clean Water	-	-	45	53	45	53	-15.1%
Other	-	-	543	527	543	527	3.0%
<b>Total Expenses</b>	<b>21,630</b>	<b>22,673</b>	<b>6,160</b>	<b>6,426</b>	<b>27,790</b>	<b>29,099</b>	<b>-4.5%</b>
Excess (Deficiency)							
Before Transfers and Special Items	381	(2,149)	(882)	(1,260)	(501)	(3,409)	-85.3%
Special Items	-	21	-	(21)	-	-	0.0%
Transfers	(791)	(1,062)	791	1,062	-	-	0.0%
<b>Increase (Decrease) in Net Assets</b>	<b>(410)</b>	<b>(3,190)</b>	<b>(91)</b>	<b>(219)</b>	<b>(501)</b>	<b>(3,409)</b>	<b>-85.3%</b>
Net Assets (Deficit) -							
Beginning (as restated)	(13,640)	(10,450)	4,284	4,504	(9,356)	(5,946)	57.3%
<b>Net Assets (Deficit) - Ending</b>	<b>\$ (14,050)</b>	<b>\$ (13,640)</b>	<b>\$ 4,193</b>	<b>\$ 4,285</b>	<b>\$ (9,857)</b>	<b>\$ (9,355)</b>	<b>5.4%</b>

\*Restated for comparative purposes. See note 23.

**GOVERNMENTAL ACTIVITIES**

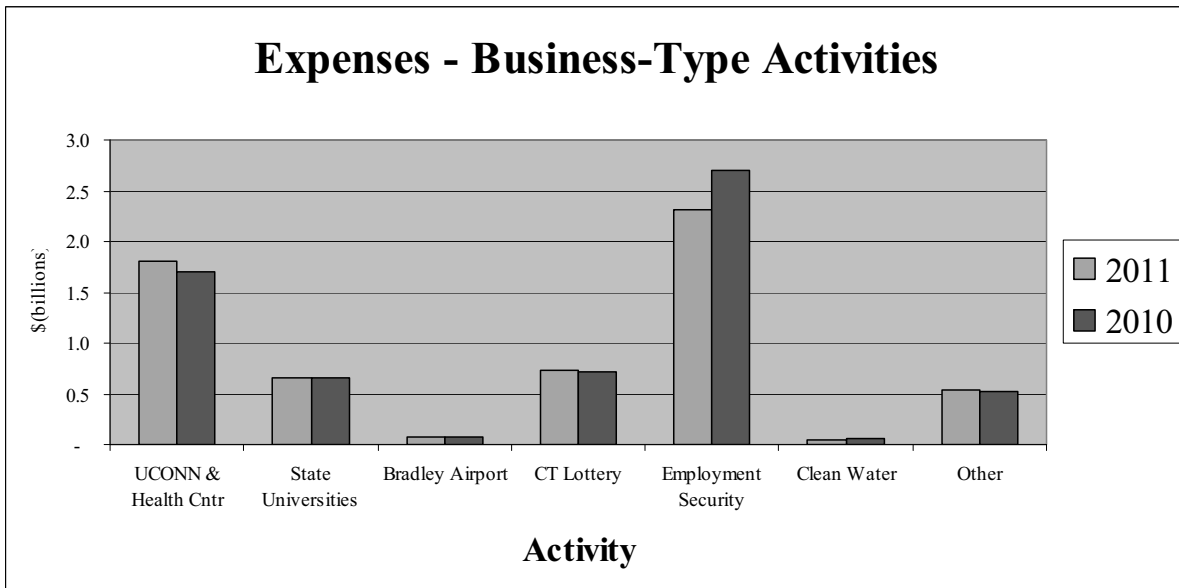
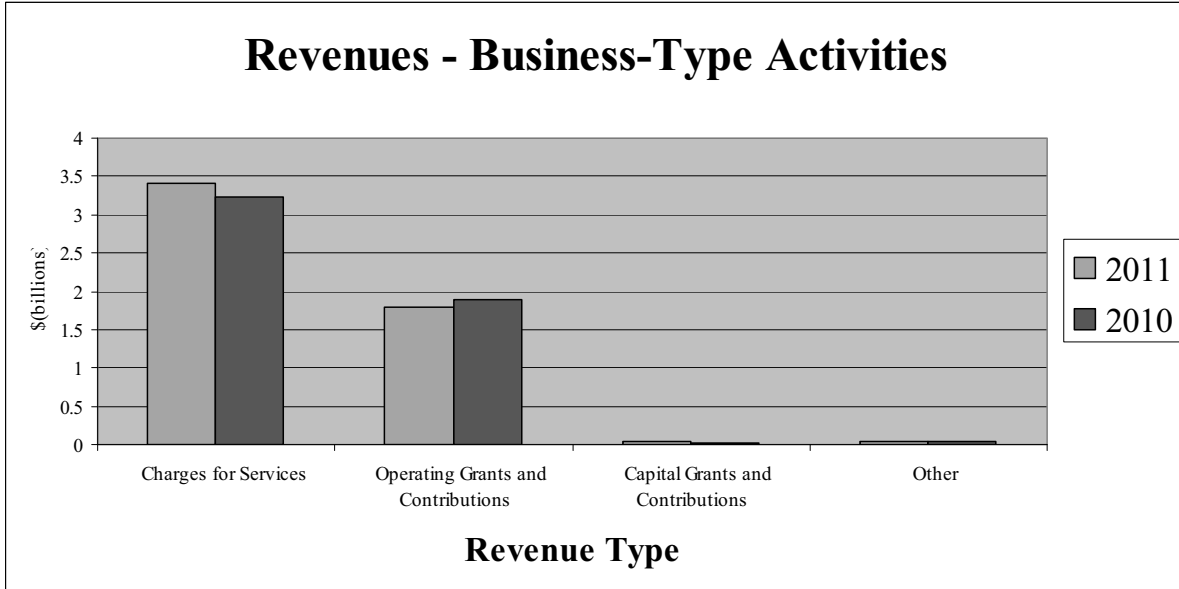
The following charts provide a two-year comparison of governmental activities revenues and expenses.



During the year, total revenues of governmental activities increased 7.2 percent to \$22.0 billion, while total expenses decreased 4.6 percent to \$21.6 billion. In comparison, last year total revenues and expenses increased 3.7 percent and 1.3 percent, respectively. The increase in total revenues (\$1.5 billion) was due mainly to an increase in taxes of \$1.2 billion or 10.4 percent. The decrease in total expenditures (\$1.0 billion) was due mainly to a decrease in education, libraries, and museum expenditures of \$458 million or 9.3%. Although, total revenues exceeded total expenses by \$381 million, this excess was reduced by transfers of \$791 million, resulting in a decrease in net assets of \$410 million.

**BUSINESS-TYPE ACTIVITIES**

The following charts provide a two-year comparison of business-type activities revenues and expenses.



During the year, total revenues of business-type increased 2.2 percent to \$5.3 billion, while total expenses decreased 4.1 percent to \$6.2 billion. In comparison, last year total revenues and expenses increased 24.3 percent and 21.9 percent respectively. The decrease in total expenses (\$266 million) was due mainly to a decrease in Employment Security expenses of \$394 million or 14.6 percent. Although, total expenses exceeded total revenues by \$882 million, this deficiency was reduced by transfers of \$791 million, resulting in a decrease in net assets of \$91 million.

## **FINANCIAL ANALYSIS OF THE STATE'S FUNDS**

### **Governmental Funds**

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unassigned fund balance serves as a useful measure of the State's net resources available for spending at the end of the fiscal year.

As of June 30, 2011, the State's governmental funds had fund balances of \$1.4 billion, remaining unchanged when compared to the prior year ending fund balances. Of the total governmental fund balances, \$2.6 billion represents fund balance that is considered restricted for specific purposes by external constraints or enabling legislation; \$0.4 billion represents fund balance that is committed or assigned for specific purposes by the Legislature and \$1.8 billion represents unassigned fund balance deficit.

### **General Fund**

The General Fund is the chief operating fund of the State. As of June 30, 2011, the General Fund had a fund balance deficit of \$1.3 billion. Of this amount, \$0.4 billion represents fund balance that is committed or assigned for specific purposes by the Legislature, leaving a deficit of \$1.7 billion in unassigned fund balance. Fund balance decreased by \$351 million during the current fiscal year.

### **Debt Service Fund**

As of June 30, 2011, the Debt Service Fund had a fund balance of \$709 million, all of which was restricted. Fund balance increased by \$21 million during the current fiscal year.

### **Transportation Fund**

As of June 30, 2011, the Transportation Fund had a fund balance of \$170 million. Of this amount, \$28 million was in nonspendable form and \$142 million was restricted for specific purposes. Fund balance increased by \$6 million during the current fiscal year.

### **Restricted Grants and Accounts Fund**

As of June 30, 2011, the Restricted Grants and Accounts Fund had a fund balance of \$444 million, all of which was restricted for specific purposes. Fund balance decreased by \$177 million during the fiscal year.

### **Proprietary Funds**

The State's Proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Accordingly, a discussion of the financial activities of the Proprietary funds has been provided in that section.

### **Fiduciary Funds**

The State maintains Fiduciary funds for the assets of Pension and Other Employee Benefit Trust funds, an Investment Trust fund, and a Private-Purpose Trust fund. As of June 30, 2011, the net assets of the State's Fiduciary funds totaled \$25.8 billion, an increase of \$3.0 billion when compared to the prior year ending net asset balance.

**Budgetary Highlights-General Fund**

The General Fund had an estimated budget surplus of \$0.2 million at the start of the fiscal year. During the first quarter of the year, the fund had an estimated budget deficit of \$45 million, instead, as the State's economy continued to experience a slow recovery. However, due to deficit reduction measures adopted by the State legislature in prior years, the fund had a final estimated budget surplus of \$159 million at the end of the fiscal year.

Although actual fund expenditures exceeded revenues by \$138 million, this deficiency was reduced by other financing sources of \$375 million (including a transfer of 2010 fiscal year surplus of \$450 million), resulting in an actual budget surplus of \$237 million for the fiscal year.

Actual revenues were almost the same as originally budgeted for the fiscal year. Final budgeted appropriations were greater than originally budgeted by \$391 million for the fiscal year. This increase resulted mainly from an increase in human services appropriations of \$278 million, specifically Medicaid appropriations increased by \$651 million.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2011 totaled \$14.4 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure, and construction in progress. The net increase in the State's investment in capital assets for the fiscal year was \$440 million, due mainly to an increase in governmental activities' capital assets of \$354 million or 3.3 percent.

Major capital asset events for governmental activities during the fiscal year included the following:

- Additions to equipment and infrastructure of \$1.0 billion
- Depreciation expense of \$846 million

The following table is a two-year comparison of the investment in capital assets presented for both governmental and business-type activities:

**State of Connecticut's Capital Assets  
(Net of Depreciation, in Millions)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 1,595	\$ 1,562	\$ 65	\$ 60	\$ 1,660	\$ 1,622
Buildings	1,476	1,453	2,515	2,530	3,991	3,983
Improvements Other than Buildings	176	201	247	254	423	455
Equipment	154	44	346	344	500	388
Infrastructure	5,183	5,591	-	-	5,183	5,591
Construction in Progress	2,340	1,719	295	194	2,635	1,913
Total	<u>\$ 10,924</u>	<u>\$ 10,570</u>	<u>\$ 3,468</u>	<u>\$ 3,382</u>	<u>\$ 14,392</u>	<u>\$ 13,952</u>

Additional information on the State's capital assets can be found in Note 10 of this report.

**Long-Term Debt  
Bonded Debt**

At the end of the current fiscal year, the State had total bonded debt of \$20.2 billion. Pursuant to various public and special acts, the State has authorized the issuance of the following types of debt: general obligation debt (payable from the General Fund), special tax obligation debt (payable from the Debt Service Fund), and revenue debt (payable from specific revenues of the Enterprise funds).

The following table is a two-year comparison of bonded debt presented for both governmental and business-type activities:

**State of Connecticut's Bonded Debt (in millions)  
General Obligation and Revenue Bonds**

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2011	2010	2011	2010	2011	2010
General Obligation Bonds	\$ 13,794	\$ 13,593	\$ -	\$ -	\$ 13,794	\$ 13,593
Transportation Related Bonds	3,358	3,030	-	-	3,358	3,030
Revenue Bonds	-	-	1,556	1,498	1,556	1,498
Long-Term Notes	916	1,144	-	-	916	1,144
Premiums and deferred amounts	526	527	51	41	577	568
<b>Total</b>	<b>\$ 18,594</b>	<b>\$ 18,294</b>	<b>\$ 1,607</b>	<b>\$ 1,539</b>	<b>\$ 20,201</b>	<b>\$ 19,833</b>

The State's total bonded debt increased by \$368 million (1.9 percent) during the current fiscal year. This increase resulted mainly from an increase in transportation related bonds of \$328 million.

Section 3-21 of the Connecticut General Statutes provides that the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but have not been issued and the total amount of such indebtedness which has been issued and remains outstanding shall not exceed 1.6 times the total estimated General Fund tax receipts of the State for the current fiscal year. In computing the indebtedness at any time, revenue anticipation notes, refunded indebtedness, bond anticipation notes, tax increment financing, budget deficit bonding, revenue bonding, balances in debt retirement funds and other indebtedness pursuant to certain provisions of the General Statutes shall be excluded from the calculation. As of October 2011, the State had a debt incurring margin of \$6.9 billion.

**Other Long-Term Debt**

**State of Connecticut's Other Long - Term Debt (in Millions)**

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2011	2010	2011	2010	2011	2010
Net Pension Obligation	\$ 2,447	\$ 2,262	\$ -	\$ -	\$ 2,447	\$ 2,262
Net OPEB Obligation	4,603	4,441	-	-	4,603	4,441
Compensated Absences	560	523	155	147	715	670
Workers Compensation	511	461	-	-	511	461
Lottery Prizes	-	-	162	181	162	181
Federal Loan Payable	-	-	810	499	810	499
Other	122	130	183	194	305	324
<b>Total</b>	<b>\$ 8,243</b>	<b>\$ 7,817</b>	<b>\$ 1,310</b>	<b>\$ 1,021</b>	<b>\$ 9,553</b>	<b>\$ 8,838</b>

The State's other long-term obligations increased by \$715 million (8.1 percent) during the fiscal year. This increase was due mainly to an increase in Federal loan payable (Business-Type activities) of \$311 million or 62.3 percent.

Additional information on the State's long-term debt can be found in Notes 17 and 18 of this report.

### **Economic Factors and Next Year's Budget**

The national economy as measured by real GDP grew at a moderate rate of just over 2 percent during the first two quarters of fiscal year 2011 before slowing sharply in the second half of the fiscal year. Second half growth was about half of the first half level. This is consistent with Connecticut's job performance, which expanded by 15,200 payroll jobs during fiscal year 2011 with most of the gain coming during the first six months of the fiscal year.

In fiscal year 2011, Connecticut weekly earnings increased at a 3.3 percent rate. The State's personal income has been growing at a rate in excess of 4 percent.

The stock market realized double-digit gains over the course of the fiscal year. The DOW increased by 25 percent as recessionary pressures eased. Historic growth was posted in corporate profits in calendar year 2010 with solid results continuing into the first quarter of 2011.

Retail sales were strong throughout fiscal year 2011 growing by more than 8 percent. The personal savings rate declined steadily during most of fiscal year. The higher store sales helped to boost Connecticut's fiscal year 2011 sales tax revenues by 4.7 percent from a year ago.

The State's housing sector continued to struggle in fiscal year 2011. New housing permits declined 5 percent from already depressed levels and existing home sales fell 19 percent during the fiscal year with quarterly sales at about half of the 2005 level.

After declining in 2009, Connecticut's export sector rebounded with solid growth in 2010 continuing into 2011 with double-digit growth.

For fiscal year 2012, the budget for the General Fund had an estimated \$80.9 million surplus at the start of the fiscal year. Budgeted revenues were expected to increase 3.9 percent to \$18.8 billion, while budgeted appropriations were expected to increase 1.3 percent to \$18.7 billion. During the second quarter of the fiscal year, the estimated budget surplus was reduced to \$1.4 million due to a decline in forecasted revenue of \$83 million.

### **CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report, please contact the State Comptroller's Office at 1-860-702-3350.



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*Basic  
Financial  
Statements*

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*Connecticut*

**Statement of Net Assets**

June 30, 2011

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 815,474	\$ 748,818	\$ 1,564,292	\$ 144,574
Deposits with U.S. Treasury	-	337,799	337,799	-
Investments	382,068	67,705	449,773	362,106
Receivables, (Net of Allowances)	2,130,295	796,021	2,926,316	45,394
Due from Primary Government	-	-	-	12,988
Inventories	45,134	13,907	59,041	4,086
Restricted Assets	-	68,785	68,785	1,414,128
Internal Balances	(248,768)	248,768	-	-
Other Current Assets	19,305	18,256	37,561	2,924
Total Current Assets	<u>3,143,508</u>	<u>2,300,059</u>	<u>5,443,567</u>	<u>1,986,200</u>
Noncurrent Assets:				
Cash and Cash Equivalents	-	340,739	340,739	-
Due From Component Units	19,026	-	19,026	-
Investments	-	193,618	193,618	41,085
Receivables, (Net of Allowances)	250,035	706,424	956,459	170,387
Restricted Assets	710,880	644,657	1,355,537	4,598,791
Capital Assets, (Net of Accumulated Depreciation)	10,924,298	3,468,078	14,392,376	417,573
Other Noncurrent Assets	104,590	50,098	154,688	11,154
Total Noncurrent Assets	<u>12,008,829</u>	<u>5,403,614</u>	<u>17,412,443</u>	<u>5,238,990</u>
Total Assets	<u>15,152,337</u>	<u>7,703,673</u>	<u>22,856,010</u>	<u>7,225,190</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	807,239	294,994	1,102,233	68,652
Due to Component Units	12,988	-	12,988	-
Due to Other Governments	202,451	1,965	204,416	-
Current Portion of Long-Term Obligations	1,458,847	194,414	1,653,261	309,473
Amount Held for Institutions	-	-	-	364,483
Deferred Revenue	12,949	227,814	240,763	-
Medicaid Liability	525,733	-	525,733	-
Liability for Escheated Property	578,709	-	578,709	-
Other Current Liabilities	224,762	68,112	292,874	27,862
Total Current Liabilities	<u>3,823,678</u>	<u>787,299</u>	<u>4,610,977</u>	<u>770,470</u>
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	25,378,369	2,723,138	28,101,507	4,631,975
Total Noncurrent Liabilities	<u>25,378,369</u>	<u>2,723,138</u>	<u>28,101,507</u>	<u>4,631,975</u>
Total Liabilities	<u>29,202,047</u>	<u>3,510,437</u>	<u>32,712,484</u>	<u>5,402,445</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	4,905,025	2,818,635	7,723,660	276,804
Restricted For:				
Transportation	82,785	-	82,785	-
Debt Service	663,880	28,989	692,869	22,765
Federal Grants and Other Accounts	452,836	-	452,836	-
Capital Projects	445,499	115,071	560,570	-
Clean Water and Drinking Water Projects	-	760,007	760,007	-
Bond Indenture Requirements	-	2,250	2,250	936,984
Loans	-	4,500	4,500	-
Permanent Investments or Endowments:				
Expendable	1,668	-	1,668	91,401
Nonexpendable	97,485	12,472	109,957	274,653
Other Purposes	65,720	229,380	295,100	50,982
Unrestricted (Deficit)	<u>(20,764,608)</u>	<u>221,932</u>	<u>(20,542,676)</u>	<u>169,156</u>
Total Net Assets (Deficit)	<u>\$ (14,049,710)</u>	<u>\$ 4,193,236</u>	<u>\$ (9,856,474)</u>	<u>\$ 1,822,745</u>

*The accompanying notes are an integral part of the financial statements.*

## Statement of Activities

For The Fiscal Year Ended June 30, 2011

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services, Fees, Fines , and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government</b>				
Governmental Activities:				
Legislative	\$ 99,542	\$ 2,677	\$ 169	\$ -
General Government	1,508,994	498,045	117,937	-
Regulation and Protection	780,363	595,692	221,250	-
Conservation and Development	529,292	169,483	91,957	-
Health and Hospitals	2,300,369	73,980	178,263	-
Transportation	1,637,847	55,552	-	725,080
Human Services	6,675,895	77,153	4,800,112	-
Education, Libraries, and Museums	4,463,129	32,822	814,611	-
Corrections	1,932,375	9,439	115,291	-
Judicial	828,124	132,468	10,477	-
Interest and Fiscal Charges	873,847	-	-	-
Total Governmental Activities	<u>21,629,777</u>	<u>1,647,311</u>	<u>6,350,067</u>	<u>725,080</u>
Business-Type Activities:				
University of Connecticut & Health Center	1,806,815	982,949	222,290	1,989
State Universities	651,513	366,009	64,950	17,263
Bradley International Airport	68,415	63,076	-	6,001
Connecticut Lottery Corporation	738,397	1,016,697	-	-
Employment Security	2,306,715	809,364	1,367,271	-
Clean Water	45,473	20,460	23,838	-
Other	542,184	157,323	111,348	14,846
Total Business-Type Activities	<u>6,159,512</u>	<u>3,415,878</u>	<u>1,789,697</u>	<u>40,099</u>
Total Primary Government	<u>\$ 27,789,289</u>	<u>\$ 5,063,189</u>	<u>\$ 8,139,764</u>	<u>\$ 765,179</u>
<b>Component Units</b>				
Connecticut Housing Finance Authority (12-31-10)	\$ 243,109	\$ 194,748	\$ -	\$ -
Connecticut Health and Educational Facilities Authority	7,870	6,788	-	-
Other	262,950	176,850	11,286	885
Total Component Units	<u>\$ 513,929</u>	<u>\$ 378,386</u>	<u>\$ 11,286</u>	<u>\$ 885</u>
General Revenues:				
Taxes:				
Personal Income				
Corporate Income				
Sales and Use				
Other				
Restricted for Transportation Purposes:				
Motor Fuel				
Other				
Casino Gaming Payments				
Tobacco Settlement				
Unrestricted Investment Earnings				
Contributions to Endowments				
Transfers-Internal Activities				
Total General Revenues, Contributions, and Transfers				
Change in Net Assets				
Net Assets (Deficit)- Beginning (as restated)				
Net Assets (Deficit)- Ending				

*The accompanying notes are an integral part of the financial statements.*

*Connecticut*

**Net (Expense) Revenue and Changes in Net Assets**

<b>Primary Government</b>			
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>Component Units</b>
\$ (96,696)	\$ -	\$ (96,696)	\$ -
(893,012)	-	(893,012)	-
36,579	-	36,579	-
(267,852)	-	(267,852)	-
(2,048,126)	-	(2,048,126)	-
(857,215)	-	(857,215)	-
(1,798,630)	-	(1,798,630)	-
(3,615,696)	-	(3,615,696)	-
(1,807,645)	-	(1,807,645)	-
(685,179)	-	(685,179)	-
(873,847)	-	(873,847)	-
<u>(12,907,319)</u>	<u>-</u>	<u>(12,907,319)</u>	<u>-</u>
-	(599,587)	(599,587)	-
-	(203,291)	(203,291)	-
-	662	662	-
-	278,300	278,300	-
-	(130,080)	(130,080)	-
-	(1,175)	(1,175)	-
-	(258,667)	(258,667)	-
<u>-</u>	<u>(913,838)</u>	<u>(913,838)</u>	<u>-</u>
<u>(12,907,319)</u>	<u>(913,838)</u>	<u>(13,821,157)</u>	<u>-</u>
-	-	-	(48,361)
-	-	-	(1,082)
-	-	-	(73,929)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(123,372)</u>
6,327,263	-	6,327,263	-
726,090	-	726,090	-
3,365,250	-	3,365,250	-
1,655,594	-	1,655,594	-
477,411	-	477,411	-
237,242	-	237,242	-
359,582	-	359,582	-
121,422	-	121,422	-
18,434	31,580	50,014	117,450
-	-	-	30,299
<u>(790,851)</u>	<u>790,851</u>	<u>-</u>	<u>-</u>
<u>12,497,437</u>	<u>822,431</u>	<u>13,319,868</u>	<u>147,749</u>
(409,882)	(91,407)	(501,289)	24,377
<u>(13,639,828)</u>	<u>4,284,643</u>	<u>(9,355,185)</u>	<u>1,798,368</u>
<u>\$ (14,049,710)</u>	<u>\$ 4,193,236</u>	<u>\$ (9,856,474)</u>	<u>\$ 1,822,745</u>

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## ***Governmental Fund Financial Statements***

### ***Major Funds***

#### ***General Fund:***

This fund is the State's general operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

#### ***Debt Service Fund:***

This fund is used to account for the accumulation of resources for and the payment of, principal and interest on special tax obligation bonds of the Transportation fund.

#### ***Transportation Fund:***

to account for motor vehicle taxes, receipts and transportation related federal revenues collected for the purposes of payment of debt service requirements and budgeted appropriations made to the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the state.

#### ***Restricted Grants and Accounts Fund:***

This fund is used to account for resources which are restricted by Federal and other providers to be spent for specific purposes.



