

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

**FEBRUARY 24, 2017**

This Information Statement of the State of Connecticut (the "State") contains information through February 24, 2017. The State expects to include this Information Statement in its Official Statements for securities offerings as a "Part II" and has numbered the pages accordingly. The State expects to update this Information Statement from time to time with supplementary information in connection with such offerings, but except as expressly noted all information is as of February 24, 2017. Such updates are expected to include certain interim financial information prepared on a statutory basis, but are not expected to include interim financial information prepared in accordance with GAAP.

This Information Statement and any appendices attached hereto, should be read collectively and in their entirety.

This Information Statement may be obtained electronically at [www.buycfbonds.com](http://www.buycfbonds.com) or 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**

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

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## INTRODUCTION

This Information Statement of the State of Connecticut (the “State”) contains certain information that a potential investor might consider material in reaching a decision to invest in securities of the State. Quotations from and summaries and explanations of provisions of laws of the State contained in this Information Statement do not purport to be complete and are qualified in their entirety by reference to such provisions of law. This Information Statement and any appendices attached hereto should be read collectively and in their entirety.

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

**Financial Procedures** discusses the legal and administrative processes, procedures, controls 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 historical information about the General Fund. Additional information regarding General Fund activity is included in **Appendices II-C, II-D** and **II-E** to this Information Statement.

**State Economic Initiatives** discusses formal programs enacted by the General Assembly targeted to encourage economic growth within the State.

**State Debt** describes the procedures for the authorization to incur State debt and the various ways in which the State may borrow funds to finance State functions and capital projects. 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 obligations of the State that are not accounted for in the General Fund but that are contingent liabilities of the State. Certain additional information regarding these other funds, debt and liabilities of the State is included in **Appendix II-C** to this 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 II-C** to this 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.

**Other Matters** includes additional matters that do not fall within the other headings.

**Appendices II-A through II-E** to this Information Statement contain detailed information relating to the information summarized in the Information Statement and should be read in their entirety. **Appendix II-A** provides information concerning the organization of the State government and services. **Appendix II-B** provides information about the State’s economy. **Appendices II-C and II-D** provide financial statements of the State. **Appendix II-E** provides additional budgetary and financial information.

The State’s fiscal year begins on July 1 and ends on June 30. References to “Fiscal Year” throughout this Information Statement refer to the referenced fiscal year ending June 30. For example, Fiscal Year 2017 refers to the fiscal year beginning July 1, 2016 and ending June 30, 2017.

The Information Statement speaks only as of its date. For information about the State after February 24, 2017, the State expects to update this Information Statement from time to time with supplementary information identified as such and included herein and the reader should refer to this Information Statement in its entirety.



## FORWARD-LOOKING INFORMATION AND BONDHOLDER CONSIDERATIONS

This Information Statement includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Without limiting the foregoing, the words “may,” “believe,” “could,” “might,” “possible,” “potential,” “project,” “will,” “should,” “expect,” “intend,” “plan,” “predict,” “anticipate,” “estimate,” “approximate,” “contemplate,” “continue,” “target,” “goal” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words. All forward-looking statements included in this Information Statement are based on information available to the State up to, and including, the date of this document, and the State assumes no obligation to update any such forward-looking statements to reflect events or circumstances that arise after the date hereof or after the date of any report containing such forward-looking statement, as applicable. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain important factors, including, but not limited to (i) the effect of and from, future federal budgetary matters, including federal grants and other forms of financial aid to the State; (ii) macroeconomic economic and business developments, both for the country as a whole and particularly affecting the State; future energy costs; (iii) health care related matters including Medicaid reimbursements; (iv) federal defense spending; (v) financial services industry developments; (vi) litigation or arbitration; (vii) natural disasters and other acts of God; (viii) changes in retirement rates, inflation rates, interest rates, increases in healthcare costs, longevity rates and other factors used in estimating future obligations of the State, among others; (ix) others contained in this Information Statement. Investors should carefully review all of the factors.