## Balance Sheet

### Governmental Funds

June 30, 2011

(Expressed in Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Transportation</u>	<u>Restricted Grants &amp; Accounts</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>						
Cash and Cash Equivalents	\$ -	\$ -	\$ 119,062	\$ 77,956	\$ 610,314	\$ 807,332
Investments	278,228	-	-	-	103,840	382,068
Securities Lending Collateral	-	-	-	-	18,681	18,681
Receivables:						
Taxes, Net of Allowances	1,011,100	-	42,457	-	-	1,053,557
Accounts, Net of Allowances	270,123	-	10,408	8,436	36,990	325,957
Loans, Net of Allowances	3,419	-	-	2,072	244,544	250,035
From Other Governments	553,065	-	-	183,988	13,189	750,242
Interest	-	116	77	-	-	193
Other	-	-	-	-	3	3
Due from Other Funds	19,581	-	116	320,659	674,250	1,014,606
Due from Component Units	19,026	-	-	-	-	19,026
Inventories	13,572	-	27,733	-	-	41,305
Restricted Assets	-	708,645	-	-	2,235	710,880
Other Assets	-	-	-	-	292	292
Total Assets	<u>\$ 2,168,114</u>	<u>\$ 708,761</u>	<u>\$ 199,853</u>	<u>\$ 593,111</u>	<u>\$ 1,704,338</u>	<u>\$ 5,374,177</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable and Accrued Liabilities	\$ 365,049	\$ -	\$ 24,861	\$ 120,137	\$ 78,993	\$ 589,040
Due to Other Funds	1,015,957	116	-	2,568	185,866	1,204,507
Due to Component Units	-	-	-	324	12,664	12,988
Due to Other Governments	186,931	-	-	15,520	-	202,451
Deferred Revenue	586,963	-	5,175	10,447	45,713	648,298
Medicaid Liability	525,733	-	-	-	-	525,733
Liability For Escheated Property	578,709	-	-	-	-	578,709
Securities Lending Obligation	-	-	-	-	18,681	18,681
Other Liabilities	206,081	-	-	-	-	206,081
Total Liabilities	<u>3,465,423</u>	<u>116</u>	<u>30,036</u>	<u>148,996</u>	<u>341,917</u>	<u>3,986,488</u>
<b>Fund Balances</b>						
Nonspendable:						
Inventories/Long-Term Receivables	36,017	-	27,733	-	-	63,750
Permanent Fund Principal	-	-	-	-	97,485	97,485
Restricted For:						
Debt Service	-	708,645	-	-	-	708,645
Transportation Programs	-	-	142,084	-	-	142,084
Federal Grant and State Programs	-	-	-	444,115	-	444,115
Other	-	-	-	-	1,257,497	1,257,497
Committed For:						
Continuing Appropriations	178,649	-	-	-	-	178,649
Budget Reserve Fund	48	-	-	-	-	48
Assigned To:						
Surplus Transfer to Fiscal Year 2012	236,923	-	-	-	-	236,923
Other	-	-	-	-	13,971	13,971
Unassigned	<u>(1,748,946)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,532)</u>	<u>(1,755,478)</u>
Total Fund Balances	<u>(1,297,309)</u>	<u>708,645</u>	<u>169,817</u>	<u>444,115</u>	<u>1,362,421</u>	<u>1,387,689</u>
Total Liabilities and Fund Balances	<u>\$ 2,168,114</u>	<u>\$ 708,761</u>	<u>\$ 199,853</u>	<u>\$ 593,111</u>	<u>\$ 1,704,338</u>	<u>\$ 5,374,177</u>

The accompanying notes are an integral part of the financial statements.

## Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2011

(Expressed in Thousands)

Total Fund Balance - Governmental Funds \$ 1,387,689

Net assets reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported in the funds. These assets consist of:

Buildings	3,275,731	
Equipment	1,790,182	
Infrastructure	12,655,722	
Other Capital Assets	4,405,723	
Accumulated Depreciation	<u>(11,232,402)</u>	10,894,956

Debt issue costs are recorded as expenditures in the funds. However,  
these costs are deferred (reported as other assets) and amortized over the  
life of the bonds in the Statement of Net Assets. 81,993

Some of the state's revenues will be collected after year-end but are not  
available soon enough to pay for the current period's expenditures  
and therefore are deferred in the funds. 635,349

Internal service funds are used by management to charge the costs of  
certain activities to individual funds. The assets and liabilities of the internal  
service funds are included in governmental activities in the Statement of  
Net Assets. (51,052)

Long-term liabilities are not due and payable in the current period and therefore  
are not reported in the funds (Note 17).

Net Pension Obligation	(2,447,084)	
Net OPEB Obligation	(4,602,759)	
Worker's Compensation	(511,413)	
Capital Leases	(42,995)	
Compensated Absences	(557,208)	
Claims and Judgments	<u>(56,227)</u>	(8,217,686)

Long-term bonded debt is not due and payable in the current period and  
therefore is not reported in the funds. Unamortized premiums, loss on  
refundings, and interest payable are not reported in the funds. However,  
these amounts are included in the Statement of Net Assets. This is the net  
effect of these balances on the statement (Note 17).

Bonds and Notes Payable	(18,067,730)	
Unamortized Premiums	(712,896)	
Less: Deferred Loss on Refundings	186,784	
Accrued Interest Payable	<u>(187,117)</u>	<u>(18,780,959)</u>

Net Assets of Governmental Activities \$ (14,049,710)

*The accompanying notes are an integral part of the financial statements.*

**Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds**

For The Fiscal Year Ended June 30, 2011

(Expressed in Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Transportation</u>	<u>Restricted Grants &amp; Accounts</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>						
Taxes	\$ 11,888,079	\$ -	\$ 713,936	\$ -	\$ -	\$ 12,602,015
Assessments	-	-	-	-	28,444	28,444
Licenses, Permits and Fees	248,548	-	299,575	11,438	42,206	601,767
Tobacco Settlement	-	-	-	-	121,422	121,422
Federal Grants and Aid	4,878,669	-	9,360	2,254,614	99,181	7,241,824
Charges for Services	35,505	-	62,384	-	954	98,843
Fines, Forfeits and Rents	111,806	-	19,126	-	11,423	142,355
Casino Gaming Payments	359,582	-	-	-	-	359,582
Investment Earnings	-	4,334	1,096	1,367	11,829	18,626
Miscellaneous	184,624	-	7,004	399,191	121,647	712,466
Total Revenues	<u>17,706,813</u>	<u>4,334</u>	<u>1,112,481</u>	<u>2,666,610</u>	<u>437,106</u>	<u>21,927,344</u>
<b>Expenditures</b>						
Current:						
Legislative	96,234	-	-	3,755	-	99,989
General Government	1,157,346	-	1,119	246,962	96,589	1,502,016
Regulation and Protection	362,403	-	80,819	146,910	188,435	778,567
Conservation and Development	168,525	-	-	138,269	220,371	527,165
Health and Hospitals	2,039,074	-	-	221,893	10,108	2,271,075
Transportation	-	-	673,160	755,306	12,540	1,441,006
Human Services	6,008,019	-	-	562,699	8,001	6,578,719
Education, Libraries, and Museums	3,280,456	-	-	595,092	380,096	4,255,644
Corrections	1,897,355	-	-	19,078	3,746	1,920,179
Judicial	773,612	-	-	17,215	33,262	824,089
Capital Projects	-	-	-	-	464,023	464,023
Debt Service:						
Principal Retirement	1,001,948	271,330	-	-	-	1,273,278
Interest and Fiscal Charges	630,067	155,532	3,619	149,224	7,339	945,781
Total Expenditures	<u>17,415,039</u>	<u>426,862</u>	<u>758,717</u>	<u>2,856,403</u>	<u>1,424,510</u>	<u>22,881,531</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>291,774</u>	<u>(422,528)</u>	<u>353,764</u>	<u>(189,793)</u>	<u>(987,404)</u>	<u>(954,187)</u>
<b>Other Financing Sources (Uses)</b>						
Bonds Issued	47,785	-	-	-	1,571,840	1,619,625
Premiums on Bonds Issued	1,137	19,748	-	-	53,698	74,583
Transfers In	518,020	446,775	111,884	40,956	93,783	1,211,418
Transfers Out	(1,213,584)	(4,422)	(459,615)	(28,000)	(300,313)	(2,005,934)
Refunding Bonds Issued	-	412,870	-	-	-	412,870
Payment to Refunded Bond Escrow Agent	-	(431,550)	-	-	-	(431,550)
Capital Lease Obligations	4,089	-	-	-	-	4,089
Total Other Financing Sources (Uses)	<u>(642,553)</u>	<u>443,421</u>	<u>(347,731)</u>	<u>12,956</u>	<u>1,419,008</u>	<u>885,101</u>
Net Change in Fund Balances	<u>(350,779)</u>	<u>20,893</u>	<u>6,033</u>	<u>(176,837)</u>	<u>431,604</u>	<u>(69,086)</u>
Fund Balances (Deficit) - Beginning (restated)	(949,605)	687,752	164,240	620,952	930,817	1,454,156
Changes in Reserves for Inventories & Loans Receivable	3,075	-	(456)	-	-	2,619
Fund Balances (Deficit) - Ending	<u>\$ (1,297,309)</u>	<u>\$ 708,645</u>	<u>\$ 169,817</u>	<u>\$ 444,115</u>	<u>\$ 1,362,421</u>	<u>\$ 1,387,689</u>

The accompanying notes are an integral part of the financial statements.

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

June 30, 2011

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds	\$	(69,086)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long term-liabilities in the Statement of Net Assets. Bond proceeds were received this year from:		
Bonds Issued	(1,619,625)	
Refunding Bonds Issued	(412,870)	
Premium on Bonds Issued	(74,583)	(2,107,078)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Long-term debt repayments this year consisted of:		
Principal Retirement	1,273,278	
Payments to Refunded Bond Escrow Agent	433,910	
Capital Lease Payments	2,796	1,709,984
Some capital assets acquired this year were financed with capital leases. The amount financed by leases is reported in the governmental funds as a source of financing, but lease obligations are reported as long-term liabilities on the Statement of activities		
		(4,089)
Capital outlays are reported as expenditures in the governmental funds. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts and other reductions were as follows:		
Capital Outlays	1,197,947	
Depreciation Expense	(836,178)	
Retirements	(16)	361,753
Loans issued during the year are reported as expenditures in the governmental funds. However, loans receivable are reported as an asset in the Statement of Net Assets. This is the amount of loans issued during the year.		
		3,419
Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which consumption exceeded purchases of inventories.		
		(800)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in Accrued Interest	(30,097)	
Decrease in Interest Accreted on Capital Appreciation Debt	43,255	
Amortization of Bond Premium	80,028	
Amortization of Loss on Debt Refundings	(23,928)	
Increase in Compensated Absences Liability	(36,924)	
Increase in Workers Compensation Liability	(50,817)	
Decrease in Claims and Judgments Liability	4,062	
Increase in Net Pension Obligation	(184,864)	
Increase in Net OPEB Obligation	(162,056)	(361,341)
Because some revenues will not be collected for several months after the state's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		
		83,402
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of internal service funds is reported with the governmental activities.		
		(26,361)
Debt issue costs are recorded as expenditures in the governmental funds. However, these costs are amortized over the life of the bonds in the Statement of Activities. In the current year, these amounts are:		
Debt Issue Costs Payments	8,429	
Amortization of Debt Issue Costs	(8,114)	315
Change in Net Assets of Governmental Activities	\$	(409,882)

*The accompanying notes are an integral part of the financial statements.*

## Statement of Revenues, Expenditures, and Changes in Fund Balances

### Budget and Actual - Non-GAAP Budgetary Basis

### General and Transportation Funds

For the Fiscal Year Ended June 30, 2011  
(Expressed in Thousands)

	<u>General Fund</u>			Variance with Final Budget positive (negative)
	Budget		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Budgeted:				
Taxes, Net of Refunds	\$ 10,921,670	\$ 11,976,000	\$ 12,049,467	\$ 73,467
Operating Transfers In	397,400	388,500	388,412	(88)
Casino Gaming Payments	365,800	359,600	359,581	(19)
Licenses, Permits, and Fees	235,400	250,400	250,442	42
Other	307,300	392,400	372,034	(20,366)
Federal Grants	4,256,000	4,214,000	4,235,178	21,178
Refunds of Payments	(900)	(1,900)	(1,875)	25
Operating Transfers Out	(61,800)	(61,800)	(61,800)	-
Transfer to the Resources of the General Fund	1,246,500	565,700	116,015	(449,685)
Transfer Out - Transportation Strategy Board	-	-	-	-
<b>Total Revenues</b>	<u>17,667,370</u>	<u>18,082,900</u>	<u>17,707,454</u>	<u>(375,446)</u>
<b>Expenditures</b>				
Budgeted:				
Legislative	80,543	80,543	66,109	14,434
General Government	509,154	518,598	476,090	42,508
Regulation and Protection	277,931	292,614	261,670	30,944
Conservation and Development	133,030	133,398	123,919	9,479
Health and Hospitals	1,725,236	1,790,004	1,715,670	74,334
Transportation	609	609	-	609
Human Services	5,205,006	5,483,807	5,387,535	96,272
Education, Libraries, and Museums	4,084,068	4,084,412	4,060,466	23,946
Corrections	1,503,312	1,542,853	1,484,460	58,393
Judicial	552,508	567,008	559,912	7,096
Non Functional	4,013,592	3,981,566	3,709,293	272,273
<b>Total Expenditures</b>	<u>18,084,989</u>	<u>18,475,412</u>	<u>17,845,124</u>	<u>630,288</u>
Appropriations Lapsed	<u>296,344</u>	<u>426,300</u>	<u>-</u>	<u>(426,300)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(121,275)</u>	<u>33,788</u>	<u>(137,670)</u>	<u>(171,458)</u>
<b>Other Financing Sources (Uses)</b>				
Prior Year Appropriations Carried Forward	121,475	121,475	121,475	-
Appropriations Continued to Fiscal Year 2012	-	-	(200,985)	(200,985)
Transfer of 2010 Fiscal Year Surplus	-	-	449,869	449,869
Miscellaneous Adjustments	-	4,233	4,234	1
<b>Total Other Financing Sources (Uses)</b>	<u>121,475</u>	<u>125,708</u>	<u>374,593</u>	<u>248,885</u>
<b>Net Change in Fund Balance</b>	<u>\$ 200</u>	<u>\$ 159,496</u>	<u>236,923</u>	<u>\$ 77,427</u>
Budgetary Fund Balances - July 1			572,182	
Changes in Reserves			(366,964)	
Budgetary Fund Balances - June 30			<u>\$ 442,141</u>	

*The accompanying notes are an integral part of the financial statements.*

*Connecticut*

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**Transportation Fund**

<u>Budget</u>		<u>Actual</u>	<b>Variance with Final Budget positive (negative)</b>
<u>Original</u>	<u>Final</u>		
\$ 713,400	\$ 713,700	\$ 713,999	\$ 299
107,600	107,600	107,550	(50)
-	-	-	-
362,500	361,100	355,597	(5,503)
15,000	5,500	5,506	6
5,800	9,300	9,360	60
(2,500)	(3,000)	(3,005)	(5)
(6,500)	(6,500)	(6,500)	-
-	-	-	-
<u>(15,300)</u>	<u>(15,300)</u>	<u>(15,300)</u>	<u>-</u>
<u>1,180,000</u>	<u>1,172,400</u>	<u>1,167,207</u>	<u>(5,193)</u>
-	-	-	-
2,717	2,717	1,078	1,639
67,795	67,795	54,500	13,295
-	-	-	-
-	-	-	-
531,390	544,575	532,631	11,944
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>627,958</u>	<u>614,773</u>	<u>578,421</u>	<u>36,352</u>
<u>1,229,860</u>	<u>1,229,860</u>	<u>1,166,630</u>	<u>63,230</u>
<u>11,000</u>	<u>22,800</u>	<u>-</u>	<u>(22,800)</u>
<u>(38,860)</u>	<u>(34,660)</u>	<u>577</u>	<u>35,237</u>
41,977	41,977	41,977	-
-	-	(40,553)	(40,553)
-	-	-	-
<u>41,977</u>	<u>41,977</u>	<u>1,424</u>	<u>(40,553)</u>
<u>\$ 3,117</u>	<u>\$ 7,317</u>	<u>2,001</u>	<u>\$ (5,316)</u>
		147,341	
		<u>(1,423)</u>	
		<u>\$ 147,919</u>	

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## ***Proprietary Fund Financial Statements***

### ***Major Funds***

#### ***University of Connecticut and Health Center:***

This fund is used to account for the operations of the University of Connecticut a comprehensive institution of higher education, which includes the University of Connecticut Health Center and John Dempsey Hospital.

#### ***State Universities:***

This fund is used to account for the operations of the State University System which consist of four universities: Central, Eastern, Southern, and Western.

#### ***Bradley International Airport:***

The airport is owned by the State of Connecticut and is operated by the Bureau of Aviation and Ports of the State of Connecticut, Department of Transportation and the Board of Directors of the Airport. In 1982, the State issued the Airport, 1982 series Revenue Bonds in the aggregate principal amount of \$100,000,000 and established the Airport as an enterprise fund. The State also donated in the same year capital assets having a net book value of \$33.3 million to the enterprise fund.

#### ***The Connecticut Lottery Corporation:***

The Connecticut Lottery Corporation, a public instrumentality and political subdivision of the State of Connecticut was created on July 1, 1996 for the purpose of generating revenues for the State of Connecticut's General Fund through the operation of a lottery.

#### ***Employment Security:***

to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

#### ***Clean Water:***

to account for resources used to provide loans to municipalities to finance waste water treatment projects.



**Statement of Net Assets**  
**Proprietary Funds**

June 30, 2011

(Expressed in Thousands)

	<b>Business-Type Activities</b>			
	<b>University of Connecticut &amp; Health Center</b>	<b>State Universities</b>	<b>Bradley International Airport</b>	<b>Connecticut Lottery Corporation</b>
<b>Assets</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 368,800	\$ 176,958	\$ 30,491	\$ 16,616
Deposits with U.S. Treasury	-	-	-	-
Investments	3,151	38,382	-	26,172
Receivables:				
Accounts, Net of Allowances	102,338	171,470	5,923	23,901
Loans, Net of Allowances	1,864	1,567	-	-
Interest	-	-	-	4,129
From Other Governments	-	2,225	1,526	-
Due from Other Funds	51,015	36,750	-	-
Inventories	13,907	-	-	-
Restricted Assets	53,730	-	15,055	-
Other Current Assets	12,362	3,462	131	2,021
Total Current Assets	<u>607,167</u>	<u>430,814</u>	<u>53,126</u>	<u>72,839</u>
Noncurrent Assets:				
Cash and Cash Equivalents	1,356	116,227	-	-
Investments	10,686	26,566	-	134,810
Receivables:				
Loans, Net of Allowances	10,481	9,864	-	-
Restricted Assets	8,058	-	101,837	-
Capital Assets, Net of Accumulated Depreciation	1,697,556	852,933	305,406	2,531
Other Noncurrent Assets	2,063	2,266	22,317	4,968
Total Noncurrent Assets	<u>1,730,200</u>	<u>1,007,856</u>	<u>429,560</u>	<u>142,309</u>
Total Assets	<u>2,337,367</u>	<u>1,438,670</u>	<u>482,686</u>	<u>215,148</u>
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	145,904	55,094	8,981	10,948
Due to Other Funds	11,502	3,261	3,151	-
Due to Other Governments	-	-	-	-
Current Portion of Long-Term Obligations	54,166	20,506	13,290	26,888
Deferred Revenue	36,892	185,058	1,788	802
Other Current Liabilities	26,955	7,413	-	33,479
Total Current Liabilities	<u>275,419</u>	<u>271,332</u>	<u>27,210</u>	<u>72,117</u>
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	304,727	316,748	171,035	135,517
Total Noncurrent Liabilities	<u>304,727</u>	<u>316,748</u>	<u>171,035</u>	<u>135,517</u>
Total Liabilities	<u>580,146</u>	<u>588,080</u>	<u>198,245</u>	<u>207,634</u>
<b>Net Assets (Deficit)</b>				
Invested in Capital Assets, Net of Related Debt	1,422,787	686,811	138,105	2,531
Restricted For:				
Debt Service	7,229	-	17,252	-
Clean and Drinking Water Projects	-	-	-	-
Capital Projects	40,962	-	74,109	-
Nonexpendable Purposes	11,892	560	-	-
Bond Indentures	-	-	2,250	-
Loans	4,500	-	-	-
Other Purposes	22,023	41,414	-	7,514
Unrestricted (Deficit)	247,828	121,805	52,725	(2,531)
Total Net Assets (Deficit)	<u>\$ 1,757,221</u>	<u>\$ 850,590</u>	<u>\$ 284,441</u>	<u>\$ 7,514</u>

*The accompanying notes are an integral part of the financial statements.*

*Connecticut*

	Business-Type Activities			Governmental
	Enterprise Funds			Activities
Employment Security	Clean Water	Other Funds	Total	Internal Service Funds
\$ -	\$ 2,014	\$ 153,939	\$ 748,818	\$ 8,142
337,799	-	-	337,799	-
-	-	-	67,705	-
185,777	-	13,513	502,922	151
-	253,811	9,801	267,043	-
-	8,419	370	12,918	-
9,387	-	-	13,138	-
2,196	-	177,606	267,567	2,172
-	-	-	13,907	3,829
-	-	-	68,785	-
-	-	280	18,256	332
<u>535,159</u>	<u>264,244</u>	<u>355,509</u>	<u>2,318,858</u>	<u>14,626</u>
-	182,818	40,338	340,739	-
-	21,556	-	193,618	-
-	624,317	61,762	706,424	-
-	453,596	81,166	644,657	-
-	-	609,652	3,468,078	29,342
-	16,334	2,150	50,098	-
-	1,298,621	795,068	5,403,614	29,342
<u>535,159</u>	<u>1,562,865</u>	<u>1,150,577</u>	<u>7,722,472</u>	<u>43,968</u>
-	9,128	64,939	294,994	24,998
885	-	-	18,799	66,931
1,965	-	-	1,965	-
-	70,687	8,877	194,414	112
-	-	3,274	227,814	-
-	-	265	68,112	-
<u>2,850</u>	<u>79,815</u>	<u>77,355</u>	<u>806,098</u>	<u>92,041</u>
<u>809,876</u>	<u>818,045</u>	<u>167,190</u>	<u>2,723,138</u>	<u>2,979</u>
<u>809,876</u>	<u>818,045</u>	<u>167,190</u>	<u>2,723,138</u>	<u>2,979</u>
<u>812,726</u>	<u>897,860</u>	<u>244,545</u>	<u>3,529,236</u>	<u>95,020</u>
-	-	568,401	2,818,635	29,342
-	-	4,508	28,989	-
-	660,342	99,665	760,007	-
-	-	-	115,071	-
-	-	20	12,472	-
-	-	-	2,250	-
-	-	-	4,500	-
-	-	158,429	229,380	-
(277,567)	4,663	75,009	221,932	(80,394)
<u>\$ (277,567)</u>	<u>\$ 665,005</u>	<u>\$ 906,032</u>	<u>\$ 4,193,236</u>	<u>\$ (51,052)</u>

## Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For The Fiscal Year Ended June 30, 2011  
(Expressed in Thousands)

	<b>Business-Type Activities</b>			
	<b>Enterprise Funds</b>			
	<b>University of Connecticut &amp; Health Center</b>	<b>State Universities</b>	<b>Bradley International Airport</b>	<b>Connecticut Lottery Corporation</b>
<b>Operating Revenues</b>				
Charges for Sales and Services	\$ 862,814	\$ 346,091	\$ 46,445	\$ 1,016,614
Assessments	-	-	-	-
Federal Grants, Contracts and Other Aid	185,926	46,791	-	-
State Grants, Contracts and Other Aid	35,732	15,241	-	-
Private Gifts and Grants	28,910	2,918	-	-
Interest on Loans	-	-	-	-
Other	68,605	16,957	-	78
Total Operating Revenues	1,181,987	427,998	46,445	1,016,692
<b>Operating Expenses</b>				
Salaries, Wages and Administrative	1,568,450	581,030	41,726	98,448
Lottery Prize Awards	-	-	-	620,134
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	120,410	51,471	17,861	452
Other	105,347	7,541	-	8,299
Total Operating Expenses	1,794,207	640,042	59,587	727,333
Operating Income (Loss)	(612,220)	(212,044)	(13,142)	289,359
<b>Nonoperating Revenue (Expenses)</b>				
Interest and Investment Income	1,198	1,295	990	11,097
Interest and Fiscal Charges	(12,608)	(11,471)	(8,828)	(11,064)
Federal Grants	-	-	-	-
Other	23,252	2,961	16,631	5
Total Nonoperating Revenues (Expenses)	11,842	(7,215)	8,793	38
Income (Loss) Before Capital Contributions, Grants, and Transfers	(600,378)	(219,259)	(4,349)	289,397
Capital Contributions	1,989	17,263	6,001	-
Federal Capitalization Grants	-	-	-	-
Transfers In	567,600	270,475	10,056	-
Transfers Out	(25,000)	(13,000)	-	(289,300)
Change in Net Assets	(55,789)	55,479	11,708	97
Total Net Assets (Deficit) - Beginning	1,813,010	795,111	272,733	7,417
Total Net Assets (Deficit) - Ending	\$ 1,757,221	\$ 850,590	\$ 284,441	\$ 7,514

*The accompanying notes are an integral part of the financial statements.*

*Connecticut*

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<b>Business-Type Activities</b>				<b>Governmental</b>
<b>Enterprise Funds</b>				<b>Activities</b>
<b>Employment Security</b>	<b>Clean Water</b>	<b>Other Funds</b>	<b>Totals</b>	<b>Internal Service Funds</b>
\$ -	\$ -	\$ 119,044	\$ 2,391,008	\$ 51,398
805,679	-	30,883	836,562	-
1,352,973	-	89,045	1,674,735	-
14,298	-	17,877	83,148	-
-	-	4,426	36,254	-
-	16,195	1,653	17,848	-
3,685	-	5,603	94,928	109
<u>2,176,635</u>	<u>16,195</u>	<u>268,531</u>	<u>5,134,483</u>	<u>51,507</u>
-	723	434,012	2,724,389	61,685
-	-	-	620,134	-
2,306,715	-	-	2,306,715	-
-	-	31,760	31,760	-
-	-	21,976	212,170	15,899
-	8,745	48,620	178,552	-
<u>2,306,715</u>	<u>9,468</u>	<u>536,368</u>	<u>6,073,720</u>	<u>77,584</u>
<u>(130,080)</u>	<u>6,727</u>	<u>(267,837)</u>	<u>(939,237)</u>	<u>(26,077)</u>
-	15,416	1,584	31,580	2
-	(36,005)	(5,816)	(85,792)	-
-	-	-	-	154
-	4,265	140	47,254	(440)
-	(16,324)	(4,092)	(6,958)	(284)
<u>(130,080)</u>	<u>(9,597)</u>	<u>(271,929)</u>	<u>(946,195)</u>	<u>(26,361)</u>
-	-	-	25,253	-
-	23,838	14,846	38,684	-
-	-	289,627	1,137,758	-
<u>(5,739)</u>	<u>(2,812)</u>	<u>(11,056)</u>	<u>(346,907)</u>	<u>-</u>
<u>(135,819)</u>	<u>11,429</u>	<u>21,488</u>	<u>(91,407)</u>	<u>(26,361)</u>
<u>(141,748)</u>	<u>653,576</u>	<u>884,544</u>	<u>4,284,643</u>	<u>(24,691)</u>
<u>\$ (277,567)</u>	<u>\$ 665,005</u>	<u>\$ 906,032</u>	<u>\$ 4,193,236</u>	<u>\$ (51,052)</u>

## Statement of Cash Flows

### Proprietary Funds

For the Fiscal Year Ended June 30, 2011

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut & Health Center	State Universities	Bradley International Airport	Connecticut Lottery Corporation
<b>Cash Flows from Operating Activities</b>				
Receipts from Customers	\$ 874,701	\$ 341,521	\$ 46,109	\$ 1,015,647
Payments to Suppliers	(560,883)	(186,148)	(24,323)	(89,655)
Payments to Employees	(1,067,381)	(412,808)	(16,928)	(15,355)
Other Receipts (Payments)	351,667	83,325	-	(620,600)
Net Cash Provided by (Used in) Operating Activities	<u>(401,896)</u>	<u>(174,110)</u>	<u>4,858</u>	<u>290,037</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Proceeds from Sale of Bonds	-	-	-	-
Retirement of Bonds and Annuities Payable	-	-	-	(31,166)
Interest on Bonds and Annuities Payable	-	-	-	(12,103)
Transfers In	461,762	245,786	10,056	-
Transfers Out	-	-	-	(289,300)
Other Receipts (Payments)	8,067	(9,583)	-	9,127
Net Cash Flows from Noncapital Financing Activities	<u>469,829</u>	<u>236,203</u>	<u>10,056</u>	<u>(323,442)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Additions to Property, Plant and Equipment	(137,635)	(57,441)	(13,413)	(316)
Proceeds from Capital Debt	-	41,045	152,380	-
Principal Paid on Capital Debt	(95,962)	(32,986)	(172,075)	-
Interest Paid on Capital Debt	(52,730)	(11,851)	(9,448)	-
Transfer In	127,907	40,995	-	-
Federal Grant	-	-	-	-
Capital Contributions	-	-	6,073	-
Other Receipts (Payments)	1,526	25	6,584	-
Net Cash Flows from Capital and Related Financing Activities	<u>(156,894)</u>	<u>(20,213)</u>	<u>(29,899)</u>	<u>(316)</u>
<b>Cash Flows from Investing Activities</b>				
Proceeds from Sales and Maturities of Investments	-	5,256	-	30,953
Purchase of Investment Securities	(18)	(30,739)	-	(11,027)
Interest on Investments	1,171	1,315	1,008	12,141
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	3,206	-	5,183	-
Net Cash Flows from Investing Activities	<u>4,359</u>	<u>(24,168)</u>	<u>6,191</u>	<u>32,067</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(84,602)</u>	<u>17,712</u>	<u>(8,794)</u>	<u>(1,654)</u>
Cash and Cash Equivalents - Beginning of Year	511,998	275,473	138,955	18,270
Cash and Cash Equivalents - End of Year	<u>\$ 427,396</u>	<u>\$ 293,185</u>	<u>\$ 130,161</u>	<u>\$ 16,616</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</b>				
Operating Income (Loss)	\$ (612,220)	\$ (212,044)	\$ (13,142)	\$ 289,359
Adjustments not Affecting Cash:				
Depreciation and Amortization	120,410	51,471	17,861	452
Other	93,165	21	-	100
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	(1,382)	(5,600)	(336)	(1,177)
(Increase) Decrease in Due from Other Funds	-	-	-	-
(Increase) Decrease in Inventories and Other Assets	2,965	-	-	(905)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	(4,834)	(8,331)	475	2,208
Increase (Decrease) in Due to Other Funds	-	373	-	-
Total Adjustments	<u>210,324</u>	<u>37,934</u>	<u>18,000</u>	<u>678</u>
Net Cash Provided by (Used In) Operating Activities	<u>\$ (401,896)</u>	<u>\$ (174,110)</u>	<u>\$ 4,858</u>	<u>\$ 290,037</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>				
Cash and Cash Equivalents - Current	\$ 368,800	\$ 176,958	\$ 30,491	
Cash and Cash Equivalents - Noncurrent	1,356	116,227	-	
Cash and Cash Equivalents - Restricted	57,240	-	99,670	
	<u>\$ 427,396</u>	<u>\$ 293,185</u>	<u>\$ 130,161</u>	

*The accompanying notes are an integral part of the financial statements.*

*Connecticut*

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<b>Business-Type Activities</b>				<b>Governmental</b>
<b>Enterprise Funds</b>				<b>Activities</b>
<b>Employment Security</b>	<b>Clean Water</b>	<b>Other</b>	<b>Totals</b>	<b>Internal Service Funds</b>
\$ 792,322	\$ 81,870	\$ 155,149	\$ 3,307,319	\$ 49,678
-	(8,745)	(88,550)	(958,304)	(29,098)
-	(691)	(357,197)	(1,870,360)	(13,536)
<u>(782,830)</u>	<u>(111,131)</u>	<u>83,653</u>	<u>(995,916)</u>	<u>1,836</u>
<u>9,492</u>	<u>(38,697)</u>	<u>(206,945)</u>	<u>(517,261)</u>	<u>8,880</u>
-	182,802	18,000	200,802	-
-	(67,310)	(5,810)	(104,286)	-
-	(32,724)	(2,141)	(46,968)	-
-	-	275,361	992,965	-
(5,739)	(2,812)	(10,056)	(307,907)	-
<u>(3,753)</u>	<u>(31,554)</u>	<u>1,003</u>	<u>(26,693)</u>	<u>(440)</u>
<u>(9,492)</u>	<u>48,402</u>	<u>276,357</u>	<u>707,913</u>	<u>(440)</u>
-	-	(6,708)	(215,513)	(8,591)
-	-	-	193,425	-
-	-	-	(301,023)	-
-	-	(3,378)	(77,407)	-
-	-	14,612	183,514	-
-	32,840	15,764	48,604	-
-	-	-	6,073	-
-	-	(74,970)	(66,835)	-
<u>-</u>	<u>32,840</u>	<u>(54,680)</u>	<u>(229,162)</u>	<u>(8,591)</u>
-	-	-	36,209	-
-	-	-	(41,784)	-
-	15,716	1,609	32,960	2
-	630	-	630	-
-	(61,298)	(13,651)	(66,560)	-
<u>-</u>	<u>(44,952)</u>	<u>(12,042)</u>	<u>(38,545)</u>	<u>2</u>
-	(2,407)	2,690	(77,055)	(149)
-	4,421	151,249	1,100,366	8,291
<u>\$ -</u>	<u>\$ 2,014</u>	<u>\$ 153,939</u>	<u>\$ 1,023,311</u>	<u>\$ 8,142</u>
\$ (130,080)	\$ 6,727	\$ (267,837)	\$ (939,237)	\$ (26,077)
-	-	21,976	212,170	15,899
-	-	(8,736)	84,550	154
(12,693)	(45,424)	(434)	(67,046)	95
(664)	-	-	(664)	(1,813)
(133,609)	-	45,939	(85,610)	1,703
311,423	-	2,147	303,088	18,919
(24,885)	-	-	(24,512)	-
<u>139,572</u>	<u>(45,424)</u>	<u>60,892</u>	<u>421,976</u>	<u>34,957</u>
<u>\$ 9,492</u>	<u>\$ (38,697)</u>	<u>\$ (206,945)</u>	<u>\$ (517,261)</u>	<u>\$ 8,880</u>

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## ***Fiduciary Fund Financial Statements***

### ***Investment Trust Fund***

#### ***External Investment Pool:***

to account for the portion of the Short-Term Investment Fund that belongs to participants that are not part of the State's financial reporting entity.

### ***Private Purpose Trust Fund***

#### ***Escheat Securities:***

to account for securities that are held by the State Treasurer for individuals under escheat laws of the State.



## Statement of Fiduciary Net Assets

### Fiduciary Funds

June 30, 2011

(Expressed in Thousands)

	<b>Pension &amp; Other Employee Benefit Trust Funds</b>	<b>Investment Trust Fund External Investment Pool</b>	<b>Private- Purpose Trust Fund Escheat Securities</b>	<b>Agency Funds</b>	<b>Total</b>
<b>Assets</b>					
Cash and Cash Equivalents	\$ 136,119	\$ -	\$ -	\$ 127,292	\$ 263,411
Receivables:					
Accounts, Net of Allowances	18,681	-	-	6,657	25,338
From Other Governments	1,276	-	-	-	1,276
From Other Funds	1,313	-	-	6,042	7,355
Interest	882	376	-	10	1,268
Investments	25,085,533	604,728	-	-	25,690,261
Inventories	-	-	-	13	13
Securities Lending Collateral	3,137,300	-	-	-	3,137,300
Other Assets	-	26	2,161	364,398	366,585
Total Assets	<u>28,381,104</u>	<u>605,130</u>	<u>2,161</u>	<u>\$ 504,412</u>	<u>29,492,807</u>
<b>Liabilities</b>					
Accounts Payable and Accrued Liabilities	31,261	104	-	\$ 22,702	54,067
Securities Lending Obligation	3,137,300	-	-	-	3,137,300
Due to Other Funds	1,463	-	-	-	1,463
Funds Held for Others	-	-	-	481,710	481,710
Total Liabilities	<u>3,170,024</u>	<u>104</u>	<u>-</u>	<u>\$ 504,412</u>	<u>3,674,540</u>
<b>Net Assets</b>					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	25,086,280	-	-		25,086,280
Other Employee Benefits (Note 15)	124,800	-	-		124,800
Individuals, Organizations, and Other Governments	-	605,026	2,161		607,187
Total Net Assets	<u>\$ 25,211,080</u>	<u>\$ 605,026</u>	<u>\$ 2,161</u>		<u>\$ 25,818,267</u>

*The accompanying notes are an integral part of the financial statements.*

## Statement of Changes in Fiduciary Net Assets Fiduciary Funds

For the Fiscal Year Ended June 30, 2011  
(Expressed in Thousands)

	<b>Pension &amp; Other Employee Benefit Trust Funds</b>	<b>Investment Trust Fund External Investment Pool</b>	<b>Private- Purpose Trust Fund Escheat Securities</b>	<b>Total</b>
<b>Additions</b>				
Contributions:				
Plan Members	\$ 418,302	\$ -	\$ -	\$ 418,302
State	1,957,473	-	-	1,957,473
Municipalities	51,126	-	-	51,126
Total Contributions	<u>2,426,901</u>	<u>-</u>	<u>-</u>	<u>2,426,901</u>
Investment Income	4,538,633	2,300	-	4,540,933
Less: Investment Expense	(93,585)	(164)	-	(93,749)
Net Investment Income	<u>4,445,048</u>	<u>2,136</u>	<u>-</u>	<u>4,447,184</u>
Escheat Securities Received	-	-	38,986	38,986
Transfers In	3,665	-	-	3,665
Other	2,076	-	-	2,076
Total Additions	<u>6,877,690</u>	<u>2,136</u>	<u>38,986</u>	<u>6,918,812</u>
<b>Deductions</b>				
Administrative Expense	3,063	-	-	3,063
Benefit Payments and Refunds	3,558,116	-	-	3,558,116
Escheat Securities Returned or Sold	-	-	56,955	56,955
Distributions to Pool Participants	-	2,137	-	2,137
Pool's Share Transactions	-	280,066	-	280,066
Other	3,482	-	1,968	5,450
Total Deductions	<u>3,564,661</u>	<u>282,203</u>	<u>58,923</u>	<u>3,905,787</u>
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	3,313,029	-	-	3,313,029
Individuals, Organizations, and Other Governments	-	(280,067)	(19,937)	(300,004)
Net Assets - Beginning	<u>21,898,051</u>	<u>885,093</u>	<u>22,098</u>	<u>22,805,242</u>
Net Assets - Ending	<u>\$ 25,211,080</u>	<u>\$ 605,026</u>	<u>\$ 2,161</u>	<u>\$ 25,818,267</u>

*The accompanying notes are an integral part of the financial statements.*

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## ***Component Unit Financial Statements***

### ***Major Component Units***

#### ***Connecticut Housing Finance Authority:***

the Connecticut Housing Finance Authority is a public instrumentality and political subdivision of the State created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families throughout the State.

#### ***Connecticut Health and Educational Facilities Authority:***

the Connecticut Health and Educational Facilities Authority is a public instrumentality and political subdivision of the State. The Authority was created to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

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## Statement of Net Assets Component Units

June 30, 2011

(Expressed in Thousands)

<b>Assets</b>	<b>Connecticut Housing Finance Authority (12-31-10)</b>	<b>Connecticut Health and Educational Facilities Authority</b>	<b>Other Component Units</b>	<b>Total</b>
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ -	\$ 240	\$ 144,334	\$ 144,574
Investments	-	7,189	354,917	362,106
<b>Receivables:</b>				
Accounts, Net of Allowances	-	200	23,383	23,583
Loans, Net of Allowances	-	-	20,655	20,655
Other	-	-	1,156	1,156
Due From Primary Government	-	-	12,988	12,988
Restricted Assets	957,286	364,483	92,359	1,414,128
Inventories	-	-	4,086	4,086
Other Current Assets	-	120	2,804	2,924
Total Current Assets	<u>957,286</u>	<u>372,232</u>	<u>656,682</u>	<u>1,986,200</u>
<b>Noncurrent Assets:</b>				
Investments	-	-	41,085	41,085
Accounts, Net of Allowances	-	-	16,365	16,365
Loans, Net of Allowances	-	-	154,022	154,022
Restricted Assets	4,521,571	10,580	66,640	4,598,791
Capital Assets, Net of Accumulated Depreciation	3,680	188	413,705	417,573
Other Noncurrent Assets	-	-	11,154	11,154
Total Noncurrent Assets	<u>4,525,251</u>	<u>10,768</u>	<u>702,971</u>	<u>5,238,990</u>
Total Assets	<u>5,482,537</u>	<u>383,000</u>	<u>1,359,653</u>	<u>7,225,190</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts Payable and Accrued Liabilities	29,766	4,181	34,705	68,652
Current Portion of Long-Term Obligations	283,930	-	25,543	309,473
Amount Held for Institutions	-	364,483	-	364,483
Other Liabilities	27,131	-	731	27,862
Total Current Liabilities	<u>340,827</u>	<u>368,664</u>	<u>60,979</u>	<u>770,470</u>
<b>Noncurrent Liabilities:</b>				
Noncurrent Portion of Long-Term Obligations	<u>4,237,814</u>	<u>2,207</u>	<u>391,954</u>	<u>4,631,975</u>
Total Noncurrent Liabilities	<u>4,237,814</u>	<u>2,207</u>	<u>391,954</u>	<u>4,631,975</u>
Total Liabilities	<u>4,578,641</u>	<u>370,871</u>	<u>452,933</u>	<u>5,402,445</u>
<b>Net Assets</b>				
Invested in Capital Assets, Net of Related Debt	3,680	188	272,936	276,804
<b>Restricted:</b>				
Debt Service	-	-	22,765	22,765
Bond Indentures	936,984	-	-	936,984
Expendable Endowments	-	-	91,401	91,401
Nonexpendable Endowments	-	-	274,653	274,653
Other Purposes	-	5,373	45,609	50,982
Unrestricted (Deficit)	<u>(36,768)</u>	<u>6,568</u>	<u>199,356</u>	<u>169,156</u>
Total Net Assets	<u>\$ 903,896</u>	<u>\$ 12,129</u>	<u>\$ 906,720</u>	<u>\$ 1,822,745</u>

*The accompanying notes are an integral part of the financial statements.*

## Statement of Activities

### Component Units

For The Fiscal Year Ended June 30, 2011

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Connecticut Housing Finance Authority (12/31/10)	\$ 243,109	\$ 194,748	\$ -	\$ -
Connecticut Health and Educational Facilities Authority	7,870	6,788	-	-
Other Component Units	<u>262,950</u>	<u>176,850</u>	<u>11,286</u>	<u>885</u>
Total Component Units	<u>\$ 513,929</u>	<u>\$ 378,386</u>	<u>\$ 11,286</u>	<u>\$ 885</u>

General Revenues:  
 Investment Income  
 Contributions to Endowments  
 Total General Revenues  
 and Contributions  
 Change in Net Assets  
 Net Assets - Beginning  
 Net Assets - Ending

*The accompanying notes are an integral part of the financial statements.*

**Net (Expense) Revenue and  
Changes in Net Assets**

<b>Connecticut Housing Finance Authority (12-31-10)</b>	<b>Connecticut Health &amp; Educational Facilities Authority</b>	<b>Other Component Units</b>	<b>Totals</b>
\$ (48,361)	\$ -	\$ -	\$ (48,361)
-	(1,082)	-	(1,082)
-	-	(73,929)	(73,929)
<u>(48,361)</u>	<u>(1,082)</u>	<u>(73,929)</u>	<u>(123,372)</u>
71,274	22	46,154	117,450
-	-	30,299	30,299
<u>71,274</u>	<u>22</u>	<u>76,453</u>	<u>147,749</u>
22,913	(1,060)	2,524	24,377
880,983	13,189	904,196	1,798,368
<u>\$ 903,896</u>	<u>\$ 12,129</u>	<u>\$ 906,720</u>	<u>\$ 1,822,745</u>



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## Notes to the Financial Statements

### June 30, 2011

#### Note 1 Summary of Significant Accounting Policies

##### a. Basis of Presentation

The accompanying financial statements of the State of Connecticut have been prepared in conformity with generally accepted accounting principles as prescribed in pronouncements of the Governmental Accounting Standards Board, except for the financial statements of the University of Connecticut Foundation, Incorporated (a component unit). Those statements are prepared according to generally accepted accounting principles as prescribed in pronouncements of the Financial Accounting Standards Board.

##### b. Reporting Entity

For financial reporting purposes, the State's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, departments, bureaus, commissions, and component units that are considered an integral part of the State's legal entity. Component units are legally separate organizations for which the State is financially accountable. Financial accountability exists if (1) the State appoints a voting majority of the organization's governing board, and (2) the State is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. The State also includes a nongovernmental nonprofit corporation as a component unit because it would be misleading to exclude the corporation from the reporting entity. Component units are reported in the financial statements in a separate column (discrete presentation), or as part of the primary government (blending presentation).

##### *Discretely Presented Component Units*

Discretely presented component units include legally separate organizations for which the State appoints a voting majority of the organization's governing board and is contingently liable for the organization's debt or provides funding for the organization's programs (applies only to Connecticut Innovations, Incorporated and the Capital City Economic Development Authority). In addition, a nongovernmental nonprofit corporation is included as a discretely presented component unit because of the nature and significance of its relationship with the State are such that it would be misleading to exclude the corporation from the State's reporting entity. The following organizations are reported in separate columns and rows in the government-wide financial statements to emphasize that they are legally separate from the primary government:

##### *Connecticut Development Authority*

The Authority is a public instrumentality and political subdivision of the State. It was created to stimulate industrial and commercial development within the State through its Self-Sustaining Bond, Umbrella, and Insurance programs as well as other economic development programs.

##### *Connecticut Housing Finance Authority*

The Authority is a public instrumentality and political subdivision of the State. It was created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development, and construction of housing for low and moderate-income families and persons throughout the State. The Authority's fiscal year is for the period ending on December 31, 2010.

##### *Connecticut Resources Recovery Authority*

The Authority is a public instrumentality and political subdivision of the State. It is responsible for implementing the State Solid Waste Management Plan by determining the location of and constructing solid waste management projects; owning, operating, and maintaining waste management projects; or making provisions for operation and maintenance by contracting with private industry.

##### *Connecticut Higher Education Supplemental Loan Authority*

The Authority is a public instrumentality and political subdivision of the State. It was created to assist students, their parents, and institutions of higher education to finance the cost of higher education through its Bond funds.

##### *Connecticut Health and Educational Facilities Authority*

The Authority is a public instrumentality and political subdivision of the State. The purpose of the Authority is to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

##### *Connecticut Innovations, Incorporated*

The corporation is a public instrumentality and political subdivision of the State. It was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations, and inventions or markets in Connecticut by providing financial and technical assistance.

##### *Capital City Economic Development Authority*

The Authority is a public instrumentality and political subdivision of the State. It was established in 1998 to stimulate new investment in Connecticut; to attract and service large conventions, tradeshow, exhibitions, conferences, and local consumer shows, and events; to encourage the diversification of the state economy; to strengthen Hartford's role as the region's major business and industry employment center and seat of government; to encourage residential housing development in downtown Hartford; and to construct, operate, maintain and market a convention center project in Hartford.

##### *University of Connecticut Foundation, Incorporated*

The University of Connecticut Foundation, Incorporated is a nongovernmental nonprofit corporation created exclusively to solicit, receive, and administer gifts and financial resources from private sources for the benefit of all campuses and programs of the University of Connecticut and Health Center, a major Enterprise fund.

Financial statements for the major component units are included in the accompanying financial statements after the fund

financial statements. Audited financial statements issued separately by each component unit can be obtained from their respective administrative offices.

***Blended Component Units***

***Connecticut Lottery Corporation***

The Connecticut Lottery Corporation is a legally separate organization for which the State appoints a voting majority of the Corporation's governing board and which provides a significant amount of revenues to the State. The corporation is reported as part of the primary government's business-type activities in the government-wide financial statements and as a major Enterprise fund in the fund financial statements.

**c. Government-wide and Fund Financial Statements**

***Government-wide Financial Statements***

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between the governmental and business-type activities of the primary government by using separate columns and rows. Governmental activities are generally financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds issued to buy, construct, or improve those assets.
2. Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated to the various functions or segments. Program revenues include a) fees, fines, and charges paid by the recipients of goods or services offered by the functions or segments and b) grants and contributions that are restricted to meeting the operational or capital needs of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

***Fund Financial Statements***

The fund financial statements provide information about the State's funds, including its fiduciary funds and blended component units. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

In the governmental fund financial statements, fund balance (difference between assets and liabilities) is classified as nonspendable, restricted and unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints on the resources are externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints by formal action of the Legislature, such as appropriation or legislation. Assigned fund balance is constrained by the Legislature's intent to be used for specific uses, but is neither restricted nor committed.

The State reports the following major governmental funds:

***General Fund*** - This is the State's primary operating fund. It is used to account for all financial resources which are not required to be accounted in other funds and which are spent for those services normally provided by the State (e.g., health, social assistance, education, etc.).

***Debt Service*** - This fund is used to account for the resources that are restricted for payment of principal and interest on special tax obligation bonds of the Transportation fund.

***Transportation*** - This fund is used to account for motor fuel taxes, vehicle registration and driver license fees, and other revenues that are restricted for the payment of budgeted appropriations of the Transportation and Motor Vehicles Departments.

***Restricted Grants and Accounts*** - This fund is used to account for resources which are restricted by Federal and other providers to be spent for specific purposes.

The State reports the following major enterprise funds:

***University of Connecticut & Health Center*** - This fund is used to account for the operations of the University of Connecticut, a comprehensive institution of higher education, which includes the University of Connecticut Health Center and John Dempsey Hospital.

***State Universities*** - This fund is used to account for the operations of the State University System which consists of four universities: Central, Eastern, Southern, and Western.

***Bradley International Airport*** - This fund is used to account for the financial activities of the Bradley International Airport, which is owned and operated by the State.

**Connecticut Lottery Corporation** - This fund is used to account for the financial activities of the State's lottery. The Corporation was created in 1996 for the purpose of generating revenues for the State's General Fund.

**Employment Security** - This fund is used to account for unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

**Clean Water** - This fund is used to account for resources used to provide loans to municipalities to finance waste water treatment facilities.

In addition, the State reports the following fund types:

**Internal Service Funds** - These funds account for goods and services provided to other agencies of the State on a cost-reimbursement basis. These goods and services include prisoner-built office furnishings, information services support, telecommunications, printing, and other services.

**Pension (and Other Employee Benefits) Trust Funds** - These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans and other employee benefits plans. These plans are discussed more fully in Notes 11, 12, and 14.

**Investment Trust Fund** - This fund accounts for the external portion of the State's Short-Term Investment Fund, an investment pool managed by the State Treasurer.

**Private-Purpose Trust Fund** - This fund accounts for escheat securities held in trust for individuals by the State Treasurer.

**Agency Funds** - These funds account for deposits, investments, and other assets held by the State as an agent for inmates and patients of State institutions, insurance companies, municipalities, and private organizations.

**d. Measurement Focus and Basis of Accounting  
Government-wide, Proprietary, and Fiduciary Fund  
Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Taxes and casino gaming payments are recognized as revenues in the period when the underlying exchange transaction has occurred. Grants and similar items are recognized as revenues in the period when all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the State's enterprise and internal service funds are charges to customers for sales and

services, assessments, and intergovernmental revenues. Operating expenses for enterprise and internal service funds include salaries, wages, and administrative expenses, unemployment compensation, claims paid, and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. This option is followed by the following component units of the State: the Connecticut Development Authority and the Connecticut Innovations, Incorporated.

**Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers taxes and other revenues to be available if the revenues are collected within 45 days after year-end. Exceptions to this policy are federal grant revenues, which are considered to be available if collection is expected within 12 months after year-end, and licenses and fees which are recognized as revenues when the cash is collected. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general-long term debt and acquisitions under capital leases are reported as other financing sources.

**e. Budgeting Process**

By statute, the Governor must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for the following funds: the General Fund, the Transportation Fund, the Mashantucket Pequot Fund, the Workers' Compensation Administration Fund, the Banking Fund, the Consumer Counsel and Public Utility Control Fund, the Insurance Fund, the Criminal Injuries Fund, the Soldiers, Sailors, and Marines Fund and the Regional Market Operations Fund. Under the State Constitution, the Governor has the power to veto any part of the itemized appropriations bill and to accept the remainder of the bill. However, the General Assembly may separately reconsider and repass the disapproved items by a two-thirds majority vote of both the Senate and the House.

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because

the level of legal control is more detailed than reflected in the CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

The Governor has the power under Connecticut statute to modify budgetary allotment requests for the administration, operation and maintenance of a budgeted agency. However, the modification cannot exceed 3 percent of the fund or 5 percent of the appropriation amount. Modifications beyond those limits, but not in excess of 5 percent of the total funds require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

All funds, except fiduciary funds, use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carryforwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Carryforward appropriations are reported as reservations of the fund balance in the financial statements.

The budget is prepared on a “modified cash” basis of accounting under which revenues are recognized when received, except for certain taxes which are recognized when earned. Tax revenues recognized when earned include the following: sales and use, personal income, corporation, public service corporations, petroleum companies, cigarettes, alcoholic beverages, gasoline, special motor fuel, and motor carrier road. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the adopted budget is presented in the financial statements for the General and Transportation funds. During the 2011 fiscal year, the original adopted budget was adjusted by the General Assembly and the Finance Advisory Committee.