## FINANCIAL PROCEDURES

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

<b>Budget Discipline</b>	<b><i>Balanced Budget Requirement</i></b>	The State Constitution provides that the General Assembly may not authorize general budget expenditures in excess of estimated revenues. State law (CGS 2-35) requires that total net appropriations for each fund shall not exceed estimated revenue for such fund.
<b>Financial Control</b>	<b><i>Spending Cap</i></b>	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.
<b>Budget Discipline</b>	<b><i>Biennial Budget</i></b>	The budget covers a two year period and the power to propose, enact, and implement such budget rests with the Governor and General Assembly.
<b>Budget Discipline</b>	<b><i>Line Item Veto</i></b>	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.
<b>Financial Control</b>	<b><i>Debt Limit</i></b>	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
<b>Forecasting and Monitoring</b>	<b><i>Regular Revenue Forecasting, Monitoring of Fiscal Progress and Multiple-Year Planning Tools</i></b>	Monthly reports from the Comptroller and the Office of Policy and Management, and periodic reports from other governmental entities, including the Legislature's Office of Fiscal Analysis.
<b>Financial Control</b>	<b><i>Rescission Authority and Deficit Mitigation</i></b>	The Governor is required to propose mitigation plans should projections indicate a General Fund deficit greater than 1% of total General Fund appropriations. The Governor is authorized to reduce allotments up to 5% of any appropriation not to exceed 3% of any fund and to make further reductions with legislative backing.
<b>Budget Discipline</b>	<b><i>Budget Reserve Fund</i></b>	By statute, any General Fund surplus is directed to the Budget Reserve Fund until such fund equals 10% of annual expenditures (increasing to 15% in Fiscal Year 2021), unless otherwise directed by law. Legislation is passed from time to time that assigns different uses to such surpluses.
<b>Financial Control</b>	<b><i>GAAP Based Budgeting</i></b>	The State has transitioned 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.
<b>Transition to GAAP</b>		See <b>Accounting Procedures – Financial Reporting</b>

## **The Budgetary Process**

**Balanced Budget Requirement.** The State Constitution provides that the amount of general budget expenditures authorized for any fiscal year may not exceed the estimated amount of revenue for such fiscal year. The Constitution also precludes the General Assembly 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 that 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.

In 1996, the Connecticut Supreme Court ruled in *Nielson v. State* 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 for implementation of the spending cap, which has not yet occurred. In a 2015 opinion, the State Attorney General concluded that unless and until the General Assembly adopts, by the necessary three-fifths vote of the members of each house of the General Assembly, the definitions required by the constitutional spending cap, the constitutional spending cap has no legal effect. The Attorney General further concluded that a court would likely hold that the General Assembly could exceed the statutory spending cap by a majority vote. A commission was established to create proposed definitions for the constitutional budget cap. The enactment of any proposed definitions will require the vote of three-fifths members of each house of the General Assembly. The commission failed to generate definitions that garnered a majority of votes. Therefore, the commission forwarded a minority report summarizing their proceedings to the legislature. It is uncertain as to what action, if any, the General Assembly may take on the issue.

The General Assembly has been following a statutory provision similar to the Constitutional budget cap. 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 on 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 that 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, that sets forth estimated revenues and expenditures for the three fiscal years after the biennium in progress.

**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's ("OPM") and to the joint legislative standing committee on appropriations and the committee having cognizance of matters relating to such budgeted agency. On or before September 1 of each odd-numbered year, each agency submits its recommended adjustments or revisions of such estimates. 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.

**Budget Document.** The budget document 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 on the day on which the General Assembly first convenes in even-numbered years. By statute, the budget document must contain the Governor's budget message, 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. The Governor also will recommend the manner in which any deficit will be met or any surplus used.

**Adoption of the Budget.** Following publication and presentation of the budget document to the General Assembly, 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 related reports. Prior to June 30 of each odd-numbered year, the General Assembly enacts legislation making appropriations for the next two fiscal years and setting forth revenue estimates for those years.

**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. The General Assembly may separately reconsider and repass such disapproved appropriation items by a two-thirds vote of each house.

**Statutory Debt Limit.** In addition to the biennial budget, the General Assembly also authorizes a variety of types of debt. Section 3-21 of the Connecticut 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 that 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 are certain statutory exclusions and deductions. See **STATE DEBT – State Direct General Obligation Debt – Statutory Debt Limit.**

**Consensus Revenue Estimates.** OPM and the Legislature's Office of Fiscal Analysis ("OFA") are required by statute to issue consensus revenue estimates each year by November 10. 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 15 annually, the Secretary of OPM and the Director of OFA 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) for the current biennium and the next ensuing three fiscal years an estimate of State revenues, the level of expenditure change from current year expenditures allowable by consensus revenue estimates in each fund, any changes to current year expenditures necessitated by fixed cost drivers, and the aggregate changes to current year expenditures required to accommodate fixed cost drivers without exceeding current revenue estimate; (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 OPM and the Director of OFA to consider the submitted reports.

### **Financial Controls**

***Expenditures.*** The financial control procedures utilized by the State 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 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 in Expenditure Control.*** Before an appropriation for a budgeted agency becomes available for expenditure, the agency must submit to the Governor 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 of such statement date, to file a report with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report must include a plan that 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 in Expenditure Control.*** 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. The Comptroller is required to issue cumulative monthly financial reports concerning the State General Fund on or before the first day of the following month. 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 in Expenditure Control.*** The Treasurer is required to honor all warrants, drafts and orders properly drawn by the Comptroller. Payments of principal or interest of State bonds and payments of interest on funds held by the Treasurer on which the Treasurer is required to pay interest do not require specific appropriations.