**f. Assets and Liabilities**

***Cash and Cash Equivalents (see Note 4)***

In addition to petty cash and bank accounts, this account includes cash equivalents – short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include investments in the Short-Term Investment Fund (“STIF”) and the Tax Exempt Proceeds Fund, Inc. (“TEPF”). TEPF is a short-term, tax-exempt money market fund registered under the Investment Company Act of 1940. Investments in STIF and TEPF are reported at the fund’s share price.

In the Statement of cash flows, certain Enterprise funds exclude from cash and cash equivalents investments in STIF reported as noncurrent or restricted assets.

***Investments (see Note 4)***

Investments include Equity in Combined Investment Funds and other investments. Equity in Combined Investment Funds is reported at fair value based on the funds’ current share price. Other investments are reported at fair value, except for the following investments which are reported at cost or amortized cost:

- Nonparticipating interest-earning investment contracts.
- Money market investments that mature within one year or less at the date of their acquisition.
- Investments of the External Investment Pool fund (an Investment Trust fund).

The fair value of other investments is determined based on quoted market prices except for:

- The fair value of State bonds held by the Clean Water and Drinking Water funds (Enterprise funds) which is estimated using a comparison of other State bonds.
- The fair value of equity and debt securities held by Connecticut Innovations, Incorporated, a component unit. The fair value of these investments is determined by an independent valuation committee of the Corporation, after giving consideration to pertinent information about the companies comprising the investments, including but not limited to recent sales prices of the issuer’s securities, sales growth, progress toward business goals, and other operating data.

The State invests in derivatives. These investments are held by the Combined Investment Funds and are reported at fair value in each fund’s statement of net assets.

***Inventories***

Inventories are reported at cost. Cost is determined by the first-in first-out (FIFO) method. Inventories in the governmental funds consist of expendable supplies held for consumption whose cost was recorded as an expenditure at the time the individual inventory items were purchased. Reported inventories in these funds are offset by a fund balance designation (nonexpendable) to indicate that they are unavailable for appropriation.

**Capital Assets and Depreciation**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, railways, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the State as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

Collections of historical documents, rare books and manuscripts, guns, paintings, and other items are not capitalized. These collections are held by the State Library for public exhibition, education, or research; and are kept protected, cared for, and preserved indefinitely. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are also not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Improvements Other than Buildings	10-20
Machinery and Equipment	5-30
Infrastructure	20-28

**Securities Lending Transactions (see Note 4)**

Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the participant funds based on their equity in the Combined Investment Funds.

**Deferred Revenues**

In the government-wide and fund financial statements, this liability represents resources that have been received, but not yet earned. In the fund financial statements, this liability also represents revenues considered measurable but not available during the current period.

**Long-term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Other significant long-term obligations include the net pension and OPEB obligations, compensated absences, workers' compensation claims, and federal loans. In the fund financial

statements, governmental fund types recognize bond premiums and bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Capital Appreciation Bonds**

Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the government-wide statement of net assets at its net or accreted value rather than at face value.

**Compensated Absences**

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Vacation and sick policy is as follows: Employees hired on or before June 30, 1977, and managers regardless of date hired can accumulate up to a maximum of 120 vacation days. Employees hired after that date can accumulate up to a maximum of 60 days. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. However, the employee is entitled to payment for accumulated sick time only upon retirement, or after ten years of service upon death, for an amount equal to one-fourth of his/her accrued sick leave up to a maximum payment equivalent to sixty days.

Pursuant to Special Act No. 09-06, the General Assembly enacted an Early Retirement Incentive Program in order to mitigate the deficit of the General Fund of the State. Under the provisions of this program, any employee participating in the program shall be eligible for payment of accrued sick days and for the balance of unused vacation leave in accordance with the existing rules as stated above, except for one modification. The modification provides that the balance of any compensated absences shall be paid in three equal annual installments beginning during fiscal year ending June 30, 2013.

**g. Interest Rate Swap Agreements**

The State has entered into interest rate swap agreements to reduce borrowing costs on outstanding variable-rate bonds. These agreements are considered to be derivative instruments and are discussed in more detail in Note No. 19.

**h. Interfund Activities**

In the fund financial statements, interfund activities are reported as follows:

**Interfund receivables/payables** - The current portion of interfund loans outstanding at the end of the fiscal year is reported as due from/to other funds; the noncurrent portion as advances to/from other funds. All other outstanding balances between funds are reported as due from/to other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

**Interfund services provided and used** - Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. In the statement of activities, transactions between the primary government and its discretely presented component units are reported as revenues and expenses, unless they represent repayments of loans or similar activities.

**Interfund transfers** - Flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

**Interfund reimbursements** - Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are not reported in the financial statements.

**i. Food Stamps**

Food stamps distributed to recipients during the year are recognized as both an expenditure and a revenue in the governmental fund financial statements.

**j. External Investment Pool**

Assets and liabilities of the Short-Term Investment Fund are allocated ratably to the External Investment Pool Fund based on its investment in the Short-Term Investment Fund (see Note 4). Pool income is determined based on distributions made to the pool’s participants.

**k. Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Note 2 Budgetary vs. GAAP Basis of Accounting**

The following is a reconciliation of the net change in fund balances as reported in the budgetary and GAAP basis of accounting statements of revenues, expenditures, and changes in fund balances (amounts in thousands):

	General Fund	Transportation Fund
Net change in fund balances (budgetary basis)	\$ 236,923	\$ 2,001
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	(18,121)	(6,714)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(100,394)	13,277
Salaries and Fringe Benefits Payable	4,397	(2,935)
Increase (Decrease) in Continuing Appropriations	79,510	(1,423)
Less Transfer of 2010 Fiscal Year Surplus	(449,869)	-
Less Transfer From Budget Reserve Fund	(103,225)	-
Fund Reclassification-Bus Operations	-	1,827
Net change in fund balances (GAAP basis)	<u>\$ (350,779)</u>	<u>\$ 6,033</u>

The major differences between the budgetary (legal) and the GAAP (generally accepted accounting principles) basis of accounting as reconciled above are as follows:

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis).
3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as committed fund balance.

**Note 3 Nonmajor Fund Deficits**

The following funds have deficit fund/net assets balances at June 30, 2011, none of which constitutes a violation of statutory provisions (amounts in thousands).

<u>Special Revenue</u>	
Consumer Counsel Public Utility Control	\$ 1,823
<u>Capital Projects</u>	
Transportation	\$ 718
<u>Enterprise</u>	
Bradley Parking Garage	\$ 25,950
<u>Internal Service</u>	
Administrative Services	\$ 61,339

**Note 4 Cash Deposits and Investments**

According to GASB Statement No. 40, “*Deposit and Investment Risk Disclosures*”, the State needs to make certain disclosures about deposit and investment risks that have the potential to result in losses. Thus, the following deposit and investment risks are discussed in this note:

**Interest Rate Risk** - the risk that changes in interest rates will adversely affect the fair value of an investment.

**Credit Risk** - the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

**Concentration of Credit Risk** - the risk of loss attributed to the magnitude of an investment in a single issuer.

**Custodial Credit Risk (deposits)** - the risk that, in the event of a bank failure, the State’s deposits may not be recovered.

**Custodial Credit Risk (investments)** - the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

**Foreign Currency Risk** - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

**Primary Government**

The State Treasurer is the chief fiscal officer of State government and is responsible for the prudent management and investment of monies of State funds and agencies as well as monies of pension and other trust funds. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. Currently, the State Treasurer manages one Short-Term Investment Fund, one Medium-Term Investment Fund, and twelve Combined Investment Funds.

**Short-Term Investment Fund (STIF)**

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers’ acceptances, repurchase agreements, asset-backed securities, and student loans. STIF’s investments are reported at amortized cost (which approximates fair value) in the fund’s statement of net assets.

For financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The external portion of STIF (i.e. the portion that belongs to participants which are not part of the State’s financial reporting entity) is reported as an investment trust fund (External Investment Pool fund) in the fiduciary fund financial statements. The internal portion of STIF (i.e., the portion that belongs to participants that are part of the State’s financial reporting entity) is not reported in the accompanying financial statements. Instead, investments in the internal portion of STIF by participant funds are reported as cash equivalents in the government-wide and fund financial statements.

As of June 30, 2011, STIF had the following investments and maturities (amounts in thousands):

Investment Type	Short-Term Investment Fund		
	Amortized Cost	Investment Maturities (in years)	
		Less Than 1	1-5
Floating Rate Notes	\$ 26,741	\$ 26,741	\$ -
Federal Agency Securities	1,003,403	982,899	20,504
US Treasuries	25,103	25,103	-
US Gov. Guaranteed Securities	335,980	308,310	27,670
Government Money Market Funds	95,785	95,785	-
Repurchase Agreements	200,000	200,000	-
Bank Commercial Paper	685,000	685,000	-
<b>Total Investments</b>	<b>\$ 2,372,012</b>	<b>\$ 2,323,838</b>	<b>\$ 48,174</b>

**Interest Rate Risk**

The STIF’s policy for managing interest rate risk is to limit investment to a very short weighted average maturity, not to exceed 90 days, and to comply with Standard and Poor’s requirement that the weighted average maturity not to exceed 60 days. As of June 30, 2011, the weighted average maturity of the STIF was 31 days. Additionally, STIF is allowed by policy to invest in floating-rate securities, and investments in such securities with maturities up to two years are limited to no more than 20 percent of the overall portfolio. For purposes of the fund’s weighted average maturity calculation, variable-rate securities are calculated using their rate reset date. Because these securities reprice frequently to prevailing market rates, interest rate risk is substantially reduced. As of June 30, 2011, the amount of STIF’s investments in variable-rate securities was \$819 million.

**Credit Risk**

The STIF’s policy for managing credit risk is to invest in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations.

As of June 30, 2011, STIF’s investments were rated by Standard and Poor’s as follows (amounts in thousands):

Investment Type	Amortized Cost	Quality Ratings		
		AAA	A	Unrated
Floating Rate Notes	\$ 26,741	\$ -	\$ -	\$ 26,741
Federal Agency Securities	1,003,402	1,003,402	-	-
US Securities	25,103	25,103	-	-
US Gov. Guaranteed and Insured Secur	335,980	335,980	-	-
Government Money Market Funds	95,786	95,786	-	-
Repurchase Agreements	200,000	-	200,000	-
Bank Commercial Paper	685,000	-	685,000	-
<b>Total Investments</b>	<b>\$ 2,372,012</b>	<b>\$ 1,460,271</b>	<b>\$ 885,000</b>	<b>\$ 26,741</b>

**Concentration of Credit Risk**

STIF reduces its exposure to this risk by requiring that not more than 10 percent of its portfolio be invested in securities of any one issuer, except for overnight or two-business day repurchase agreements and U.S. government and agency securities. As of June 30, 2011, STIF’s investments in any one issuer that represents more than 5 percent of total investments



were as follows (amounts in thousands):

<b>Investment Issuer</b>	<b>Amortized Cost</b>
US Bank	\$ 510,000
Federal Farm Credit	\$ 386,304
Fannie Mae	\$ 242,738
Freddie Mac	\$ 211,396
Merrill Lynch	\$ 200,000
Federal Home Loan Bank	\$ 162,964
Rabo Bank	\$ 175,000

**Custodial Credit Risk-Bank Deposits-Nonnegotiable Certificate of Deposits** (amounts in thousands):

The STIF follows policy parameters that limit deposits in any one entity to a maximum of ten percent of assets. Further, the certificate of deposits must be issued from commercial banks whose short-term debt is rated at least A-1 by Standard and Poor's and F-1 by Fitch and whose long-term debt is rated at least A and its issuer rating is at least "C". As of June 30, 2011, \$2,119,000 of the bank balance of STIF's deposits of \$2,120,000 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,907,100
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	211,900
<b>Total</b>	<b>\$ 2,119,000</b>

**Short-Term Plus Investment Fund (STIF Plus)**

STIF Plus is a money market and short-term bond investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF Plus in U.S. government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers' acceptance, repurchase agreements, and asset-backed securities. STIF Plus's investments are reported at fair value on the fund's statement of net assets.

For financial reporting purposes, STIF Plus is considered to be an internal investment pool and is not reported in the accompanying financial statements. Instead, investments in STIF Plus by participant funds are reported as other investments in the government-wide and fund financial statements.

As of June 30, 2011, STIF Plus had the following investments and maturities (amount in thousands):

<b>Investment Type</b>	<b>Short-Term Plus Investment Fund</b>		
	<b>Fair Value</b>	<b>Investment Maturities (in years)</b>	
		<b>Less Than 1</b>	<b>1-5</b>
Corporate Notes	\$ 14,980	\$ 14,980	\$ -
Asset Backed Securities	4,566	3,745	821
<b>Total Investments</b>	<b>\$ 19,546</b>	<b>\$ 18,725</b>	<b>\$ 821</b>

**Interest Rate Risk**

STIF Plus's policy for managing this risk is to perform, on a quarterly basis, an interest rate sensitivity analysis on the duration and the market value of the portfolio to determine the potential effect of a 200 basis point movement in interest rates. As of June 30, 2011, the weighted average maturity of STIF Plus was 144 days. In addition, STIF Plus is allowed to invest in floating-rate debt securities. For purposes of the

fund's weighted average maturity calculation, variable-rate securities are calculated using their rate reset date. Because these securities reprise frequently to prevailing market rates, interest rate risk is substantially reduced. As of June 30, 2011, STIF Plus's investment in variable-rate securities was \$18.7 million.

**Credit Risk**

The STIF Plus manages its credit risk by investing only in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations. As of June 30, 2011, STIF Plus's investments were rated by Standard and Poor's as follows (amounts in thousands):

<b>Investment Type</b>	<b>Short-Term Plus Investment Fund</b>				
	<b>Fair Value</b>	<b>Quality Ratings</b>			
		<b>AAA</b>	<b>A</b>	<b>B</b>	<b>CCC</b>
Corporate Notes	\$ 14,980	\$ -	\$ 14,980	\$ -	\$ -
Asset Backed Securities	4,566	3,328	-	753	485
<b>Total</b>	<b>\$ 19,546</b>	<b>\$ 3,328</b>	<b>\$ 14,980</b>	<b>\$ 753</b>	<b>\$ 485</b>

**Concentration of Credit Risk**

STIF Plus's policy for managing this risk is to limit the amount it may invest in any single corporate entity or federal agency to 5 percent and 15 percent, respectively, at the time of purchase. As of June 30, 2011, STIF Plus' investments in any one issuer that represents more than 5 percent of total investments were as follows (amounts in thousands):

<b>Investment Issuer</b>	<b>Fair Value</b>
Merrill Lynch	\$ 9,981
Goldman Sachs	\$ 4,999
Granite Master	\$ 1,393
Argent Securities	\$ 1,113

**Combined Investment Funds (CIFS)**

The CIFS are open-ended, unitized portfolios in which the State pension trust and permanent funds are eligible to invest. The State pension trust and permanent funds own the units of the CIFS. The State Treasurer is also authorized to invest monies of the CIFS in a broad range of fixed income and equity securities, as well as real estate properties, mortgages and private equity. CIFS' investments are reported at fair value in each fund's statement of net assets.

For financial reporting purposes, the CIFS are considered to be internal investment pools and are not reported in the accompanying financial statements. Instead, investments in the CIFS by participant funds are reported as equity in the CIFS in the government-wide and fund financial statements.

As of June 30, 2011, the amount of equity in the CIFS reported in the financial statements was as follows (amounts in thousands):

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Fiduciary Funds</b>
	Equity in the CIFS	\$ 97,485	\$ 647
Other Investments	284,583	67,058	604,728
<b>Total Investments-Current</b>	<b>\$ 382,068</b>	<b>\$ 67,705</b>	<b>\$ 25,690,261</b>

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As of June 30, 2011, the CIFS had the following investments and maturities (amounts in thousands):

### Combined Investment Funds

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Cash Equivalents	\$ 942,957	\$ 742,526	\$ 2,222	\$ -	\$ 198,209
Asset Backed Securities	110,040	67	93,312	16,661	-
Government Securities	2,775,763	115,115	1,176,573	674,571	809,504
Government Agency Securities	992,775	9,865	35,374	57,610	889,926
Mortgage Backed Securities	242,806	719	39,861	6,399	195,827
Corporate Debt	1,693,275	83,014	558,677	758,238	293,346
Convertible Debt	42,898	2,857	17,567	11,349	11,125
Mutual Fund	325,767	-	-	-	325,767
Total Debt Instruments	7,126,281	\$ 954,163	\$ 1,923,586	\$ 1,524,828	\$ 2,723,704
Common Stock	12,448,537				
Preferred Stock	107,956				
Real Estate Investment Trust	189,027				
Mutual Fund	1,451,909				
Limited Liability Corporation	4,168				
Trusts	2,138				
Limited Partnerships	3,917,579				
Total Investments	\$ 25,247,595				

### *Interest Rate Risk*

CIFS' investment managers are given full discretion to manage their portion of CIFS' assets within their respective guidelines and constraints. The guidelines and constraints require each manager to maintain a diversified portfolio at all times. In addition, each core manager is required to maintain a target duration that is similar to its respective benchmark which is typically the Barclays Aggregate-an intermediate duration index.

### *Credit Risk*

The CIFS minimizes exposure to this risk in accordance with a comprehensive investment policy statement, as developed by the Office of the Treasurer and the State's Investment Advisory Council, which provides policy guidelines for the CIFS and includes an asset allocation plan. The asset allocation plan's main objective is to maximize investment returns over the long term at an acceptable level of risk. As of June 30, 2011, CIFS' debt investments were rated by Moody's as follows (amounts in thousands):

### Combined Investment Funds

	Fair Value	Asset		Government		Mortgage	Corporate Debt	Convertible Debt	Mutual Fund
		Cash Equivalents	Backed Securities	Government Securities	Agency Securities	Backed Securities			
Aaa	\$ 1,516,059	\$ -	\$ 65,293	\$ 300,575	\$ 873,075	\$ 163,022	\$ 114,094	\$ -	\$ -
Aa	241,933	-	8,991	67,290	-	11,583	154,069	-	-
A	424,358	-	661	191,572	-	4,348	227,729	48	-
Baa	595,952	-	-	247,697	-	6,184	342,062	9	-
Ba	304,777	-	-	119,018	-	2,351	178,115	5,293	-
B	373,176	-	-	49,812	-	-	318,503	4,861	-
Caa	139,050	-	-	1,420	-	6,724	130,906	-	-
Ca	5,205	-	-	-	-	-	5,205	-	-
C	877	-	-	-	-	877	-	-	-
MIG 1	3,353	-	-	3,353	-	-	-	-	-
Prime 1	46,090	46,090	-	-	-	-	-	-	-
Govt. Fixed Not Rated	1,914,726	-	-	1,795,026	119,700	-	-	-	-
Not Rated	1,560,725	896,867	35,095	-	-	47,717	222,592	32,687	325,767
Total	\$ 7,126,281	\$ 942,957	\$ 110,040	\$ 2,775,763	\$ 992,775	\$ 242,806	\$ 1,693,275	\$ 42,898	\$ 325,767

### *Foreign Currency Risk*

The CIFS manage exposure to this risk by utilizing a strategic hedge ratio of 50 percent for the developed market portion of the International Stock Fund (a Combined Investment Fund). This strategic hedge ratio represents the neutral stance or desired long-term exposure to currency for the ISF. To implement this policy, currency specialists actively manage the currency portfolio as an overlay strategy to the equity investment managers. These specialists may manage the portfolio passively or actively depending on opportunities in the market place. While managers within the fixed income portion of the portfolio are allowed to invest in

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non-U.S. denominated securities, managers are required to limit that investment to a portion of their respective portfolios. As of June 30, 2011, CIFS' foreign deposits and investments were as follows (amounts in thousands):

Foreign Currency	Combined Investment Funds										
	Fixed Income Securities								Equities		
	Total	Cash		Government Securities	Mutual Funds	Corporate Debt	Convertible Securities	Asset Backed	Common Stock	Preferred Stock	Real Estate Investment Trust
Argentine Peso	\$ 3,594	\$ 273	\$ -	\$ 3,321	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Australian Dollar	409,806	3,452	-	52,729	-	23,181	-	-	310,962	-	19,482
Brazilian Real	214,439	1,246	-	41,518	-	11,913	341	67	106,652	52,702	-
Canadian Dollar	120,666	1,450	-	502	-	-	-	-	118,668	-	46
Chilean Peso	8,734	31	-	1,821	-	-	-	-	6,882	-	-
Colombian Peso	17,459	-	-	9,267	-	6,729	-	1,463	-	-	-
Czech Koruna	16,549	-	-	-	-	-	-	-	16,549	-	-
Danish Krone	64,139	420	-	-	-	-	-	-	63,719	-	-
Egyptian Pound	11,721	963	-	144	-	-	-	-	10,614	-	-
Euro Currency	1,653,398	6,316	185	78,085	-	6,768	-	1,082	1,519,715	36,743	4,504
Ghana Cedi	843	-	-	843	-	-	-	-	-	-	-
Hong Kong Dollar	619,779	4,482	-	-	-	-	-	-	614,296	-	1,001
Hungarian Forint	51,178	2	-	5,853	-	-	-	-	45,323	-	-
Iceland Krona	2	2	-	-	-	-	-	-	-	-	-
Indian Rupee	3,385	-	-	3,385	-	-	-	-	-	-	-
Indonesian Rupiah	105,898	524	-	12,884	-	9,784	-	-	82,706	-	-
Israeli Shekel	10,274	61	-	278	-	-	-	-	9,935	-	-
Japanese Yen	989,240	7,252	-	495	-	-	-	-	977,250	-	4,243
Kazakhstan Tenge	551	-	-	-	-	551	-	-	-	-	-
Malaysian Ringgit	83,193	545	-	36,805	-	-	-	-	45,843	-	-
Mexican Peso	106,582	788	-	55,517	-	-	-	-	50,277	-	-
Moroccan Dirham	726	54	-	-	-	-	-	-	672	-	-
New Russian Rubel	4,628	13	-	2,441	-	1,812	-	-	362	-	-
New Taiwan Dollar	84,668	901	-	-	-	-	-	-	83,767	-	-
New Zealand Dollar	63,640	1,581	-	51,619	-	-	-	-	10,426	-	14
Norwegian Krone	56,828	233	-	16,991	-	-	-	-	39,604	-	-
Pakistan Rupee	169	169	-	-	-	-	-	-	-	-	-
Peruvian Nouveau Sol	1,963	9	-	1,954	-	-	-	-	-	-	-
Philippine Peso	26,032	73	-	2,518	-	-	-	-	23,441	-	-
Polish Zloty	98,067	3,513	-	47,661	-	-	-	-	46,893	-	-
Pound Sterling	1,037,326	4,780	-	18,907	686	1,866	-	-	1,004,549	-	6,538
Singapore Dollar	85,702	737	-	-	-	-	-	-	82,021	-	2,944
South African Rand	135,187	3,337	-	30,734	-	950	-	-	100,166	-	-
South Korean Won	507,644	2,128	-	352	-	-	-	-	495,720	9,444	-
Sri Lanka Rupee	664	-	-	-	-	-	-	-	664	-	-
Swedish Krona	113,665	676	-	-	-	-	-	-	112,989	-	-
Swiss Franc	353,870	1,899	-	-	-	-	-	-	351,971	-	-
Thailand Baht	111,074	481	-	8,779	-	-	-	-	101,814	-	-
Turkish Lira	104,729	729	-	21,284	-	-	-	-	79,326	-	3,390
<b>Total</b>	<b>\$ 7,278,012</b>	<b>\$ 49,120</b>	<b>\$ 185</b>	<b>\$ 506,687</b>	<b>\$ 686</b>	<b>\$ 63,554</b>	<b>\$ 341</b>	<b>\$ 2,612</b>	<b>\$ 6,513,776</b>	<b>\$ 98,889</b>	<b>\$ 42,162</b>

**Derivatives**

As of June 30, 2011, the CIFS held the following derivative investments:

Derivative Investments	Fair Value
Asset Backed Securities	\$ 110,040
Mortgage Backed Securities	65,752
Collateralized Mortgage Obligations	176,973
TBA's	242,923
Interest Only Securities	1,210
Options	608
Adjustable Rate Securities	619,870
<b>Total</b>	<b>\$ 1,217,376</b>

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The CIFS invest in derivative investments for trading purposes and to enhance investment returns. The credit exposure resulting from these investments is limited to their fair value at year end.

The CIFS also invest in foreign currency contracts. Contracts to buy are used to acquire exposure to foreign currencies, while contracts to sell are used to hedge the CIFS' investments against currency fluctuations. Losses may arise from changes in the value of the foreign currency or failure of the counterparties to perform under the contracts' terms. As of June 30, 2011, the fair value of contracts to buy and contracts to sell was \$4,111.0 million and \$4,158.2 million, respectively.

### **Custodial Credit Risk-Bank Deposits**

The CIFS minimize this risk by maintaining certain restrictions set forth in the Investment Policy Statement. The CIFS use a Liquidity Account which is a cash management pool investing in highly liquid money market securities. As of June 30, 2011, the CIFS had deposits with a bank balance of \$64.4 million which was uninsured and uncollateralized.

Complete financial information about the STIF, STIF Plus, and the CIFS can be obtained from financial statements issued by the Office of the State Treasurer.

### **Other Investments**

As of June 30, 2011, the State had other investments and maturities as follows (amounts in thousands):

Investment Type	Investment Maturities (in years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Repurchase Agreements	\$ 2,504	\$ 2,504	\$ -	\$ -	\$ -
State Bonds	36,585	1,672	1,917	10,986	22,010
U.S. Government Securities	129,290	4,708	115,415	6,450	2,717
Guaranteed Investment Contracts	260,050	19,943	31,830	99,611	108,666
Tax Exempt Proceeds Fund	11,892	11,892	-	-	-
Money Market Funds	6,062	6,062	-	-	-
<b>Total Debt Investments</b>	<b>446,383</b>	<b>\$ 46,781</b>	<b>\$ 149,162</b>	<b>\$ 117,047</b>	<b>\$ 133,393</b>
Annuity Contracts	160,982	-	-	-	-
Endowment Pool	10,536	-	-	-	-
Limited Partnership	150	-	-	-	-
<b>Total Investments</b>	<b>\$ 618,051</b>				

### **Credit Risk**

As of June 30, 2011, other debt investments were rated by Standard and Poor's as follows (amounts in thousands):

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
Repurchase Agreements	\$ 2,504	\$ 2,504	\$ -	\$ -	\$ -
State Bonds	36,585	-	36,585	-	-
U.S. Government Securities	129,290	-	-	-	129,290
Guaranteed Investment Contracts	260,050	62,970	53,821	143,259	-
Tax Exempt Proceeds Fund	11,892	-	-	-	11,892
Money Market Funds	6,062	-	-	-	6,062
<b>Total</b>	<b>\$ 446,383</b>	<b>\$ 65,474</b>	<b>\$ 90,406</b>	<b>\$ 143,259</b>	<b>\$ 147,244</b>

**Custodial Credit Risk-Bank Deposits** (amounts in thousands):

The State maintains its deposits at qualified financial institutions located in the state to reduce its exposure to this risk. These institutions are required to maintain, segregated from its other assets, eligible collateral in an amount equal to 10 percent, 25 percent, 100 percent, or 120 percent of its public deposits. The collateral is held in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank. As of June 30, 2011, \$257,584 of the bank balance of the Primary Government of \$807,588 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 231,611
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	25,973
<b>Total</b>	<b>\$ 257,584</b>

### **Component Units**

The Connecticut Housing Finance Authority (CHFA) and the Connecticut Health and Education Facilities Authority (CHEFA) reported the following investments and maturities as of 12-31-10 and 6-30-11, respectively (amounts in thousands):

Investment Type	Major Component Units			
	Fair Value	Less Than 1	1-5	More Than 10
Collateralized Mortgage Obligations	\$ 1,120	\$ -	\$ -	\$ 1,120
Corporate Finance Bonds	5,411	-	5,411	-
Federal NIBP Money Market Funds	119,496	119,496	-	-
Federated Funds	736	736	-	-
Fidelity Funds	10,680	10,680	-	-
Fidelity Tax Exempt Fund	5,272	5,272	-	-
GNMA Program Assets	847,996	-	-	847,996
Guaranteed Investment Contracts	17,002	15	16,987	-
Mortgage Backed Securities	1,986	-	293	1,693
Municipal Bonds	6,000	-	-	6,000
U.S. Government and Agency Securities	1,799	996	-	803
Structured Securities	519	-	-	519
Money Market Funds	351,991	351,991	-	-
<b>Total</b>	<b>\$ 1,370,008</b>	<b>\$ 489,186</b>	<b>\$ 22,691</b>	<b>\$ 858,131</b>

The CHFA and the CHEFA own 73.0 percent and 27.0 percent of the above investments, respectively. GNMA Program Assets represent securitized home mortgage loans of CHFA which are guaranteed by the Government National Mortgage Association.

### **Interest Rate Risk**

#### **CHFA**

Exposure to declines in fair value is substantially limited to GNMA Program Assets. The Authority's investment policy requires diversification of its investment portfolio to eliminate the risk of loss resulting from, among other things, an over-concentration of assets in a specific maturity.

#### **CHEFA**

The Authority manages its exposure to this risk by designing its portfolio of unrestricted investments with the objective of regularly exceeding the average return of 90 day U.S. Treasury Bills. This is considered to be a benchmark for riskless investment transactions and therefore represents a

minimum standard for the portfolio's rate of return. The Authority's policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures, with the above policy and with applicable Connecticut State Law.

**Credit Risk**

**CHFA**

The Authority's investments are limited by state Statutes to United States Government obligations, including its agencies or instrumentalities, investments guaranteed by the state, investments in the CIFS, and other obligations which are legal investments for savings banks in the state. The Federated and Fidelity Funds are fully collateralized by obligations issued by the United States Government or its agencies. Mortgage Backed Securities are fully collateralized by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association, and Collateralized Mortgage Obligations are fully collateralized by the United States Department of Housing and Urban Development mortgage pools.

**CHEFA**

The Authority has an investment policy that would further limit its investment choices beyond those limited by state statutes for both unrestricted and restricted investments. For example, investments that may be purchased by the Authority with the written approval of an officer, provided that the investment has a maturity of one year or less, are as follows: obligations issued or guaranteed by the U.S. Government, including FDIC; qualified money market funds investing in short-term securities as permitted by the Authority's enabling legislation; the State's Short-Term Investment Fund (STIF) provided it maintains a "AAA" rating by Standard and Poor's; and qualified repurchase agreements secured by obligations issued or guaranteed by the U.S. Government.

CHFA's and CHEFA's investments were rated as of 12-31-10 and 6-30-11, respectively, as follows (amounts in thousands):

Investment Type	Component Units					
	Fair Value	Quality Ratings				
		AAA	AA	BBB	D	Unrated
Collateralized Mortgage Obligations	\$ 1,120	\$ -	\$ -	\$ 1,120	\$ -	\$ -
Corporate Finance Bonds	5,411	-	-	5,411	-	-
Federal NIBP Money market Funds	119,496	119,496	-	-	-	-
Federated Funds	736	-	-	-	-	736
Fidelity Funds	10,680	-	-	-	-	10,680
Fidelity Tax Exempt Fund	5,272	-	-	-	-	5,272
GNMA Assets	847,996	-	-	-	-	847,996
Guaranteed Investment Contracts	17,002	-	15	-	-	16,987
Mortgage Backed Securities	1,986	-	-	-	-	1,986
Municipal Bonds	6,000	-	-	-	-	6,000
U.S Government and Agency Securities	1,799	-	-	-	-	1,799
Structured Securities	519	-	-	-	519	-
Money Market Funds	351,991	-	-	-	-	351,991
<b>Total</b>	<b>\$ 1,370,008</b>	<b>\$ 119,496</b>	<b>\$ 15</b>	<b>\$ 6,531</b>	<b>\$ 519</b>	<b>\$ 1,243,447</b>

**Concentration of Credit Risk**

**CHFA**

The Authority's investment policy requires diversification of its investment portfolio to eliminate the risk of loss resulting from, among other things, an over-concentration of assets with a specific issuer. As of December 31, 2010, the Authority had no investments in any one issuer that represents 5 percent or more of total investments, other than investments guaranteed by the U.S. Government (GNMA Program Assets).

**CHEFA**

For unrestricted investments, the Authority places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the State's Short-Term Investment Fund shall constitute greater than 5 percent of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50 percent of general fund investments. At year end, the Authority was in compliance with this policy. The Authority places no limit on the amount of investments in any one issuer for restricted investments.

**Security Lending Transactions**

Certain of the Combined Investment Funds are permitted by State Statute to engage in security lending transactions to provide incremental returns to the funds. The funds' master custodian is authorized to lend available securities to authorized broker-dealers and banks subject to a form loan agreement.

During the year, the master custodian lent certain securities and received cash or other collateral as indicated on the Securities Lending Authorization Agreement. The master custodian did not have the ability to pledge or sell collateral securities received absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities.

According to the Agreement, the master custodian has an obligation to indemnify the funds in the event any borrower failed to return the loaned securities or pay distributions thereon. There were no such failures during the fiscal year that resulted in a declaration and notice of Default of the Borrower. During the fiscal year, the funds and the borrowers maintained the right to terminate all securities lending transactions upon notice. The cash collateral received on each loan was invested in an individual account known as the State of Connecticut Collateral Investment Trust. At year end, the funds had no credit exposure to borrowers because the value of the collateral held and the market value of securities on loan were \$3,358.0 million and \$3,235.3 million, respectively.

Under normal circumstances, the average duration of collateral investments is managed so that it will not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. If any of these limits is exceeded for any 3-day period, the Trustee shall take certain actions. At year end, the average duration of the collateral investments was

34.2 days; the average duration of the loans was unknown, although it is assumed to remain at 1 day.

**Note 5 Receivables-Current**

As of June 30, 2011, current receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	\$ 1,249,857	\$ -	\$ -
Accounts	1,079,334	592,719	23,784
Loans-Current Portion	-	267,043	22,896
Other Governments	750,242	13,138	-
Interest	193	12,918	1,156
Other (1)	195	-	-
Total Receivables	3,079,821	885,818	47,836
Allowance for Uncollectibles	(949,526)	(89,797)	(2,442)
Receivables, Net	\$ 2,130,295	\$ 796,021	\$ 45,394

(1) Includes a reconciling amount of \$192 from fund financial statements to government-wide financial statements.

**Note 6 Taxes Receivable**

Taxes receivable consisted of the following as of June 30, 2011 (amounts in thousands):

	Governmental Activities		
	General	Transportation	Total
	Fund	Fund	
Sales and Use	\$ 526,930	\$ -	\$ 526,930
Income Taxes	249,252	-	249,252
Corporations	100,078	-	100,078
Gasoline and Special Fuel	-	42,600	42,600
Various Other	330,997	-	330,997
Total Taxes Receivable	1,207,257	42,600	1,249,857
Allowance for Uncollectibles	(196,157)	(143)	(196,300)
Taxes Receivable, Net	\$ 1,011,100	\$ 42,457	\$ 1,053,557

**Note 7 Receivables-Noncurrent**

Noncurrent receivables for the primary government and its component units, as of June 30, 2011, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Accounts	\$ -	\$ -	\$ 16,365
Loans	251,751	709,310	163,624
Total Receivables	251,751	709,310	179,989
Allowance for Uncollectibles	(1,716)	(2,886)	(9,602)
Receivables, Net	\$ 250,035	\$ 706,424	\$ 170,387

The Clean Water fund (business-type activities) loans funds to qualified municipalities for planning, design, and construction of water quality projects. These loans are payable over a 20 year period at an annual interest rate of 2 percent and are secured by the full faith and credit or revenue pledges of the municipalities, or both. At year end, the noncurrent portion of loans receivable was \$624.3 million.

The Connecticut Higher Education Supplemental Loan Authority (a component unit) makes loans to individuals

from the proceeds of bonds issued by the Authority. The loans bear interest rates ranging from 0 percent to 9.7 percent. At year end, the noncurrent portion of loans receivable was \$104.3 million.

**Note 8 Restricted Assets**

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2011, restricted assets were comprised of the following (amounts in thousands):

	Cash & Cash				Total Restricted Assets
	Equivalents	Investments	Loans, Net of Allowances	Other	
<b>Governmental Activities:</b>					
Debt Service	\$ 708,645	\$ -	\$ -	\$ -	\$ 708,645
Environmental	2,235	-	-	-	2,235
Total-Governmental Activities	\$ 710,880	\$ -	\$ -	\$ -	\$ 710,880
<b>Business-Type Activities:</b>					
Bradley International Airport	\$ 99,670	\$ 15,056	\$ -	\$ 2,166	\$ 116,892
UConn/Health Center	57,240	-	-	4,548	61,788
Clean Water	154,996	298,600	-	-	453,596
Other Proprietary	53,895	27,271	-	-	81,166
Total-Business-Type Activities	\$ 365,801	\$ 340,927	\$ -	\$ 6,714	\$ 713,442
<b>Component Units:</b>					
CHFA	\$ 2,409	\$ 1,658,234	\$ 3,552,918	\$ 265,296	\$ 5,478,857
CHEFA	12,230	362,784	-	49	375,063
Other Component Units	114,931	38,977	-	5,091	158,999
Total-Component Units	\$ 129,570	\$ 2,059,995	\$ 3,552,918	\$ 270,436	\$ 6,012,919

**Note 9 Current Liabilities**

**a. Accounts Payable and Accrued Liabilities**

As of June 30, 2011, accounts payable and accrued liabilities consisted of the following (amounts in thousands):

	Salaries and				Total Payables & Accrued Liabilities
	Vendors	Benefits	Interest	Other	
<b>Governmental Activities:</b>					
General	\$ 119,144	\$ 245,905	\$ -	\$ -	\$ 365,049
Transportation	10,882	13,979	-	-	24,861
Other Governmental	152,367	29,123	-	17,640	199,130
Internal Service	377	1,203	-	23,418	24,998
Reconciling amount from fund financial statements to government-wide financial statements	-	-	187,117	6,084	193,201
Total-Governmental Activities	\$ 282,770	\$ 290,210	\$ 187,117	\$ 47,142	\$ 807,239
<b>Business-Type Activities:</b>					
UConn/Health Center	\$ 27,691	\$ 88,463	\$ -	\$ 29,750	\$ 145,904
State Universities	9,335	43,859	1,900	-	55,094
Other Proprietary	16,741	34,759	17,073	25,423	93,996
Total-Business-Type Activities	\$ 53,767	\$ 167,081	\$ 18,973	\$ 55,173	\$ 294,994
<b>Component Units:</b>					
CHFA	\$ -	\$ -	\$ 21,283	\$ 8,483	\$ 29,766
Other Component Units	5,321	-	1,559	32,006	38,886
Total-Component Units	\$ 5,321	\$ -	\$ 22,842	\$ 40,489	\$ 68,652

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**Note 10 Capital Assets**

Capital asset activity for the year was as follows (amounts in thousands):

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital Assets not being Depreciated:				
Land	\$ 1,562,050	\$ 32,770	\$ 16	\$ 1,594,804
Construction in Progress	1,719,377	1,064,125	443,349	2,340,153
Total Capital Assets not being Depreciated	3,281,427	1,096,895	443,365	3,934,957
Other Capital Assets:				
Buildings	3,174,519	105,098	3,730	3,275,887
Improvements Other than Buildings	471,424	9,122	9,255	471,291
Equipment	1,650,639	332,520	75,633	1,907,526
Infrastructure	12,555,781	99,941	-	12,655,722
Total Other Capital Assets at Historical Cost	17,852,363	546,681	88,618	18,310,426
Less: Accumulated Depreciation For:				
Buildings	1,721,603	81,509	3,730	1,799,382
Improvements Other than Buildings	270,270	33,698	9,255	294,713
Equipment	1,606,963	222,838	75,633	1,754,168
Infrastructure	6,965,102	507,720	-	7,472,822
Total Accumulated Depreciation	10,563,938	845,765 *	88,618	11,321,085
Other Capital Assets, Net	7,288,425	(299,084)	-	6,989,341
Governmental Activities, Capital Assets, Net	<u>\$ 10,569,852</u>	<u>\$ 797,811</u>	<u>\$ 443,365</u>	<u>\$ 10,924,298</u>

\* Depreciation expense was charged to functions as follows:

<b>Governmental Activities:</b>	
Legislative	\$ 6,331
General Government	50,086
Regulation and Protection	32,446
Conservation and Development	15,773
Health and Hospitals	14,719
Transportation	598,599
Human Services	2,196
Education, Libraries and Museums	42,117
Corrections	50,656
Judicial	23,253
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	9,589
<b>Total Depreciation Expense</b>	<u>\$ 845,765</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Business-Type Activities</b>				
Capital Assets not being Depreciated:				
Land	\$ 59,627	\$ 5,194	\$ 151	\$ 64,670
Construction in Progress	194,140	178,527	77,179	295,488
Total Capital Assets not being Depreciated	253,767	183,721	77,330	360,158
Capital Assets being Depreciated:				
Buildings	3,943,691	109,141	2,378	4,050,454
Improvements Other Than Buildings	519,500	13,651	206	532,945
Equipment	958,218	71,182	74,838	954,562
Total Other Capital Assets at Historical Cost	5,421,409	193,974	77,422	5,537,961
Less: Accumulated Depreciation For:				
Buildings	1,414,099	122,499	1,532	1,535,066
Improvements Other Than Buildings	265,306	21,053	191	286,168
Equipment	614,247	67,777	73,217	608,807
Total Accumulated Depreciation	2,293,652	211,329	74,940	2,430,041
Other Capital Assets, Net	3,127,757	(17,355)	2,482	3,107,920
Business-Type Activities, Capital Assets, Net	<u>\$ 3,381,524</u>	<u>\$ 166,366</u>	<u>\$ 79,812</u>	<u>\$ 3,468,078</u>

**Component Units**

Capital assets of the component units consisted of the following as of June 30, 2011 (amounts in thousands):

Land	\$ 29,031
Buildings	358,787
Improvements other than Buildings	2,697
Machinery and Equipment	423,368
Construction in Progress	20,896
Total Capital Assets	834,779
Accumulated Depreciation	417,206
Capital Assets, net	<u>\$ 417,573</u>

**Note 11 State Retirement Systems**

The State sponsors three major public employee retirement systems: the State Employees' Retirement System (SERS)-consisting of Tier I (contributory), Tier II (noncontributory) and Tier IIA (contributory), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS).

The State Comptroller's Retirement Division under the direction of the Connecticut State Employees Retirement Division administers SERS and JRS. The Teachers' Retirement Board administers TRS. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for SERS, TRS, and JRS are presented in Note No. 13.

**Plan Descriptions and Funding Policy**

Membership of each plan consisted of the following at the date of the latest actuarial evaluation:

	<u>SERS</u> <u>6/30/2010</u>	<u>TRS</u> <u>6/30/2010</u>	<u>JRS</u> <u>6/30/2010</u>
Retirees and beneficiaries receiving benefits	41,782	30,493	212
Terminated plan members entitled to but not yet receiving benefits	1,602	1,315	2
Active plan members	<u>50,064</u>	<u>51,368</u>	<u>230</u>
Total	<u>93,448</u>	<u>83,176</u>	<u>444</u>

**State Employees' Retirement System**

**Plan Description**

SERS is a single-employer defined-benefit pension plan covering substantially all of the State full-time employees who are not eligible for another State sponsored retirement plan. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and the State, and other plan provisions are described in Sections 5-152 to 5-192 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

**Funding Policy**

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Tier I Plan B regular and Hazardous Duty members are required to contribute 2 percent and 4 percent of their annual salary, respectively, up to the Social Security Taxable Wage Base plus 5 percent above that level; Tier I Plan C members are required to contribute 5 percent of their annual salary; Tier II Plan Hazardous Duty members are required to contribute 4 percent of their annual salary; Tier IIA Plan regular and Hazardous Duty members are required to contribute 2 percent and 5 percent of their annual salary, respectively. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State. During fiscal year 2011, the State reduced the annual required contribution to the plan by \$118.3 million to help reduce the deficit of the State's General fund.

**Teachers' Retirement System**

**Plan Description**

TRS is a single-employer defined-benefit pension plan covering any teacher, principal, superintendent, or supervisor engaged in service of public schools in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183pp of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

**Funding Policy**

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

**Judicial Retirement System**

**Plan Description**

JRS is a single-employer defined-benefit pension plan covering any appointed judge or compensation commissioner in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 51-49 to 51-51 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

**Funding Policy**

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

**Annual Pension Cost and Net Pension Obligation**

The State's annual pension cost and net pension obligation for each plan for the current year were as follows (amounts in thousands):

	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>
Annual required contribution	\$ 944,077	\$ 581,593	\$ 16,208
Interest on net pension obligation	232,919	(41,945)	1,313
Adjustment to annual required contribution	<u>(177,735)</u>	<u>36,812</u>	<u>(987)</u>
Annual pension cost	999,261	576,460	16,534
Contributions made	<u>825,801</u>	<u>581,593</u>	<u>-</u>
Increase (decrease) in net pension obligation	173,460	(5,133)	16,534
Net pension obligation (asset) beginning of year	<u>2,740,234</u>	<u>(493,460)</u>	<u>15,449</u>
Net pension obligation (asset) end of year	<u>\$ 2,913,694</u>	<u>\$ (498,593)</u>	<u>\$ 31,983</u>



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Three-year trend information for each plan is as follows (amounts in thousands):

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/asset
SERS	2009	\$ 810,776	86.3%	\$ 2,508,005
	2010	\$ 952,753	75.6%	\$ 2,740,231
	2011	\$ 999,261	82.6%	\$ 2,913,694
TRS	2009	\$ 532,423	101.3%	\$ (487,390)
	2010	\$ 553,154	101.1%	\$ (498,460)
	2011	\$ 576,460	100.9%	\$ (498,593)
JRS	2009	\$ 14,174	100%	\$ 49
	2010	\$ 15,400	0%	\$ 15,449
	2011	\$ 16,534	0%	\$ 31,983

**Funded Status and Funding Progress**

The following is funded status information for each plan as of June 30, 2010 the most recent actuarial valuation date (amounts in millions):

	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SERF	9,349.6	21,054.2	11,704.6	44.4%	3,295.7	355.1%
TRF	14,430.2	23,495.9	9,065.7	61.4%	3,646.0	248.6%
JRF	179.7	276.8	97.1	64.9%	31.6	307.3%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Actuarial Methods and Assumptions**

The following is information as of the most recent actuarial valuation:

	<u>SERF</u>	<u>TRF</u>	<u>JRS</u>
Valuation Date	6/30/2010	6/30/2010	6/30/10
Actuarial Cost Method	Projected unit credit	Entry Age	Projected unit credit
Amortization Method	Level percent of payroll, closed	Level percent closed	Level percent of payroll, closed
Remaining Amortization Period	21 Years	25.3 years	21 Years
Asset Valuation Method	5-year smoothed market	4-year smoothed market	5-year smoothed market
Actuarial Assumptions:			
Investment Rate of Return	8.25%	8.5%	8.25%
Projected Salary Increases	4.0%-20.0%	4.0%-7.5%	5.25%
Includes inflation at	4.0%	4.0%	0.00%
Cost-of-Living Adjustments	2.7%-3.6%	2.0%-3.0%	2.75-5.25%

**Defined Contribution Plan**

The State also sponsors the Connecticut Alternate Retirement Program (CARP), a defined contribution plan. CARP is administered by the State Comptroller's Retirement Office under the direction of the Connecticut State Employees Retirement Division. Plan provisions, including contribution requirements of plan members and the State, are described in Section 5-156 of the General Statutes.

Unclassified employees at any of the units of the Connecticut State System of Higher Education are eligible to participate in the plan. Plan members are required to contribute 5 percent of their annual salaries. The State is required to contribute 8 percent of covered salary. During the year, plan members and the State contributed \$37.0 million and \$22.6 million, respectively.

**Note 12 Other Retirement Systems Administered by the State of Connecticut**

The State acts solely as the administrator and custodian of the assets of the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). The State makes no contribution to and has only a fiduciary responsibility for these funds. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for CMERS and CPJERS are presented in Note No. 13.

**Plan Descriptions and Contribution Information**

Membership of each plan consisted of the following at the date of the latest actuarial valuation:

	CMERS 7/1/2010	CPJERS 12/31/2009
Retirees and beneficiaries receiving benefits	5,705	288
Terminated plan members entitled to but not receiving benefits	720	22
Active plan members	8,579	412
Total	15,004	722
Number of participating employers	186	1

**Connecticut Municipal Employees' Retirement System**

**Plan Description**

CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

**Contributions**

Plan members are required to contribute 2.25 percent to 5.0 percent of their annual salary. Participating municipalities are required to contribute at an actuarial determined rate. The participating municipalities fund administrative costs of the plan.

**Connecticut Probate Judges and Employees' Retirement System**

**Plan Description**

CPJERS is a single-employer defined benefit pension plan that covers judges and employees of probate courts in the State. Plan benefits, cost-of-living adjustments, required contributions of plan members and the probate court system, and other plan provisions are described in Chapters 45a-34 to 45a-56 of the General statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

**Contributions**

Plan members are required to contribute 1.0 percent to 3.75 percent of their annual salary. The probate court system is required to contribute at an actuarial determined rate. Administrative costs of the plan are funded by the probate court system.

**Connecticut**

**Note 13 Pension Trust Funds Financial Statements**

The financial statements of the pension trust funds are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. State contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment income and related expenses of the Combined Investment Funds are allocated ratably to the pension trust funds based on each fund's equity in the Combined Investment Funds.

**Statement of Fiduciary Net Assets (000's)**

	State Employees'	State Teachers'	Judicial	Connecticut Municipal Employees'	Probate Judges'	Other	Total
<b>Assets</b>							
Cash and Cash Equivalents	\$ 1,627	\$ 971	\$ -	\$ 385	\$ -	\$ 249	\$ 3,232
Receivables:							
Accounts, Net of Allowances	2,510	7,371	8	8,788	4	-	18,681
From Other Governments	-	1,276	-	-	-	-	1,276
From Other Funds	3	9	-	-	-	-	12
Interest	265	561	4	47	4	-	881
Investments	8,980,629	14,143,320	158,886	1,697,937	81,789	1,112	25,063,673
Securities Lending Collateral	1,120,350	1,734,341	24,357	242,783	11,542	161	3,133,534
Total Assets	<u>10,105,384</u>	<u>15,887,849</u>	<u>183,255</u>	<u>1,949,940</u>	<u>93,339</u>	<u>1,522</u>	<u>28,221,289</u>
<b>Liabilities</b>							
Accounts Payable and Accrued Liabilities	12	-	-	-	-	-	12
Securities Lending Obligation	1,120,350	1,734,341	24,357	242,783	11,542	161	3,133,534
Due to Other Funds	-	1,271	-	-	192	-	1,463
Total Liabilities	<u>1,120,362</u>	<u>1,735,612</u>	<u>24,357</u>	<u>242,783</u>	<u>11,734</u>	<u>161</u>	<u>3,135,009</u>
<b>Net Assets</b>							
Held in Trust For Employee							
Pension Benefits	8,985,022	14,152,237	158,898	1,707,157	81,605	1,361	25,086,280
Total Net Assets	<u>\$ 8,985,022</u>	<u>\$ 14,152,237</u>	<u>\$ 158,898</u>	<u>\$ 1,707,157</u>	<u>\$ 81,605</u>	<u>\$ 1,361</u>	<u>\$ 25,086,280</u>

**Statement of Changes in Fiduciary Net Assets (000's)**

	State Employees'	State Teachers'	Judicial	Connecticut Municipal Employees'	Probate Judges'	Other	Total
<b>Additions</b>							
Contributions:							
Plan Members	\$ 67,679	\$ 253,925	\$ 1,566	\$ 16,307	\$ 328	\$ 38	\$ 339,843
State	825,801	581,593	-	-	-	-	1,407,394
Municipalities	-	-	-	51,126	-	-	51,126
Total Contributions	<u>893,480</u>	<u>835,518</u>	<u>1,566</u>	<u>67,433</u>	<u>328</u>	<u>38</u>	<u>1,798,363</u>
Investment Income	1,657,847	2,570,338	27,516	266,655	13,082	101	4,535,539
Less: Investment Expenses	(34,184)	(53,003)	(567)	(5,498)	(270)	(2)	(93,524)
Net Investment Income	<u>1,623,663</u>	<u>2,517,335</u>	<u>26,949</u>	<u>261,157</u>	<u>12,812</u>	<u>99</u>	<u>4,442,015</u>
Transfers In	-	-	-	-	3,665	-	3,665
Other	476	452	-	1,138	10	-	2,076
Total Additions	<u>2,517,619</u>	<u>3,353,305</u>	<u>28,515</u>	<u>329,728</u>	<u>16,815</u>	<u>137</u>	<u>6,246,119</u>
<b>Deductions</b>							
Administrative Expense	346	-	11	-	-	-	357
Benefit Payments and Refunds	1,323,593	1,485,398	19,390	100,475	3,604	1	2,932,461
Other	-	-	-	3	3,465	-	3,468
Total Deductions	<u>1,323,939</u>	<u>1,485,398</u>	<u>19,401</u>	<u>100,478</u>	<u>7,069</u>	<u>1</u>	<u>2,936,286</u>
Changes in Net Assets	1,193,680	1,867,907	9,114	229,250	9,746	136	3,309,833
<b>Net Assets Held in Trust For Employee Pension Benefits:</b>							
Beginning of Year	7,791,342	12,284,330	149,784	1,477,907	71,859	1,225	21,776,447
End of Year	<u>\$ 8,985,022</u>	<u>\$ 14,152,237</u>	<u>\$ 158,898</u>	<u>\$ 1,707,157</u>	<u>\$ 81,605</u>	<u>\$ 1,361</u>	<u>\$ 25,086,280</u>

**Note 14 Other Postemployment Benefits (OPEB)**

The State sponsors two defined benefit OPEB plans: the State Employee OPEB Plan (SEOPEBP) and the Retired Teacher Healthcare Plan (RTHP). SEOPEBP is administered by the State Comptroller (Healthcare Policy and Benefit Division), and RTHP is administered by the Teachers' Retirement Board. None of these plans issues stand-alone financial statements. However, financial statements for these plans are presented in Note No. 15.