***Use of Appropriations; Unexpended 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. 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.

***Unappropriated Surplus – Budget Reserve Fund.*** The State Constitution provides that any 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 Connecticut 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. Effective July 1, 2019 the maximum cap on the total allowable deposits is raised to 15% of the net General Fund appropriation. Commencing in Fiscal Year 2020, an automatic funding mechanism is triggered when certain revenue sources exceed an average historical growth rate; and commencing in Fiscal Year 2021 as deposits to the budget reserve fund rise, a portion of those increases are to be diverted to the State Employees Retirement Fund according to a formula set forth in the general statutes.

Notwithstanding the above, legislation is passed from time to time that assigns different uses to such surpluses. Legislation enacted in 2013 provided for the transfer of up to \$220.8 million of the Fiscal Year 2013 surplus to be used in the 2014-2015 biennium prior to any deposits to the budget reserve fund. Fiscal Years 2015 and 2016 ended with deficits which were eliminated through a transfer from the budget reserve fund. The balance in the budget reserve fund as of June 30, 2016 is \$235.6 million, which is equal to 1.3% of the net General Fund appropriations for Fiscal Year 2017.

### **Accounting Procedures**

***Books and Records.*** The State uses an enterprise resource planning system called Core-CT to address its automated financial accounting and human resources needs. This statewide system uses 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.

***Financial Reporting.*** For a number of years, the State has prepared annual financial statements in two ways: financial statements prepared using the guidance of Generally Accepted Accounting Principles (“GAAP”), as prescribed by the Government Accounting Standards Board (“GASB”), and financial statements prepared on a statutory basis (that is, following the adopted budget and related statutes, “statutory basis”). As described below, the State has transitioned to both budgeting and statutory financial statement reporting more in line with GAAP standards.

While not required to prepare financial statements in accordance with GAAP, since 1988 the State has issued comprehensive annual financial reports in accordance with the guidelines established by GASB. These reports include audited annual financial statements prepared using the guidance of GAAP. The State does not prepare GAAP statements on an interim basis.

The Comptroller prepares financial statements annually on a statutory basis for submission to the Governor by September 30 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.

The statutory basis of accounting used for budgetary 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. As described below under “**GAAP Based Budgeting**”, commencing in Fiscal Year 2014 appropriations have been made in line with the accrual of expenses for GAAP purposes, and the differences between the two methods are less significant than they would be without the budgetary conversion to GAAP budgeting, discussed below. Under the statutory basis, expenditures are recorded in the fiscal year in which the payment is processed versus when the expense is realized under a GAAP basis. In addition, there is a recording of expenditure accruals to the fiscal year in which specific goods and services are received even though payment is not processed until the next fiscal year. Such accrued expenditures include State of Connecticut payroll expenses, general agency operating expenses, and Medicaid expenses. Certain appropriations that have not lapsed are reflected in the balance sheet through a reserve for continuing appropriations. Under the statutory basis, there are limited modifications from the cash basis in recording revenues which are permitted by statute or decision of the Comptroller. Under the modified accrual basis used for GAAP financial recording, generally all revenues are recognized when they are realized or realizable and earned.

The audited statutory basis financial statements for the fiscal year ending June 30, 2016 and the audited financial statements of the State prepared using the guidance of GAAP for the fiscal year ending June 30, 2016 appear in **Parts II-C** and **II-D**.

**GAAP Based Budgeting.** Legislation passed in 2011 required the transition from the previously used modified cash basis of accounting to GAAP. This legislation required that the budget, commencing with Fiscal Year 2014, be prepared in accordance with GAAP, commonly referred to as GAAP budgeting. While GASB does not recognize a concept of GAAP budgeting or prescribe standards for GAAP budgeting, the State interprets the policy objectives of the GAAP budgeting requirement as a requirement to authorize expenditures in line with the accrual of the expenditures, to estimate revenues in line with the accrual of revenues, and an intention, over time, to eliminate the GAAP deficit. The transition to the implementation of the use of GAAP accrual principles with respect to the preparation of the biennial budget included 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. As a result, prior to the start of the biennium for which the budget document is transmitted to the General Assembly, the Governor now accounts for the amount necessary to extinguish any unreserved negative balance in each budgeted fund as addressed in the most recently issued statutory basis annual financial report issued by the Comptroller. The Governor is not required to account for the extinguishment of any unreserved negative balance resulting from adjustments that are not accounted for within the budget process.