**State Employee OPEB Plan  
Plan Description**

SEOPEBP is a single-employer defined benefit OPEB plan that covers retired employees of the State who are receiving benefits from any State-sponsored retirement system, except the Teachers' Retirement System and the Municipal Employees' Retirement System. The plan provides healthcare and life insurance benefits to eligible retirees and their spouses. Plan benefits, required contributions of plan

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participants and the State, and other plan provisions are described in Sections 5-257 and 5-259 of the General Statutes.

**Plan Funding**

The contribution requirements of the plan members and the State are established and may be amended by the State legislature, or by agreement between the State and employees unions, upon approval by the State legislature. The cost of providing plan benefits is financed approximately 100 percent by the State on a pay-as-you-go basis through an annual appropriation in the General fund. Administrative costs of the plan are financed by the State.

As of June 30, 2011, the last actuarial valuation for the plan was dated April 1, 2008. This valuation disclosed that the plan had an unfunded accrued liability of \$26.6 billion as of that date. Because of the date of the actuarial valuation, required disclosures for the plan on funded status, funding progress, and actuarial methods and assumptions could not be made in this note.

**Retired Teacher Healthcare Plan**

**Plan Description**

RTHP is a single-employer defined benefit OPEB plan that covers retired teachers and administrators of public schools in the State who are receiving benefits from the Teachers' Retirement System. The plan provides healthcare insurance benefits to eligible retirees and their spouses. Plan benefits, required contributions of plan participants and the State, and other plan provisions are described in Section 10-183 of the General Statutes. As of June 30, 2010 (date of the latest actuarial valuation), the plan had 33,151 retirees and beneficiaries receiving benefits.

**Plan Funding**

The contribution requirements of plan members and the State are established and may be amended by the State legislature. The cost of providing plan benefits is financed on a pay-as-you-go basis as follows: active teachers pay for one third of plan costs through a contribution of 1.25 percent of their annual salaries, retired teachers pay for one third of plan costs through monthly premiums, and the State pays for one third of plan costs through an annual appropriation in the General Fund. Administrative costs of the plan are financed by the State.

**Annual OPEB Cost and Net OPEB Obligation**

The State's annual OPEB cost and the net OPEB obligation for each plan for the current fiscal year were as follows (amounts in thousands):

	<b>SEOPEBP</b>	
	<b>(6-30-10)</b>	<b>RTHP</b>
Annual Required Contribution	\$ 2,145,724	\$ 177,063
Interest on Net OPEB Obligation	12,719	1,394
Adjustment to Annual Required Contribution	<u>191,220</u>	<u>(11,089)</u>
Annual OPEB Cost	2,349,663	167,368
Contributions Made	<u>555,131</u>	<u>5,312</u>
Increase in net OPEB Obligation	1,794,532	162,056
Net OPEB Obligation - Beginning of Year	2,356,334	289,837
Net OPEB Obligation - End of Year	<u>\$ 4,150,866</u>	<u>\$ 451,893</u>

In addition, other related information for each plan for the past three fiscal years was as follows:

	<b>Fiscal Year</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
SEOPEBP	2010	\$ 2,349,663	23.6%	\$ 4,150,866
	2009	\$ 1,669,321	27.1%	\$ 2,356,334
	2008	\$ 1,602,739	28.9%	\$ 1,139,042
RTHP	2011	\$ 167,368	3.2%	\$ 451,893
	2010	\$ 115,321	10.5%	\$ 289,837
	2009	\$ 113,704	19.7%	\$ 186,624

**Funded Status and Funding Progress**

The following is funded status information for the RTHP as of June 30, 2010, date of the latest actuarial valuation (amounts in million):

	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
RTHP	\$ 0	\$ 2,997.8	\$ 2,997.8	0.0%	\$ 3,646.0	82.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding in progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the State and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the State and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	<b>RTHP</b>
Actuarial Valuation Date	6-30-2010
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	29 Years
Asset Valuation Method	n/a
Actuarial Assumptions:	
Investment Rate of Return	4.50%
Projected Salary Increases	4.0%-7.5%
Healthcare Inflation Rate	9% Initial, 5% Ultimate

**Other OPEB Plan**

The State acts solely as the administrator and custodian of the assets of the Policemen and Firemen Survivors' Benefit Fund (PFSBF). The State makes no contribution to and has only a fiduciary responsibility for this fund. The fund does not issue stand-alone financial statements. However, financial statements for this fund are presented in Note No. 15.

**Plan Description**

PFSBF is a cost-sharing multiple-employer defined benefit OPEB plan that covers policemen and firemen of participating municipalities in the State. As of 6/30/10 there were 8 municipalities participating in the plan with a total membership of 610 active members. The plan provides survivor benefits upon the death of an active or retired member of the fund to his spouse and dependent children. Plan benefits, contribution requirements of plan members and participant municipalities, and other plan provisions are described in Sections 7-323a to 7-323i of the General Statutes.

**Contributions**

Plan members are required to contribute one percent of their annual salary. Participating municipalities are required to contribute at an actuarially determined rate. Administrative costs of the plan are financed by participating municipalities.

**Note 15 OPEB Trust Fund Financial Statements**

The financial statements of the OPEB trust funds are prepared using the accrual basis of accounting. Plan member and municipality contributions are recognized in the period in which they are due. State contributions are recognized in the period they are appropriated. Benefits are recognized when due and payable in accordance with the terms of each plan. Investment income and related investment expense of the Combined Investment Funds are allocated ratably to the PFSBF trust fund based on the fund's equity in the Combined Investment Funds.

	Statement of Fiduciary Net Assets (000's)			
	State Employees'	Retired Teachers'	Policemen and Firemen	Total
<b>Assets</b>				
Cash and Cash Equivalents	\$ 74,975	\$ 57,912	\$ -	\$ 132,887
Receivables:				
From Other Funds	(1)	1,302	-	1,301
Interest	-	-	1	1
Investments	-	-	21,860	21,860
Securities Lending Collateral	-	-	3,766	3,766
<b>Total Assets</b>	<b>74,974</b>	<b>59,214</b>	<b>25,627</b>	<b>159,815</b>
<b>Liabilities</b>				
Accounts Payable and Accrued Liability	25,327	5,922	-	31,249
Securities Lending Obligation	-	-	3,766	3,766
<b>Total Liabilities</b>	<b>25,327</b>	<b>5,922</b>	<b>3,766</b>	<b>35,015</b>
<b>Net Assets</b>				
Held in Trust For Other				
Postemployment Benefits	49,647	53,292	21,861	124,800
<b>Total Net Assets</b>	<b>\$ 49,647</b>	<b>\$ 53,292</b>	<b>\$ 21,861</b>	<b>\$ 124,800</b>

**Statement of Changes in Fiduciary Net Assets (000's)**

	State Employees'	Retired Teachers'	Policemen and Firemen	Total
<b>Additions</b>				
Contributions:				
Plan Members	\$ -	\$ 77,997	\$ 462	\$ 78,459
State	544,767	5,312	-	550,079
Municipalities	-	-	-	-
<b>Total Contributions</b>	<b>544,767</b>	<b>83,309</b>	<b>462</b>	<b>628,538</b>
Investment Income	3	135	2,956	3,094
Less: Investment Expenses	-	-	(61)	(61)
<b>Net Investment Income</b>	<b>3</b>	<b>135</b>	<b>2,895</b>	<b>3,033</b>
Other	-	-	-	-
<b>Total Additions</b>	<b>544,770</b>	<b>83,444</b>	<b>3,357</b>	<b>631,571</b>
<b>Deductions</b>				
Administrative Expense	-	2,706	-	2,706
Benefit Payments and Refunds	530,779	93,946	930	625,655
Other	-	14	-	14
<b>Total Deductions</b>	<b>530,779</b>	<b>96,666</b>	<b>930</b>	<b>628,375</b>
<b>Changes in Net Assets</b>	<b>13,991</b>	<b>(13,222)</b>	<b>2,427</b>	<b>3,196</b>
<b>Net Assets Held in Trust For</b>				
<b>Other Postemployment Benefits:</b>				
Beginning of Year (as restated)	35,656	66,514	19,434	121,604
<b>End of Year</b>	<b>\$ 49,647</b>	<b>\$ 53,292</b>	<b>\$ 21,861</b>	<b>\$ 124,800</b>

**Note 16 Capital and Operating Leases**

**State as Lessor**

The State leases building space, land, and equipment to private individuals. The minimum future lease revenues for the next five years and thereafter are as follows (amounts in thousands):

2012	\$ 23,328
2013	23,161
2014	23,347
2015	24,173
2016	24,168
Thereafter	103,582
<b>Total</b>	<b>\$ 221,759</b>

Contingent revenues for the year ended June 30, 2011, were \$2 million.

**State as Lessee**

Obligations under capital and operating leases as of June 30, 2011, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2012	\$ 66,533	\$ 8,493
2013	52,794	8,360
2014	51,833	8,354
2015	37,204	3,886
2016	72,382	2,910
2017-2021	6,714	12,856
2022-2026	-	6,132
2027-2031	-	6,090
<b>Total minimum lease payments</b>	<b>\$ 287,460</b>	<b>57,081</b>
Less: Amount representing interest costs		14,086
<b>Present value of minimum lease payments</b>		<b>\$ 42,995</b>

Minimum capital lease payments were discounted using an interest rate of approximately 6 percent.

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Rental payments on noncancelable operating leases charged to expenses during the year ended June 30, 2011, were \$66.5 million.

**Lease/Lease Back Transaction**

On September 30, 2003 the State executed a U.S. Lease-to-Service Contract of Rolling Stock Agreement (Agreement) whereby the state entered into a head lease of certain rolling stock consisting of rail coaches and locomotives to statutory trusts established for the benefit of three equity investors. Simultaneously, the State executed sublease agreements to lease back the rolling stock in order to allow the State to have continued use of the property. The terms of the head leases are for periods ranging from 40 years to 67 years, expiring through March 2071, while the subleases have terms ranging from 18 years to 28 years, expiring through January 2032. At the end of the respective sublease terms, the State will have the option to purchase the statutory trusts' interest in the rolling stock for an aggregate fixed price.

Proceeds from the prepayment of the head lease rents were paid to debt payment undertakers and custodians in amounts sufficient, together with investment earning thereon, to

provide for all future obligations of the State under the sublease agreements and the end of lease term purchase options. Although it is remote that the State will be required to make any additional payments under the sublease, the State is and shall remain liable for all of its obligations under the subleases. The aggregate remaining commitment under the subleases totaled approximately \$122 million at June 30, 2011.

The State is obligated to insure and maintain the rolling stock. In addition, if an equity investor suffers a loss of tax deductions or incurs additional taxable income as a result of certain circumstances, as defined in the Agreement, then the State must indemnify the equity investor for the additional tax incurred, including interest and penalties thereon. The State has the right to terminate the sublease early under certain circumstances and upon payment of a termination value to the equity investors. If the State chooses early termination, then the termination value would be paid from funds available from the debt payment undertakers and the custodians, and if such amounts are insufficient, then the State would be required to pay the difference.

**Note 17 Long-Term Debt**

The following is a summary of changes in long-term debt of the primary government for the year ended June 30, 2011, (amounts in thousands):

<b>Governmental Activities</b>	<b>Balance June 30, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2011</b>	<b>Amounts due within one year</b>
<b>Bonds:</b>					
General Obligation	\$ 13,592,708	\$ 1,294,820	\$ 1,093,188	\$ 13,794,340	\$ 1,010,624
Transportation	<u>3,030,485</u>	<u>737,675</u>	<u>410,565</u>	<u>3,357,595</u>	<u>274,275</u>
	16,623,193	2,032,495	1,503,753	17,151,935	1,284,899
Plus/(Less) premiums and deferred amounts	<u>526,578</u>	<u>57,827</u>	<u>58,293</u>	<u>526,112</u>	<u>50,004</u>
<b>Total Bonds</b>	<u>17,149,771</u>	<u>2,090,322</u>	<u>1,562,046</u>	<u>17,678,047</u>	<u>1,334,903</u>
<b>Long-Term Notes</b>	<u>1,143,955</u>	<u>-</u>	<u>228,160</u>	<u>915,795</u>	<u>-</u>
<b>Other L/T Liabilities:</b>					
Net Pension Obligation	2,262,220	1,592,258	1,407,394	2,447,084	-
Net OPEB Obligation	4,440,703	167,368	5,312	4,602,759	-
Compensated Absences	522,764	56,479	19,649	559,594	12,757
Workers' Compensation	460,596	148,777	97,960	511,413	100,896
Capital Leases	41,702	4,089	2,796	42,995	6,383
Claims and Judgments	60,289	5,001	9,063	56,227	3,908
Liability on Interest Rate Swaps	27,817	-	5,220	22,597	-
Contracts Payable & Other	<u>705</u>	<u>-</u>	<u>-</u>	<u>705</u>	<u>-</u>
<b>Total Other Liabilities</b>	<u>7,816,796</u>	<u>1,973,972</u>	<u>1,547,394</u>	<u>8,243,374</u>	<u>123,944</u>
<b>Governmental Activities Long-Term Liabilities</b>	<u>\$ 26,110,522</u>	<u>\$ 4,064,294</u>	<u>\$ 3,337,600</u>	<u>\$ 26,837,216</u>	<u>\$ 1,458,847</u>
<b>In prior years, the General and Transportation funds have been used to liquidate other liabilities.</b>					
<b>Business-Type Activities</b>					
Revenue Bonds	\$ 1,498,377	\$ 376,361	\$ 318,520	\$ 1,556,218	\$ 114,397
Plus/(Less) premiums, discounts and deferred amounts	<u>40,775</u>	<u>19,547</u>	<u>9,380</u>	<u>50,942</u>	<u>254</u>
<b>Total Revenue Bonds</b>	<u>1,539,152</u>	<u>395,908</u>	<u>327,900</u>	<u>1,607,160</u>	<u>114,651</u>
Lottery Prizes	180,513	-	18,816	161,697	26,888
Compensated Absences	147,440	31,569	24,261	154,748	44,171
Federal Loans Payable	498,453	311,423	-	809,876	-
Other	<u>194,544</u>	<u>10,088</u>	<u>20,561</u>	<u>184,071</u>	<u>8,704</u>
<b>Total Other Liabilities</b>	<u>1,020,950</u>	<u>353,080</u>	<u>63,638</u>	<u>1,310,392</u>	<u>79,763</u>
<b>Business-Type Long-Term Liabilities</b>	<u>\$ 2,560,102</u>	<u>\$ 748,988</u>	<u>\$ 391,538</u>	<u>\$ 2,917,552</u>	<u>\$ 194,414</u>

The liability for claims and judgments (Governmental Activities) includes a pollution remediation liability of approximately \$55.8 million. This liability represents the State's share of the cost of cleaning up certain polluted sites in the state under federal and state superfund regulations. The liability was estimated using the cash flow technique.

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As of June 30, 2011, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2011	Amounts due within year
Bonds Payable	\$ 4,450,169	\$ 213,241
Escrow Deposits	391,857	89,533
Closure of Landfill:	50,676	5,389
Due to State	19,026	-
Deferred Revenue	3,135	861
Other	26,585	449
<b>Total</b>	<b>\$ 4,941,448</b>	<b>\$ 309,473</b>

**Note 18 Long-Term Notes and Bonded Debt**

**a. Economic Recovery Notes**

Public Act 09-2 authorized the issuance of \$915.8 million of General Obligation Economic Recovery Notes in December, 2009. The notes funded a major part of the deficit in the State's general fund as reported by the Comptroller to the Governor for the fiscal year ended June 30, 2009.

Economic recovery notes outstanding at June 30, 2011 were \$915.8 million. The notes mature on various dates through 2016 and bear interest rates from 2.0% to 5.0%.

Future amounts needed to pay principal and interest on economic recovery notes outstanding at June 30, 2011, were as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 167,860	\$ 40,568	\$ 208,428
2013	174,570	33,854	208,424
2014	182,705	25,724	208,429
2015	191,280	17,146	208,426
2016	199,380	9,044	208,424
<b>Total</b>	<b>\$ 915,795</b>	<b>\$ 126,336</b>	<b>\$ 1,042,131</b>

**b. Primary Government – Governmental Activities**

**General Obligation Bonds**

General Obligation bonds are those bonds that are paid out of the revenues of the General Fund and that are supported by the full faith and credit of the State. General obligation bonds outstanding and bonds authorized but unissued at June 30, 2011, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2011-2030	2.00-6.414%	\$ 1,924,881	\$ 526,926
School Construction	2011-2029	2.00-6.777%	4,485,842	63,901
Municipal & Other				
Grants & Loans	2011-2030	1.00-6.701%	739,204	371,228
Housing Assistance	2012-2031	0.38-5.460%	169,130	36,906
Elimination of Water Pollution	2011-2028	1.00-6.034%	259,225	569,353
General Obligation				
Refunding	2011-2023	2.00-6.00%	3,710,302	-
Pension Obligation	2014-2032	4.20-6.27%	2,276,578	-
Miscellaneous	2011-2038	3.00-6.75%	122,505	545,246
			13,687,667	\$ 2,113,560
Accretion-Various Capital Appreciation Bonds			106,673	
<b>Total</b>			<b>\$ 13,794,340</b>	

Future amounts needed to pay principal and interest on general obligation bonds outstanding at June 30, 2011, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,010,624	\$ 687,972	\$ 1,698,596
2013	937,636	624,949	1,562,585
2014	907,333	569,561	1,476,894
2015	883,139	517,995	1,401,134
2016	879,755	477,420	1,357,175
2017-2021	3,555,128	1,848,534	5,403,662
2022-2026	2,813,027	1,383,070	4,196,097
2027-2031	2,326,765	471,167	2,797,932
2032-2036	369,745	23,723	393,468
2037-2041	4,515	335	4,850
<b>Total</b>	<b>\$ 13,687,667</b>	<b>\$ 6,604,726</b>	<b>\$ 20,292,393</b>

**Transportation Related Bonds**

Transportation related bonds include special tax obligation bonds and general obligation bonds that are paid out of revenues pledged or earned in the Transportation Fund. The revenue pledged or earned in the Transportation Fund to pay special tax obligation bonds is transferred to the Debt Service Fund for retirement of principal and interest.

Transportation related bonds outstanding and bonds authorized but unissued at June 30, 2011, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Infrastructure Improvements	2011-2030	2.00-6.500%	\$ 3,357,595	\$ 2,099,925
			3,357,595	2,099,925
Accretion-Various Capital Appreciation Bonds			-	-
<b>Total</b>			<b>\$ 3,357,595</b>	

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2011, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2012	\$ 274,275	\$ 156,551	\$ 430,826
2013	309,825	143,309	453,134
2014	262,365	130,555	392,920
2015	227,070	119,429	346,499
2016	209,740	109,694	319,434
2017-2021	910,055	411,880	1,321,935
2022-2026	708,580	210,361	918,941
2027-2031	455,685	53,696	509,381
<b>Total</b>	<b>\$ 3,357,595</b>	<b>\$ 1,335,475</b>	<b>\$ 4,693,070</b>

**Variable-Rate Demand Bonds**

As of June 30, 2011, variable-rate demand bonds included in bonded debt were as follows (amounts in thousands).

Bond Type	Outstanding Principal	Issuance Year	Maturity Year
General Obligation	\$ 30,000	1997	2014
General Obligation	100,000	2001	2021
General Obligation	280,000	2005	2023
<b>Total</b>	<b>\$ 410,000</b>		

The State entered into various remarketing and standby bond purchase agreements with certain brokerage firms and banks upon the issuance of the bonds.

The bonds were issued bearing a weekly interest rate, which is determined by the State's remarketing agents. The State has the option of changing at any time the weekly interest rate on the bonds to another interest rate, such as a flexible rate or a daily rate. Bonds bearing interest at the weekly rate are subject to purchase at the option of the bondholder at a purchase price equal to principal plus accrued interest, if any, on a minimum seven days' notice of tender to the State's agent. In addition, the bonds are subject to mandatory purchase upon (1) conversion from the weekly interest rate to another interest rate and (2) substitution or expiration of the standby bond purchase agreements. The State's remarketing agent is responsible for using its best efforts to remarket bonds properly tendered for purchase by bondholders from time to time. The State is required to pay the remarketing agents a quarterly fee of .05 percent per annum of the outstanding principal amount of the bonds.

The standby bond purchase agreements require the banks to purchase any unremarketed bonds bearing the weekly interest rate for a price not to exceed the amount of bond principal and accrued interest, if any. The State is required to pay the banks a quarterly fee ranging from .11 percent to .15 percent per annum of the outstanding principal amount of the bonds plus interest. These fees would be increased if the credit rating for the bond insurers were to be downgraded, suspended, or withdrawn. The standby bond purchase agreements expire as follows:

1997 GO expires in the year 2014,  
2001 GO expires in the year 2015, and  
2005 GO expires in the year 2015.

These agreements could be terminated at an earlier date if certain termination events described in the agreements were to occur.

**c. Primary Government – Business-Type Activities  
Revenue Bonds**

Revenue bonds are those bonds that are paid out of resources pledged in the enterprise funds and component units.

Enterprise funds' revenue bonds outstanding at June 30, 2011, were as follows (amounts in thousands):

<b>Funds</b>	<b>Final Maturity Dates</b>	<b>Original Interest Rates</b>	<b>Amount Outstanding (000's)</b>
Uconn	2012-2033	2.0-6.0%	\$ 162,243
State Universities	2012-2036	2-6.0%	284,530
Clean Water	2012-2028	2-5.0%	839,018
Drinking Water	2012-2027	2-5.0%	60,087
Bradley International Airport	2012-2033	[1]	169,090
Bradley Parking Garage	2012-2024	6.125-6.6%	41,250
Total Revenue Bonds			1,556,218
Plus/(Less) premiums, discounts and deferred amounts:			
Uconn			(1,621)
State Universities			2,386
Clean Water			49,714
Bradley International Airport			(2,699)
Other			3,162
Revenue Bonds, net			<u>\$ 1,607,160</u>

[1] variable percent of one month LIBOR

The University of Connecticut has issued student fee revenue bonds to finance the costs of buildings, improvements and renovations to certain revenue-generating

capital projects. Revenues used for payments on the bonds are derived from various fees charged to students.

The Connecticut State University System has issued revenue bonds that finance the costs of auxiliary enterprise buildings, improvements and renovations to certain student housing related facilities. Revenues used for payments on the bonds are derived from various fees charged to students.

Bradley International Airport periodically issues revenue bonds to finance the cost of improvements to the airport. These bonds are secured by and are payable solely from revenues generated by the airport and other receipts, funds or monies pledged in the bond indenture. As of June 30, 2011 the following bonds were outstanding:

- a. 2001 Bradley International Airport Refunding Bonds in the amount of \$16.7 million.
- b. 2011 Bradley International Airport Refunding Bonds in the amount of \$152.4 million.

In 1994, the State of Connecticut began issuing Clean Water Fund revenue bonds. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities for use in connection with the financing or refinancing of wastewater treatment projects. Details on these agreements are disclosed under the separately issued audited financial statements of the fund.

In 2000, Bradley Parking Garage bonds were issued in the amount of \$53.8 million to build a parking garage at the airport.

Future amounts needed to pay principal and interest on revenue bonds outstanding at June 30, 2011, were as follows (amounts in thousands):

<b>Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>June 30,</b>			
2012	\$ 114,397	\$ 66,889	\$ 181,286
2013	115,433	63,755	179,188
2014	105,023	58,922	163,945
2015	110,008	54,293	164,301
2016	110,729	49,308	160,037
2017-2021	433,483	184,104	617,587
2022-2026	369,495	87,111	456,606
2027-2031	159,210	23,131	182,341
2032-2036	38,440	1,817	40,257
Total	<u>\$ 1,556,218</u>	<u>\$ 589,330</u>	<u>\$ 2,145,548</u>

**d. Component Units**

Component units' revenue bonds outstanding at June 30, 2011, were as follows (amounts in thousands):

<b>Component Unit</b>	<b>Final Maturity Date</b>	<b>Interest Rates</b>	<b>Amount Outstanding (000's)</b>
CT Development Authority	2012-2020	4.40-5.250%	\$ 15,800
CT Housing Finance Authority	2012-2049	0.40-6.625%	4,134,969
CT Resources Recovery Authority	2012-2016	5.125-5.50%	8,050
CT Higher Education Supplemental Loan Authority	2012-2028	1.70-6.00%	184,250
Capital City Economic Development Authority	2012-2033	2.50-7.00%	100,155
UConn Foundation	2012-2029	3.875-5.00%	6,505
Total Revenue Bonds			4,449,729
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			6
CRRA			(10)
CHESLA			770
CCEDA			(326)
Revenue Bonds, net			<u>\$ 4,450,169</u>

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Revenue bonds issued by the component units do not constitute a liability or debt of the State. The State is only contingently liable for those bonds as discussed below.

Connecticut Development Authority's revenue bonds are issued to finance such projects as the acquisition of land or the construction of buildings, and the purchase and installation of machinery, equipment, and pollution control facilities. The Authority finances these projects through its Self-Sustaining Bond Program and Umbrella Program. As of June 30, 2011 no bonds were outstanding under the Umbrella Program. Bonds issued under the Self-Sustaining Bond Program are discussed in the no-commitment debt section of this note. In addition, the Authority had \$15.8 million in general obligation bonds outstanding at year-end. These bonds were issued to finance the lease of an entertainment/sports facility and the purchase of a hockey team.

Connecticut Housing Finance Authority's revenue bonds are issued to finance the purchase, development and construction of housing for low and moderate-income families and persons throughout the State. The Authority has issued bonds under a bond resolution dated 9/27/72 and an indenture dated 9/25/95. As of December 31, 2010, bonds outstanding under the bond resolution and the indenture were \$4,068.6 million and \$66.4 million, respectively. According to the bond resolution, the following assets of the Authority are pledged for the payment of the bond principal and interest (1) the proceeds from the sale of bonds, (2) all mortgage repayments with respect to long-term mortgage and construction loans financed from the Authority's general fund, and (3) all monies and securities of the Authority's general and capital reserve funds. The capital reserve fund is required to be maintained at an amount at least equal to the amount of principal, sinking fund installments, and interest maturing and becoming due in the next succeeding calendar year (\$292.3 million at 12/31/10) on all outstanding bonds. As of December 31, 2010, the Authority has entered into interest rate swap agreements for \$970.2 million of its variable rate bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the Authority.

Connecticut Resources Recovery Authority's revenue bonds are issued to finance the design, development and construction of resources recovery and recycling facilities and landfills throughout the State. These bonds are paid solely from the revenues generated from the operations of the projects and other receipts, accounts and monies pledged in the bond indentures.

Connecticut Higher Education Supplemental Loan Authority's revenue bonds are issued to provide loans to students, their parents, and institutions of higher education to assist in the financing of the cost of higher education. These loans are issued through the Authority's Bond fund. According to the bond resolutions, the Authority internally accounts for each bond issue in separate funds, and additionally, the Bond fund includes individual funds and accounts as defined by each bond resolution.

Each Authority has established special capital reserve funds that secure all the outstanding bonds of the Authority at year-end, except as discussed next. These funds are usually maintained at an amount equal to next year's bond debt service requirements. The State may be contingently liable to restore any deficiencies that may exist in the funds in any one year in the event that the Authority is unable to do so. For the Connecticut Resources Recovery Authority, the amount of bonds outstanding at year-end that were secured by the special capital reserve funds was \$8.1 million.

The Capital City Economic Development Authority revenue bonds are issued to provide sufficient funds for carrying out its purposes. The bonds are not debt of the State of Connecticut. However, the Authority and the State have entered into a contract for financial assistance, pursuant to which the State will be obligated to pay principal and interest on the bonds in an amount not to exceed \$9.0 million in any calendar year. The bonds are secured by energy fees from the central utility plant and by parking fees subject to the Travelers Indemnity Company parking agreement.

Future amounts needed to pay principal and interest on revenue bonds outstanding at June 30, 2011, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2012	\$ 18,850	\$ 11,409	\$ 30,259
2013	140,900	128,848	269,748
2014	133,582	123,727	257,309
2015	136,662	135,700	272,362
2016	140,498	118,359	258,857
2017-2021	802,782	637,872	1,440,654
2022-2026	815,323	388,058	1,203,381
2027-2031	837,265	254,335	1,091,600
2032-2036	775,355	126,842	902,197
2037-2041	504,305	28,447	532,752
2042-2046	107,535	2,325	109,860
2047-2051	7,795	28,398	36,193
2052-2056	805	51	856
2057-2061	28,072	-	28,072
Total	<u>\$ 4,449,729</u>	<u>\$ 1,984,371</u>	<u>\$ 6,434,100</u>

### *No-commitment debt*

Under the Self-Sustaining Bond program, the Connecticut Development Authority issues revenue bonds to finance such projects as described previously in the component unit section of this note. These bonds are paid solely from payments received from participating companies (or from proceeds of the sale of the specific projects in the event of default) and do not constitute a debt or liability of the Authority or the State. Thus, the balances are not included in the Authority's financial statements. Total bonds outstanding for the year ended June 30, 2011 were \$1,034.8 million.

The Connecticut Health and Educational Facilities Authority has issued special obligation bonds for which the principal and interest are payable solely from the revenues of the institutions. Starting in 1999, the Authority elected to remove these bonds and related restricted assets from its financial statements, except for restricted assets for which the Authority has a fiduciary responsibility. Total special



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obligation bonds outstanding at June 30, 2011, were \$7,570.5 million, of which \$291.6 million was secured by special capital reserve funds.

The Connecticut Resources Recovery Authority has issued several bonds to fund the construction of waste processing facilities by independent contractors/operators. These bonds are payable from a pledge of revenues derived primarily under lease or loan arrangements between the Authority and the operators. Letters of credit secure some of these bonds. The Authority does not become involved in the construction activities or the repayment of the debt (other than the portion allocable to Authority purposes). In the event of a default, neither the authority nor the State guarantees payment of the debt, except for the State contingent liability discussed below. Thus, the assets and liabilities that relate to these bond issues are not included in the Authority's financial statements. The amount of these bonds outstanding at June 30, 2011 was \$71.3 million.

The State may be contingently liable for those bonds that are secured by special capital reserve funds as discussed previously in this section.

**e. Debt Refundings**

During the year, the State issued \$184.7 million of general obligation and special tax obligation refunding bonds with an average interest rate of 4.42 percent to advance refund \$187.2 million of general obligation and special tax obligation bonds with an average interest rate of 4.85 percent. The reacquisition price exceeded the carrying amount of the old debt by \$18.5 million. This amount is

*Objective and Terms of Hedging Derivative Instruments*

The following table displays the objective and the terms of the States' hedging derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty (amounts in thousands).

Type	Objective	Notional Amounts (000's)	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2001 GO bonds	\$ 20,000	6/28/2001	6/15/2012	Pay 4.33% receive CPI plus 1.43%	Aa3/A+/nr
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	140,000	3/24/2005	3/1/2023	Pay 3.392% receive 60% of LIBOR+30bp	Aa1/AAA/nr
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	140,000	3/24/2005	3/1/2023	Pay 3.401% receive 60% of LIBOR+30bp	Aa3/A+/nr
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	15,620	4/27/2005	6/1/2016	Pay 3.99% receive CPI plus .65%	A2/A/nr
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	20,000	4/27/2005	6/1/2017	Pay 5.07% receive CPI plus 1.73%	A2/A/nr
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	20,000	4/27/2005	6/1/2020	Pay 5.2% receive CPI plus 1.79%	AAA/A+/nr
Total Notional Amount		<u>\$ 355,620</u>				

The fair values of interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payment required under the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These

being netted against the new debt and amortized over the life of the new or old debt, whichever is shorter.

The State advanced refunded these bonds to reduce its total debt service payments over the next eleven years by \$24.1 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$26.5 million. As of June 30, 2011, \$1,732.8 million of outstanding general obligation, special tax obligation, and revenue bonds had been advanced refunded and are, accordingly, considered defeased.

**Note 19 - Derivative Financial Instruments**

The fair value balances and notional amounts of the State's derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (amounts in thousands; debit(credit)):

	Changes in Fair Value		Fair Value at Year End		
	Classification	Amount	Classification	Amount	Notional
<b>Governmental activities</b>					
Cash flow hedges:					
Pay-fixed interest rate swap	Other Non-current Assets	\$ 5,220	Non-current portion of LT Obligations	\$ (22,597)	\$ 355,620
<b>Business-type activities</b>					
Cash flow hedges:					
Bradley Airport:					
Pay-fixed interest rate swap	Other Non-current Assets	\$ (1,188)	Non-current portion of LT Obligations	\$ (17,935)	\$ 152,380

payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date each future net settlement on the swaps.

**Credit Risk**

As of June 30, 2011, the State had no credit risk exposure on any of the swaps because the swaps had negative fair value. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the swaps' fair value.

**Interest Rate Risk**

The State is exposed to interest rate risk on its interest rate swaps. As the LIBOR or CPI swap index rate decreases, the State's net payment on the swap increases.

**Basis Risk**

The State's variable-rate bond interest payments are based on the Securities Industry and Financial Markets Association Municipal Swap (SIFMA) index rate, or the CPI floating rate. The State is exposed to basis risk on those swaps for which the State receives variable-rate payments that are based on the LIBOR swap index rate. As of June 30, 2011, the SIFMA rate was 0.09 percent, whereas 60 percent of LIBOR plus 30bp was 0.411 percent. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal year 2011, the budgeted amount for basis risk was \$1,500,000.

**Termination Risk**

The State or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the State would be liable to the counterparty for a payment equal to the swap's fair value. Under the 2005 swap agreements, the State has up to 270 days to fund any required termination payment.

**Rollover Risk**

Because all of the swap agreements terminate when the associated debt is fully paid, the State is only exposed to rollover risk if an early termination occurs. Upon an early termination, the State will not realize the synthetic rate offered by the swaps on the underlying debt issues.

**Hedging Derivative Instrument Payments and Hedged Debt**

As rates vary, variable-rate bond interest payments and net swap payments will vary. Using rates as of June 30, 2011, debt service requirements of the State's outstanding variable-rate bonds and net swap payments are as follows (amounts in thousands).

Fiscal Year	Variable-Rate Bonds		Interest Rate	
	Principal	Interest	SWAP, Net	Total
Ending June 30, 2012	\$ 20,000	\$ 9,052	\$ 9,151	\$ 38,203
2013	-	7,742	9,594	17,336
2014	-	7,742	9,594	17,336
2015	-	11,523	12,625	24,148
2016	260,620	22,385	29,373	312,378
2017-2021	75,000	2,166	2,874	80,040
Total	\$ 355,620	\$ 60,610	\$ 73,211	\$ 489,441

As of June 30, 2011, Bradley airport has entered into interest rate swap agreements for \$152.4 million of its variable rate bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the fund.

**Note 20 Risk Management**

The risk financing and insurance program of the State is managed by the State Insurance and Risk Management Board. The Board is responsible mainly for determining the method by which the State shall insure itself against losses by the purchase of insurance to obtain the broadest coverage at the most reasonable cost, determining whether deductible provisions should be included in the insurance contract, and whenever appropriate determining whether the State shall act as self-insurer. The schedule lists the risks of loss to which the State is exposed and the ways in which the State finances those risks.

Risk of Loss	Risk Financed by	
	Purchase of Commercial Insurance	Self-Insurance
Liability (Torts):		
-General (State buildings, parks, or grounds)		X
-Other	X	
Theft of, damage to, or destruction of assets	X	
Business interruptions	X	
Errors or omissions:		
-Professional liability	X	
-Medical malpractice (John Dempsey Hospital)		X
Injuries to employees		X
Natural disasters	X	

For the general liability risk, the State is self-insured because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a particular statute (e.g. per Statute the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than \$100 thousand. When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is \$25 million, which is carried in a railroad liability policy.

The State records its risk management activities related to the medical malpractice risk in the University of Connecticut and Health Center fund, an Enterprise fund. At year-end, liabilities for unpaid claims are recorded in the statement of net assets (government-wide and proprietary fund

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statements) when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liabilities are determined based on the ultimate cost of settling the claims, including an amount for claims that have been incurred but not reported and claim adjustment expenses. The liabilities are actuarially determined and the unpaid liability for medical malpractice is reported at its present value, using a discount rate of 5 percent. In the General Fund, the liability for unpaid claims is only recorded if the liability is due for payment at year-end. Settlements have not exceeded coverages for each of the past three fiscal years. Changes in the claims liabilities during

the last two fiscal years were as follows (amounts in thousands):

	<b>Governmental Activities Workers' Compensation</b>	<b>Business-Type Activities Medical Malpractice</b>
Balance 6-30-09	\$ 459,778	\$ 25,224
Incurred claims	109,601	3,800
Paid claims	<u>(108,783)</u>	<u>(10,709)</u>
Balance 6-30-10	460,596	18,315
Incurred claims	148,777	5,210
Paid claims	<u>(97,960)</u>	<u>(3,086)</u>
Balance 6-30-11	<u>\$ 511,413</u>	<u>\$ 20,439</u>

**Note 21 Interfund Receivables and Payables**

Interfund receivable and payable balances at June 30, 2011, were as follows (amounts in thousands):

	Balance due to fund(s)												Total
	General	Transportation	Restricted Grants & Accounts	Other Governmental	UConn	State Universities	Other Proprietary	Employment Security	Internal Services	Fiduciary	Component Units		
<b>Balance due from fund(s)</b>													
General	\$ -	\$ -	\$ 312,690	\$ 600,097	\$ 50,784	\$ 22,215	\$ 19,719	\$ 2,196	\$ 2,172	\$ 6,084	\$ -	\$ -	\$ 1,015,957
Debt Service	-	116	-	-	-	-	-	-	-	-	-	-	116
Restricted Grants & Accounts	2,568	-	-	-	-	-	-	-	-	-	324	-	2,892
Other Governmental	1,846	-	5,222	6,145	231	14,535	157,887	-	-	-	12,664	-	198,530
UConn	11,502	-	-	-	-	-	-	-	-	-	-	-	11,502
State Universities	3,261	-	-	-	-	-	-	-	-	-	-	-	3,261
Employment Security	-	-	-	885	-	-	-	-	-	-	-	-	885
Other Proprietary	404	-	2,747	-	-	-	-	-	-	-	-	-	3,151
Internal Services	-	-	-	66,931	-	-	-	-	-	-	-	-	66,931
Fiduciary	-	-	-	192	-	-	-	-	-	1,271	-	-	1,463
Component Units	19,026	-	-	-	-	-	-	-	-	-	-	-	19,026
Total	<u>\$ 38,607</u>	<u>\$ 116</u>	<u>\$ 320,659</u>	<u>\$ 674,250</u>	<u>\$ 51,015</u>	<u>\$ 36,750</u>	<u>\$ 177,606</u>	<u>\$ 2,196</u>	<u>\$ 2,172</u>	<u>\$ 7,355</u>	<u>\$ 12,988</u>	<u>\$ -</u>	<u>\$ 1,323,714</u>

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end.

**Note 22 Interfund Transfers**

Interfund transfers for the fiscal year ended June 30, 2011, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)										Total
	General	Debt Service	Transportation	Restricted Grants & Accounts	Other Governmental	UConn	State Universities	Other Proprietary	Fiduciary		
<b>Amount transferred from fund(s)</b>											
General	\$ -	\$ -	\$ 107,550	\$ -	\$ 61,837	\$ 554,357	\$ 245,058	\$ 244,782	\$ -	\$ -	\$ 1,213,584
Debt Service	-	-	4,334	88	-	-	-	-	-	-	4,422
Transportation	-	437,261	-	15,854	6,500	-	-	-	-	-	459,615
Restricted Grants & Accounts	28,000	-	-	-	-	-	-	-	-	-	28,000
Other Governmental	175,720	9,514	-	25,014	19,707	13,243	25,417	28,033	3,665	-	300,313
Connecticut Lottery	289,300	-	-	-	-	-	-	-	-	-	289,300
Employment Security	-	-	-	-	5,739	-	-	-	-	-	5,739
Uconn	25,000	-	-	-	-	-	-	-	-	-	25,000
State Universities	-	-	-	-	-	-	-	13,000	-	-	13,000
Other Proprietary	-	-	-	-	-	-	-	13,868	-	-	13,868
Total	<u>\$ 518,020</u>	<u>\$ 446,775</u>	<u>\$ 111,884</u>	<u>\$ 40,956</u>	<u>\$ 93,783</u>	<u>\$ 567,600</u>	<u>\$ 270,475</u>	<u>\$ 299,683</u>	<u>\$ 3,665</u>	<u>\$ -</u>	<u>\$ 2,352,841</u>

Transfers were made to (1) move revenues from the fund that budget or statute requires to collect them to the fund that budget or statute requires to expend them and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

**Note 23 Restatement of Fund Balances/Net Assets, Fund Balance Classifications, and Restricted Assets Restatement of Fund Balance/Net Assets**

As of June 30, 2011, the beginning fund balances/net assets for the following activities were restated as follows (amounts in thousands):

	Balance 6-30-10 Previously Reported	Correction of Reported Assets/Liabilities	Balance 6-30-10 as Restated
<b>Governmental Funds and Activities</b>			
<b>Major Funds</b>			
General Fund	\$ (982,822)	\$ 33,217	\$ (949,605)
<b>Total Governmental Funds</b>	<u>\$ 1,420,939</u>	<u>\$ 33,217</u>	<u>\$ 1,454,156</u>
<b>Net Assets of Governmental Activities</b>	<u>\$ (13,673,045)</u>	<u>\$ 33,217</u>	<u>\$ (13,639,828)</u>

The beginning fund balance of the General Fund was adjusted to correct an understatement in the balance of taxes receivable reported last year.

**Fund Balance – Restricted and Assigned**

As of June 30, 2011 restricted and assigned fund balances of nonmajor governmental funds were comprised as follows:

	Restricted Purposes	Assigned Purposes
Grant and Loan Programs	\$ 487,514	\$ 6,989
Capital Projects	447,502	-
Environmental Programs	132,023	-
Housing Programs	106,987	-
Employment Security Administration	34,295	-
Banking	17,990	-
Other	31,186	6,982
<b>Total</b>	<u>\$ 1,257,497</u>	<u>\$ 13,971</u>

**Restricted Assets**

As of June 30, 2011, the government-wide statement of net assets reported \$2,969 of restricted net assets, of which \$135 million was restricted by enabling legislation.

**Note 24 Related Organizations**

The Community Economic Development Fund and the Connecticut Student Loan Foundation are legally separate organizations that are related to the State because the State appoints a voting majority of the organizations' governing board. However, the State's accountability for these organizations does not extend beyond making the appointments.

**Note 25 New Accounting Pronouncements**

In fiscal year 2011, the State implemented the following Statement issued by the Governmental Accounting Standards Board: Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". Statement No. 54 requires governments to report fund balance of governmental funds by using the following categories: nonexpendable, restricted, committed, assigned, and unassigned. The Statement also clarifies the definitions of governmental fund types.

**Note 26 Commitments and Contingencies**

**A. Commitments**

**Primary Government**

Commitments are defined as "existing arrangements to enter into future transactions or events, such as long-term contractual obligations with suppliers for future purchases at specified prices and sometimes at specified quantities." As of June 30, 2011, the Departments of Transportation and Public Works had contractual commitments of approximately \$2,040 million for infrastructure and other construction projects. Additionally, other commitments were approximately as follows:

School construction and alteration grant program \$2,789 million.

Clean and drinking water loan programs \$356 million.

Various programs and services \$2,648 million.

All commitments are expected to be funded by federal grants, bond proceeds, and other resources.

**Component Units**

As of December 31, 2010, the Connecticut Housing Finance Authority had mortgage loan commitments of approximately \$187 million.

**B. Contingent Liabilities**

The State entered into a contractual agreement with H.N.S. Management Company, Inc. and ATE Management and Service Company, Inc. to manage and operate the bus transportation system for the State. The State shall pay all expenses of the system including all past, present and future pension plan liabilities of the personnel employed by the system and any other fees as agreed upon. When the agreement is terminated the State shall assume or make arrangements for the assumption of all the existing obligations of the management companies including but not limited to all past, present and future pension plan liabilities and obligations.

In 2002 the City of Waterbury issued \$97.5 million of General Obligation Special Capital Reserve Fund Bonds. These bonds are secured by a Special Capital Reserve Fund for which the State may be contingently liable as explained previously in Note 18 – Component Units.

Grant amounts received or receivable by the State from federal agencies are subject to audit and adjustment by these agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the federal government cannot be determined at this time, although the State expects such amounts, if any, to be immaterial.

**C. Litigation**

The State, its units and employees are parties to numerous legal proceedings, many of which normally occur in government operations. Most of these legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the State's financial position.

There are, however, several legal proceedings which, if decided adversely against the State, may require the State to make material future expenditures for expanded services or capital facilities or may impair future revenue sources. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the State.

**Note 27 Subsequent Events**

In July 2011, the Connecticut Health and Educational Authority issued \$28.8 million of series 2011 State supported Child Care Revenue Bonds. The bonds will mature in 2029 and bear interest rates ranging from 1% to 5%.

In July 2011 the State remarketed its series 2005-A variable rate General Obligation Bonds as General Obligation SIFMA index bonds. At any time on or after March 1, 2015, the reoffered bonds may be converted to bear interest at a flexible rate, a fixed rate, a weekly rate or a new adjusted SIFMA rate, at which time the bonds will be subject to mandatory tender for purchase.

In November 2011 the State issued \$550 million of General Obligation series D bonds that mature in 2031 and bear interest ranging from 1.5% to 5.0%

In November 2011 the State issued \$150.8 million of General Obligation series E refunding bonds that mature in 2019 and bear interest ranging from 1.0% to 5.0%

In December 2011 the State issued \$221.2 million of Special Obligation series A infrastructure bonds that mature in 2031 and bear interest rates ranging from 3.38% to 5.0%.

In December 2011 the State issued \$233.8 million of Special Obligation series B infrastructure refunding bonds that mature in 2022 and bear interest rates ranging from 2.0% to 5.0%.

In December 2011 the Tax Exempt Proceeds Fund (TEPF), included with other investments under footnote 4, ceased operations as planned. The TEPF made payments of state-aid grants and loans to Municipalities, school districts and other organizations in the state. A more modern state-aid payment system was implemented on December 1, 2011. The new system integrates the electronic funds transfer capabilities of the Automated Clearing House (ACH) with the state-wide accounting system, known as CORE-CT. This new payment system is controlled by the Office of the State Comptroller.

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*Required  
PERS  
Supplementary  
Information*

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**Pension and Other Postemployment Benefit Plans  
Required Supplementary Information  
Schedules of Funding Progress**

(Expressed in Millions)

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL)</b>	<b>(b-a) Unfunded AAL (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>((b-a)/c) UAAL as a Percentage of Covered Payroll</b>
<b><u>SERS</u></b>						
6/30/2005	\$8,517.7	\$15,987.5	\$7,469.8	53.3%	\$2,980.1	250.7%
6/30/2006	\$8,951.4	\$16,830.3	\$7,878.9	53.2%	\$3,107.9	253.5%
6/30/2007	\$9,585.1	\$17,888.1	\$8,303.0	53.6%	\$3,310.4	250.8%
6/30/2008	\$9,990.2	\$19,243.4	\$9,253.2	51.9%	\$3,497.4	264.6%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2010	\$9,349.6	\$21,054.2	\$11,704.6	44.4%	\$3,295.7	355.1%
6/30/2011 *	\$-	\$-	\$-	0.0%	\$-	0.0%

\*No actuarial valuation was performed.

<b><u>TRS</u></b>						
6/30/2005 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2006	\$10,190.3	\$17,112.8	\$6,922.5	59.5%	\$3,137.7	220.6%
6/30/2007 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2008	\$15,271.0	\$21,801.0	\$6,530.0	70.0%	\$3,399.3	192.1%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2010	\$14,430.2	\$23,495.9	\$9,065.7	61.4%	\$3,646.0	248.6%
6/30/2011 *	\$-	\$-	\$-	0.0%	\$-	0.0%

\*No actuarial valuation was performed.

<b><u>JRS</u></b>						
6/30/2005	\$160.3	\$235.0	\$74.7	68.2%	\$30.2	247.8%
6/30/2006	\$169.7	\$246.9	\$77.2	68.7%	\$31.8	242.8%
6/30/2007	\$182.4	\$261.2	\$78.8	69.8%	\$33.8	233.1%
6/30/2008	\$191.7	\$267.0	\$75.3	71.8%	\$34.0	221.5%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2010	\$179.7	\$276.8	\$97.1	64.9%	\$31.6	307.3%
6/30/2011 *	\$-	\$-	\$-	0.0%	\$-	0.0%

\*No actuarial valuation was performed.

<b><u>RTHP</u></b>						
6/30/2008	\$-	\$2,318.8	\$2,318.8	0.0%	\$3,399.3	68.2%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2010	\$-	\$2,997.8	\$2,997.8	0.0%	\$3,646.0	82.2%
6/30/2011 *	\$-	\$-	\$-	0.0%	\$-	0.0%

\*No actuarial valuation was performed.

Actuarial valuations for other postemployment benefit plans are required to be disclosed starting with fiscal year 2008.

*Connecticut*

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## Pension and Other Postemployment Benefit Plans

### Required Supplementary Information

### Schedules of Employer Contributions

(Expressed in Millions)

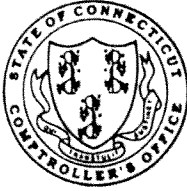
Fiscal Year	<u>SERS</u>		<u>TRS</u>		<u>JRS</u>		<u>RTPH</u>	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2005	\$518.8	100.0%	\$281.4	65.8%	\$12.2	100.0%	\$0.0	0.0%
2006	\$623.1	100.0%	\$396.2	100.0%	\$11.7	100.0%	\$0.0	0.0%
2007	\$663.9	100.0%	\$416.0	99.0%	\$12.4	100.0%	\$0.0	0.0%
2008	\$716.9	99.2%	\$518.6	485.7%	\$13.4	100.0%	\$116.1	21.5%
2009	\$753.7	92.8%	\$539.3	100.0%	\$14.2	100.0%	\$116.7	25.3%
2010	\$897.4	80.3%	\$559.2	100.0%	\$15.4	0.0%	\$121.3	10.0%
2011	\$944.1	87.5%	\$581.6	100.0%	\$16.2	0.0%	\$177.1	3.0%

Schedules of employer contributions for other postemployment benefit plans (RTPH) are required to be disclosed starting with fiscal year 2008.



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**APPENDIX III-D**



STATE OF CONNECTICUT  
OFFICE OF THE STATE COMPTROLLER  
55 ELM STREET  
HARTFORD, CONNECTICUT  
06106-1775

Kevin Lembo  
State Comptroller

Martha Carlson  
Deputy Comptroller

February 27, 2012

The Honorable Denise L. Nappier  
State Treasurer  
55 Elm Street  
Hartford, CT 06106

Dear Ms. Nappier

I have reviewed the accompanying balance sheets of the General Fund of the State of Connecticut for the fiscal years ending June 30, 2007-2011. This review also covered the accompanying statements of unappropriated surplus, revenues and expenditures for the years ended on those dates. The statements are based on the annual report of the Office of the State Comptroller, which is prepared in compliance with Section 3-115 of the General Statutes, as well as reports of the Auditors of Public Accounts with respect to the balance sheets and related statements for the fiscal years ending June 30, 2007-2011.

The statements have been prepared on a modified cash basis of accounting for appropriated funds and on a cash basis of accounting for all other funds. These methods of accounting have been applied consistently and in accordance with the governing statutory requirements for all periods shown.

Sincerely,

A handwritten signature in cursive script that reads "Kevin Lembo".

Kevin Lembo  
State Comptroller

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

**INDEPENDENT AUDITORS' REPORT  
CERTIFICATE OF AUDIT**

We have audited the accompanying balance sheet of the General Fund of the State of Connecticut as of June 30, 2007, 2008, 2009, 2010 and 2011 and the related statements of revenues, expenditures, and changes in unappropriated surplus for the years ended on those dates as shown in Appendices III-D-4, III-D-5, III-D-6 and III-D-7. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note (a) to Appendix III-D-4, the State of Connecticut prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above present only the General Fund and do not purport to, and do not, present fairly the financial position of the State of Connecticut as of June 30, 2007, 2008, 2009, 2010 and 2011, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the General Fund of the State of Connecticut as of June 30, 2007, 2008, 2009, 2010 and 2011, and the results of its operations – modified cash basis for the years then ended, in conformity with the basis of accounting described in Note (a) to Appendix III-D-4.

A handwritten signature in black ink, appearing to read "John C. Geragosian".

John C. Geragosian  
Auditor of Public Accounts

A handwritten signature in black ink, appearing to read "Robert M. Ward".

Robert M. Ward  
Auditor of Public Accounts

February 24, 2012  
State Capitol  
Hartford, Connecticut

**GENERAL FUND<sup>(a)</sup>**

**Balance Sheet  
As of June 30  
(In Thousands)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Assets</b>					
Cash and Short-Term Investments	\$ 30,148	\$ --	\$ --	\$ --	\$ --
Accrued Taxes Receivable	1,111,655	1,133,886	976,536	1,091,117	1,077,249
Accrued Accounts Receivable	36,080	32,874	29,913	28,975	28,821
Federal and Other Grants Receivable and Unexpended Balances	--	--	--	--	--
Investments	--	--	--	--	--
Due from Other Funds	--	--	--	--	--
Loans Receivable	<u>13,320</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3,419</u>
Total Assets	<u>\$ 1,191,203</u>	<u>\$ 1,166,760</u>	<u>\$ 1,006,449</u>	<u>\$ 1,120,092</u>	<u>\$ 1,109,489</u>
<b>Liabilities, Reserves and Surplus</b>					
<b>Liabilities</b>					
Deficiency in Cash and Short-Term Investments	--	\$ 477,251	\$ 1,863,042	\$ 547,305	\$ 666,879
Accounts Payable	--	--	--	--	--
Deferred Restricted Accounts and Federal and Other Grant Revenue	--	--	--	--	--
Due to Other Funds	<u>\$ 9,975</u>	<u>\$ 5,103</u>	<u>\$ 1,374</u>	<u>\$ 605</u>	<u>\$ 469</u>
Total Liabilities	<u>\$ 9,975</u>	<u>\$ 482,354</u>	<u>\$ 1,864,416</u>	<u>\$ 547,910</u>	<u>\$ 667,348</u>
<b>Reserves</b>					
Petty Cash Funds	\$ 918	\$ 886	\$ 840	\$ 838	\$ 814
Statutory Surplus Reserves	269,240	179,420	--	449,869	236,923
Appropriations Continued to Following Year	831,070	504,100	88,772	121,475	200,985
Reserved FY 07 Surplus for FY 08 Operations	80,000	--	--	--	--
Reserve for Receivables	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3,419</u>
Total Reserves	<u>\$ 1,181,228</u>	<u>\$ 684,406</u>	<u>\$ 89,612</u>	<u>\$ 572,182</u>	<u>\$ 442,141</u>
<b>Unappropriated Surplus (Deficit)</b>	<u>0</u>	<u>0</u>	<u>(947,579)<sup>(b)</sup></u>	<u>0</u>	<u>0</u>
Total Liabilities, Reserves and Surplus	<u>\$ 1,191,203</u>	<u>\$ 1,166,760</u>	<u>\$ 1,006,449</u>	<u>\$ 1,120,092</u>	<u>\$ 1,109,489</u>

(a) The State of Connecticut's policy, which was formulated in accordance with State fiscal statutes, is to prepare the accompanying financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut. The modified cash basis of accounting, as used by the State, records expenditures when they are paid and recognizes revenues when received, except for the accrual at June 30 of State collections in July and August of certain taxes levied, Indian gaming payments, and the accounting for restricted grants on an earned basis. Certain accrual dates for various revenues have been extended and may not reflect the same accrual date through the years reflected herein.

(b) Under the provisions of Public Act No. 09-2 of the June 2009 Special Session, the accumulated deficit as of June 30, 2009 was financed through the issuance of economic recovery notes.

**GENERAL FUND**  
**Statement of Revenues, Expenditures and Changes in Unappropriated Surplus**  
**Fiscal Year Ended June 30**  
**(In Thousands)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Unappropriated Surplus (Deficit), July 1	\$ -0-	\$ -0-	\$ -0-	\$ (947,578)	\$ -0-
Resources from Reserve for Debt					
Avoidance/ERN	--	--	--	947,578	--
Total Revenues (per Appendix III-D-6)	15,742,561	16,418,786	15,700,801	17,688,529	17,707,454
Total Expenditures (per Appendix III-D-7)	15,293,735 <sup>(a)</sup>	16,627,447 <sup>(b)</sup>	17,234,855 <sup>(c)</sup>	17,208,021 <sup>(d)</sup>	17,845,124 <sup>(e)</sup>
Operating Balance	448,826	(208,661)	(1,534,054)	480,508	(137,670)
Reserved for Prior Year Appropriations					
Less Appropriations Carried Forward	(128,216)	326,972	415,327	(32,704)	(75,276)
Transferred (Out) or Reserved for:					
Budget Reserve Fund	(269,240)	-0-	-0-	-0-	-0-
Reserve for Debt Retirement/Avoidance	(80,000)	(99,420)	-0-	-0-	(236,923)
Other Adjustments	(12,370)	(18,891)	(8,271)	2,065	--
Reserved for Fiscal Year 2011	-0-	-0-	-0-	-0-	--
Reserved from Prior Year	<u>41,000</u>	<u>-0-</u>	<u>179,420</u>	<u>-0-</u>	<u>449,869</u>
Subtotal	-0-	-0-	(947,578)	449,869	-0-
Transferred from Budget Reserve Fund	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Unappropriated Surplus (Deficit), June 30 <sup>(f)</sup>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (947,578)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

- (a) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$(128,216).
- (b) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$326,972.
- (c) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$415,327.
- (d) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$(32,704).
- (e) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$(75,276).
- (f) The Fiscal Year 2009-10 surplus of \$449,969 was reserved for fiscal year 2010-11 leaving no unappropriated surplus.

**GENERAL FUND**  
**Statement of Revenues**  
**Fiscal Year Ended June 30**  
**(In Thousands)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Taxes:					
Personal Income	\$ 6,749,462	\$ 7,512,688	\$ 6,385,856	\$ 6,586,099	\$ 7,246,431
Sales and Use	3,496,110	3,582,317	3,318,752	3,203,988	3,353,230
Corporations	890,730	733,942 <sup>(c)</sup>	615,921	667,132	794,473
Insurance Companies	253,016	227,221	202,217	226,549	220,626
Inheritance and Estate	179,922	170,619	238,337	177,601	237,573
Alcoholic Beverages	46,007	47,077	47,065	48,196	48,923
Cigarettes	269,525	335,197	317,774	387,435	404,111
Admissions, Dues, Cabaret	33,439	37,277	36,040	34,379	34,455
Oil Companies	144,404	205,483	104,413	123,018	169,163
Public Service Corporations	235,502	237,113	268,495	267,946	269,806
Real Estate Conveyance	211,222	158,544	90,802	100,267	94,822
Miscellaneous	144,517	139,980	143,305	141,892	140,505
Refunds of Taxes	(746,539)	(852,184)	(1,052,286)	(1,061,433)	(956,054)
R&D Credit Exchange	(5,983)	(11,363)	(8,428)	(8,937)	(8,598)
Other Revenue:					
Licenses, Permits, Fees	151,738	171,739	162,474	257,569	250,422
Sales of Commodities and Services	35,529	30,066	32,558	33,678	35,506
Transfer – Special Revenue	283,808	287,604	287,195	289,314	293,108
Investment Income	83,610	63,943	18,806	4,062	30
Transfers — To Other Funds <sup>(a)</sup>	(86,300)	(86,300)	(86,300)	(61,800)	(61,800)
Fines, Escheats and Rents	51,782	59,922	64,018	252,792	157,771
Miscellaneous	188,324	140,089	163,023	142,910	178,727
Refunds of Payments	(514)	(501)	(662)	(1,189)	(1,875)
Federal Grants	2,602,774	2,701,603	3,619,490	4,066,314	4,235,178
Indian Gaming Payments	430,476	411,410	377,805	384,248	359,582
Statutory Transfers From Other Funds	100,000	115,300	354,131	1,426,497	211,319
<b>Total Revenues<sup>(b)</sup></b>	<u>\$ 15,742,561</u>	<u>\$ 16,418,786</u>	<u>\$ 15,700,801</u>	<u>\$ 17,688,528</u>	<u>\$17,707,454</u>

(a) Transfer to Pequot/Mohegan Fund.

(b) See Operating Balance on Appendix III-D-5 for surplus or deficit for each fiscal year.

(c) For Fiscal Year ending June 30, 2008, the Corporation Business Tax accrual date was changed to the last day of July from August 15th (as in the prior fiscal years). The Corporation Business Tax is now consistent with other tax accruals. The Comptroller's decision to make this change is within his constitutional powers under Section 24, Article Fourth of the Connecticut State Constitution and his statutory powers under Public Act No. 08-111.

**GENERAL FUND**  
**Statement of Expenditures**  
**Fiscal Year Ended June 30**  
**(In Thousands)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Legislative	\$ 68,141	\$ 72,488	\$ 71,555	\$ 66,288	\$ 66,109
General Government					
Executive	10,441	12,572	11,841	10,567	9,954
Financial Administration	414,664	499,320	424,610	400,369	381,716
Legal	<u>75,535</u>	<u>90,957</u>	<u>83,664</u>	<u>75,382</u>	<u>84,420</u>
Total General Government	<u>500,640</u>	<u>602,849</u>	<u>520,115</u>	<u>486,318</u>	<u>476,090</u>
Regulation and Protection of Persons and Property					
Public Safety	163,838	193,796	189,394	169,994	175,700
Regulative	<u>101,843</u>	<u>87,196</u>	<u>97,428</u>	<u>92,826</u>	<u>86,066</u>
Total Regulation and Protection	<u>265,681</u>	<u>280,992</u>	<u>286,822</u>	<u>262,820</u>	<u>261,766</u>
Conservation and Development					
Agriculture	11,557	15,960	12,276	20,423	11,356
Environment	36,477	39,965	39,038	69,174	71,353
Historical Sites, Commerce and Industry	<u>48,227</u>	<u>63,833</u>	<u>62,015</u>	<u>39,555</u>	<u>41,210</u>
Total Conservation and Development	<u>96,261</u>	<u>119,758</u>	<u>113,329</u>	<u>129,152</u>	<u>123,919</u>
Health and Hospitals					
Public Health	90,753	103,265	108,878	88,846	88,226
Mental Retardation	870,600	937,962	970,322	967,786	970,070
Mental Health	<u>512,426</u>	<u>565,484</u>	<u>583,339</u>	<u>568,195</u>	<u>657,374</u>
Total Health and Hospitals	<u>1,473,779</u>	<u>1,606,711</u>	<u>1,662,539</u>	<u>1,624,827</u>	<u>1,715,670</u>
Transportation	<u>2,103</u>	<u>127</u>	<u>(50)</u>	<u>2,295</u>	<u>0</u>
Human Services	<u>4,221,641</u>	<u>4,629,658</u>	<u>5,041,515</u>	<u>5,012,333</u>	<u>5,387,535</u>
Education, Libraries and Museums					
Department of Education	2,312,000	2,569,432	2,671,600	2,662,756	2,708,442
Education of the Blind and Deaf	13,864	15,337	13,537	11,598	11,145
University of Connecticut	222,567	234,481	234,058	233,011	232,656
Higher Education and the Arts	153,625	192,594	198,638	189,845	192,626
Libraries	11,795	13,248	13,100	10,911	11,067
Teachers Retirement	435,051	541,671	564,062	561,038	583,978
Community—Technical Colleges	145,503	161,778	161,451	158,523	158,282
State University	<u>155,102</u>	<u>164,254</u>	<u>162,935</u>	<u>162,517</u>	<u>162,271</u>
Total Education, Libraries and Museums	<u>3,449,507</u>	<u>3,892,795</u>	<u>4,019,381</u>	<u>3,990,199</u>	<u>4,060,467</u>
Corrections	<u>1,430,316</u>	<u>1,549,792</u>	<u>1,577,167</u>	<u>1,475,769</u>	<u>1,484,364</u>
Judicial	<u>474,067</u>	<u>515,738</u>	<u>543,078</u>	<u>524,043</u>	<u>559,912</u>
Non-Functional					
Debt Service	1,472,839	1,409,878	1,464,072	1,619,470	1,629,672
Miscellaneous	<u>1,838,760</u>	<u>1,946,661</u>	<u>1,935,332</u>	<u>2,014,507</u>	<u>2,079,621</u>
Total Non-Functional	<u>3,311,599</u>	<u>3,356,539</u>	<u>3,399,404</u>	<u>3,633,977</u>	<u>3,709,293</u>
Totals	<u>15,293,735</u>	<u>16,627,447</u>	<u>17,234,855</u>	<u>17,208,021</u>	<u>17,845,125</u>
<b>Total Expenditures<sup>(a)</sup></b>	<u><b>\$15,293,735</b></u>	<u><b>\$16,627,447</b></u>	<u><b>\$17,234,855</b></u>	<u><b>\$17,208,021</b></u>	<u><b>\$17,845,125</b></u>

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.



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APPENDIX III-E

**GENERAL FUND REVENUES AND EXPENDITURES**  
**ADOPTED BUDGET AND FINAL FINANCIAL RESULTS FOR FISCAL YEAR 2010-2011**  
**ADOPTED BIENNIAL BUDGET FOR FISCAL YEARS 2011-2012 AND 2012-2013**  
**ESTIMATED BUDGET FOR FISCAL YEAR 2011-12**  
(In Millions)

	Adopted Budget 2010-11 <sup>(c)</sup>	Final Financial Results 2010-11 <sup>(f)</sup>	Adopted Budget 2011-12 <sup>(h)</sup>	Estimated Budget 2011-12 <sup>(s)</sup>	Adopted Budget 2012-13 <sup>(h)</sup>
<b>Revenues</b>					
<u>Taxes</u>					
Personal Income Tax	\$ 6,682.5	\$ 7,246.4	\$ 8,660.8 <sup>(l)</sup>	\$ 8,381.0 <sup>(i)</sup>	\$ 9,025.5 <sup>(i)</sup>
Sales & Use Corporation	3,164.9	3,353.2	3,789.0 <sup>(l)</sup>	3,880.5 <sup>(i)</sup>	3,955.4 <sup>(i)</sup>
Public Service	662.9	794.5	707.7 <sup>(k)</sup>	707.7 <sup>(k)</sup>	799.8 <sup>(k)</sup>
Inheritance & Estate	271.4	269.8	268.7	268.7	275.2
Insurance Companies	99.0	237.6	158.0	158.0	162.1
Cigarettes	223.9	220.6	237.2 <sup>(l)</sup>	228.8 <sup>(l)</sup>	238.3 <sup>(l)</sup>
Real Estate Conveyance	386.5	404.1	443.8 <sup>(l)</sup>	443.8 <sup>(l)</sup>	425.9 <sup>(l)</sup>
Oil Companies	113.2	94.8	90.3	92.1	98.4
Electric Generation Tax	107.7	169.2	93.1	136.6	120.6
Alcoholic Beverages	--	--	71.0 <sup>(m)</sup>	71.0 <sup>(m)</sup>	71.0 <sup>(m)</sup>
Admissions and Dues	48.1	48.9	56.9 <sup>(l)</sup>	54.9 <sup>(l)</sup>	57.2 <sup>(l)</sup>
Health Provider Tax	36.5	34.5	39.6 <sup>(l)</sup>	36.5 <sup>(l)</sup>	44.2 <sup>(l)</sup>
Miscellaneous	--	--	526.3 <sup>(n)</sup>	525.9 <sup>(n)</sup>	530.6 <sup>(n)</sup>
Total Taxes	<u>\$11,941.5</u>	<u>\$13,014.1</u>	<u>\$15,158.3</u>	<u>\$15,001.8</u>	<u>\$15,820.3</u>
Less Refunds of Taxes	(1,009.3)	(956.1)	(1,020.0)	(873.6)	(1,063.7)
Less Earned Income Tax	--	--	(110.2)	(110.2)	(116.5)
Less R&D Credit Exchange	(10.5)	(8.6)	(9.0)	(9.0)	(9.5)
Net Taxes	<u>\$10,921.7</u>	<u>\$12,049.5</u>	<u>\$14,019.1</u>	<u>\$14,009.0</u>	<u>\$14,630.6</u>
<u>Other Revenues</u>					
Transfers- Special Revenues	295.1	293.1	288.4	297.8	289.7
Indian Gaming Payments	365.8	359.6	375.5	342.4	387.2
Licenses, Permits, Fees	235.4	250.4	271.2	269.9	252.4
Sales of Commodities & Services	34.3	35.5	36.4	36.4	37.3
Rents, Fines & Escheats	99.5	157.8	127.4	123.7	121.7
Investment Income	6.5	0.0	2.9	2.0	4.4
Miscellaneous	167.0	178.7	163.0	168.0	163.9
Less Refunds of Payments	(0.9)	(1.9)	(38.3) <sup>(o)</sup>	(81.4) <sup>(o)</sup>	(22.6) <sup>(o)</sup>
Total Other Revenue	<u>\$ 1,202.7</u>	<u>\$ 1,273.3</u>	<u>\$ 1,226.5</u>	<u>1,158.8</u>	<u>\$ 1,234.0</u>
<u>Other Sources</u>					
Federal Grants	4,256.0 <sup>(d)</sup>	4,235.2 <sup>(d)</sup>	3,589.7 <sup>(d)</sup>	3,572.8 <sup>(d)</sup>	3,717.9 <sup>(d)</sup>
Transfers to the Resources of the General Fund	1,246.5 <sup>(e)</sup>	116.0 <sup>(e)</sup>	--	-	--
Transfers from Tobacco Settlement Funds	102.3	95.3	96.1	96.1	93.1
Transfers to Other Funds <sup>(a)</sup>	(61.8)	(61.8)	(142.8)	(142.8)	(234.6)
Total Other Sources	<u>\$ 5,543.0</u>	<u>\$ 4,384.7</u>	<u>\$ 3,543.0</u>	<u>3,526.1</u>	<u>\$ 3,576.4</u>
Total Budgeted Revenue <sup>(b)</sup>	<u>\$17,667.4</u>	<u>\$17,707.5</u>	<u>\$18,788.6</u>	<u>\$18,693.9</u>	<u>\$19,441.0</u>

	Adopted Budget 2010-11 <sup>(c)</sup>	Final Financial Results 2010-11 <sup>(f)</sup>	Adopted Budget 2011-12 <sup>(h)</sup>	Estimated Budget 2011-12 <sup>(s)</sup>	Adopted Budget 2012-13 <sup>(h)</sup>
<b>Appropriations/Expenditures</b>					
Legislative	\$ 80.4	\$ 66.3	\$ 80.1	\$ 80.1	\$ 83.5
General Government	502.8	475.3	655.9	655.9	647.6
Regulation & Protection	258.0	256.1	270.2	270.2	263.3
Conservation & Development	132.1	124.7	150.7	151.3	148.4
Health & Hospitals	1,723.0	1,723.4	1,886.2	1,886.2	1,911.3
Human Services	5,161.0	5,400.0	5,785.9 <sup>(p)</sup>	5,785.9	5,925.4 <sup>(p)</sup>
Education, Libraries & Museums	4,080.6	4,065.3	4,321.8	4,324.0	4,346.7
Corrections	1,501.0	1,482.3	1,576.5	1,576.5	1,540.2
Judicial	552.5	560.8	576.1	578.6	572.8
Non- Functional					
Debt Service	1,672.7	1,564.3	1,894.1	1,894.1	1,935.2
Miscellaneous	2,299.4	2,206.0	2,288.1	2,390.4	2,543.9
Subtotal	\$17,963.5	\$ 17,924.7	\$ 19,485.6	\$19,593.2	\$ 19,918.3
Other Reductions and Lapses	(296.3)	--	(777.9) <sup>(q)</sup>	(935.2)	(965.8) <sup>(q)</sup>
Net Appropriations/Expenditures	\$17,667.2	\$ 17,924.7	\$ 18,707.7	\$18,658.0	\$ 18,952.5
Surplus (or Deficit) from					
Operations	0.2	(217.2)	80.9	35.9	488.5
Miscellaneous Adjustments	--	4.2	--	-	--
Reserve for GAAP	--	--	(75.0) <sup>(r)</sup>	(75.0) <sup>(r)</sup>	(50.0) <sup>(r)</sup>
Statutory Transfer from Restricted Purposes	--	449.9	--	-	--
<b>Balance<sup>(b)</sup></b>	\$ 0.2	\$ 236.9 <sup>(g)</sup>	\$ 5.9	\$ (39.1)	\$ 438.5

NOTE: Columns may not add due to rounding.

- (a) Includes transfers to the Mashantucket Pequot Fund for grants to towns and the Special Transportation Fund. The amounts for fiscal years 2011-12 and 2012-13 include transfers of \$61.8 million in each year to the Mashantucket Pequot Fund for grants to towns, and \$81.6 million in fiscal year 2011-12 and \$172.8 million in fiscal year 2012-13 to the Special Transportation Fund.
- (b) Does not include revenues or expenditures with respect to Restricted Accounts and Federal & Other Grants, which are not included in this Appendix. The amount of such expenditures is generally the same as the amount of grants received. Per Section 4-30a of the Connecticut General Statutes, after the accounts for the General Fund have been closed for each fiscal year and the Comptroller has determined the amount of unappropriated surplus in said fund, after any amounts required by provision of law to be transferred for other purposes have been deducted, the amount of such surplus shall be transferred by the State Treasurer to the Budget Reserve Fund. Per Section 4-30b of the Connecticut General Statutes and notwithstanding the requirement of Section 4-30a, after the accounts for the fiscal year are closed, beginning with the fiscal year ending June 30, 2010, and each fiscal year thereafter, until and including the fiscal year ending June 30, 2017, if the Comptroller determines there exists an unappropriated surplus in the General Fund, the amount of any such surplus is first to be used for redeeming prior to maturity any outstanding notes issued under Section 3-20g of the Connecticut General Statutes.
- (c) Per Public Act No. 09-3 of the June 2009 Special Session; Public Act No. 09-8, Public Act No. 09-7 and Public Act No. 09-5 of the September 2009 Special Session; Public Act No. 10-3 and Public Act No. 10-179 of the February Session; and Public Act No. 10-1 and Public Act No. 10-2 of the June Special Session. Pursuant to Public Act No. 10-179, any General Fund surplus in Fiscal Year 2009-10 shall be transferred to Fiscal Year 2010-11. See footnotes (e) and (g).
- (d) Includes ARRA funds of \$843.5 million for fiscal year 2009-10 and the revised adopted budget for fiscal year 2010 -11 assumed \$932.0 million, but this amount has been reduced to \$773.1 million in the estimated budget column. The Governor's proposed budget for fiscal years 2011-12 and 2012-13 reflects the loss of federal ARRA funds and other adjustments.

- (e) Pursuant to Public Act No. 10-3, as amended, includes transfers from the budget reserve fund of \$103.2 million for 2010-11. Pursuant to Public Act No. 10-179 includes \$140.0 million transferred from balance for 2009-10 to fiscal year 2010-11.
- (f) Per the Comptroller's audited financial results dated December 31, 2011 for the fiscal year ending June 30, 2011, as adjusted by the Office of Policy and Management to exclude expenditures of appropriations carried over from the prior fiscal year and to include expenditures of appropriations carried into the next fiscal year.
- (g) In accordance with a labor agreement, \$14.5 million of this surplus will be deposited in the Other Post Employment Benefit Trust Fund and per State statutes, the remaining balance will be used to pay a portion of the State's \$915.8 million Economic Recovery Notes (2009 Series A) issued to finance the fiscal year 2008-09 deficit.
- (h) Per Public Act No. 11-6, as amended by Public Act No. 11-61 and Public Act No. 11-1 of the June Special Session.
- (i) Includes rate increases, reduction of the property tax credit, and enactment of an Earned Income Tax credit.
- (j) Includes rate increases and elimination of exemptions.
- (k) Includes extension of the tax surcharge and other miscellaneous changes.
- (l) Includes rate increases and/or elimination of exemptions.
- (m) Includes the imposition of a new tax on electric generators.
- (n) Includes the imposition of a new provider tax on hospitals and intermediate care facilities along with an increase in the existing tax on nursing home providers, which were previously included within the miscellaneous tax category.
- (o) Consistent with the Consensus Revenue Forecast and per the budget, certain refunds of escheated property will now be reported as Refunds of Payments, instead of a Miscellaneous Adjustment.
- (p) Includes additional appropriations related to the Health Provider Tax.
- (q) Includes \$658.2 million in fiscal year 2011-12 and \$844.3 million in fiscal year 2012-13 for labor concessions.
- (r) Pursuant to Public Act No. 11-48, notwithstanding the provisions of sections 4-30a and 4-30b of the general statutes, after the accounts for the fiscal years ending June 30, 2012, and June 30, 2013, are closed, if the Comptroller determines that an unappropriated surplus exists in the General Fund, the Comptroller shall reserve an amount, not to exceed seventy-five million dollars for the fiscal year ending June 30, 2012, and fifty million dollars for the fiscal year ending June 30, 2013, to be applied to any net increase in unreserved negative General Fund balance beyond the amount reported by the Comptroller as of June 30, 2011, before any other reserve required by any provision of the general statutes is determined.
- (s) Estimates reflect the February 21, 2012 Office of Policy and Management's letter to the State Comptroller for fiscal year 2011-12 (as of the period ending January 31, 2012).

NOTE: The information in **Appendix III-E** of this **Part III** contains projections and no assurances can be given that subsequent projections or adjustments will not result in changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

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