The Comptroller initiated a process intended to result in the implementation of the policy objectives of GAAP with respect to the preparation and maintenance of the biennial budget and the annual financial statements of the State previously prepared on a modified cash basis. The Comptroller established an opening combined balance sheet for each appropriated fund reflecting GAAP accrual principles. This combined balance sheet reflected as a deferred charge the accumulated deficit in the General Fund on June 30, 2013 of \$1,217.1 million, as determined on the modified accrual basis of GAAP and identified in the comprehensive annual financial report of the State as the unassigned fund balance in the General Fund, commonly referred to as the accumulated GAAP deficit. Such deferred charge is required to be amortized in equal increments in each fiscal year of each biennial budget commencing with the fiscal year ended June 30, 2016, and for the next succeeding twelve fiscal years. Additionally, the unreserved negative balance in the General Fund reported in the comprehensive annual financial report of the State for Fiscal Year 2014, reduced by (i) the negative unassigned balance of the General Fund for Fiscal Year 2013 and (ii) any funds from resources deposited in the General Fund for the purpose of reducing the negative unassigned balance of the General Fund, resulting in \$108.7 million, is required to be amortized in equal increments in each fiscal year of each biennial budget commencing with Fiscal Year 2018 and for the succeeding ten fiscal years.

In addition, as part of a two-part plan, the State issued bonds in October 2013 in the amount of \$560.43 million generating net proceeds of approximately \$600 million, which was deposited in the General Fund and applied to reduce the accumulated GAAP deficit (“GAAP Bonds”). The second part of the plan was additional

legislation that deemed appropriated the amounts needed to amortize the difference between the remaining accumulated GAAP deficit in each year from Fiscal Year 2016 to Fiscal Year 2028. Finally, the GAAP Bonds contain a contractual covenant with bondholders that no future action of the General Assembly shall diminish the appropriation so long as the GAAP Bonds are outstanding, unless the Governor declares an emergency or there are other extraordinary circumstances. While delaying the amortization of the accumulated GAAP deficit, this plan is intended to result in the elimination of the accumulated GAAP deficit as of June 30, 2013 by the end of Fiscal Year 2028. Although the State's two-part plan has resulted in the reduction of the overall GAAP deficit and the mitigation of its growth, the GAAP deficit has continued to grow over time largely due to the growth in spending accruals within the budgeted funds. As described above, the increase in the accumulated GAAP deficit incurred between Fiscal Year 2013 and Fiscal Year 2014 of \$108.7 million will be amortized over an eleven year period commencing in Fiscal Year 2018.

### **Cash Management and Investment**

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 funds under the control of the Treasurer, subject to certain conditions, including in certain circumstances the approval of the Investment Advisory Council, in a variety of investments allowed by statute.

**Cash Management.** The cash management system and the investment by the Treasurer of State monies, other than monies invested on a longer-term basis, including pension and certain trust funds, are based on the concept of available cash. Available cash consists of the State's common cash pool and funds invested in certain accounts in the Short-Term Investment Fund ("STIF"), including proceeds of various State bonding programs and miscellaneous other STIF accounts. The common cash pool is comprised of the operating cash of most State funds, including the General Fund and the Budget Reserve Fund, and is held or invested in bank deposits, STIF, and other short term investments. It is the State's practice to permit temporary inter-fund transfers to the common cash pool as needed to address mismatches in the timing of receipts and disbursements. This cash management policy is intended to provide flexibility for expenditures to occur when they are needed without the need to resort to short-term financing mechanisms that could impose additional costs on the State. Cash transferred pursuant to these temporary inter-fund transfers is returned as cash pool balances allow. The State's available cash varies from day to day. The week-ending balances of available cash for Fiscal Year 2016 averaged \$2.0 billion.

In addition, the Treasurer has the authority to establish, and has in the past established, lines of credit and other short-term financing mechanisms to secure the availability of cash.

On a daily basis, the Treasurer calculates expected cash receipts and disbursements, necessary bank balances, and amounts available for investment. The Treasurer is required to submit a monthly report to certain legislative members and the OFA 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 pool.

**Short-Term Investment Fund.** STIF is a combined investment pool of high quality, short-term money market instruments, which is an investment vehicle for the temporary surplus cash of all funds for 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 and the investment restrictions of Section 3-27d of the Connecticut General Statutes. These investment guidelines prohibit investment in derivative securities other than floating rate securities that 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. STIF is rated "AAAm" by Standard & Poor's.

**Other Funds.** Other State monies are held in certain 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 Section 3-24k of the CGS. In addition, investments may be made in individual securities pursuant to Section 3-31a of the CGS. Allowable investments under Section 3-31a of the CGS 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 Section 3-31a of the CGS that specify credit and diversification standards, and limit individual security maturities to three years and the total amount invested to \$900 million. Pursuant to Section 3-28a of the CGS and guidelines adopted by the Treasurer, the Treasurer is authorized to invest 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.

**Investment and Payment of Bond Proceeds.** Proceeds of bonds are accounted for in various bond funds. Generally, 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. 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 temporary 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.

**Investment Advisory Council.** 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.

**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. 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 has been accounted for in accordance with accounting standards prescribed by statutes ("statutory-basis"). The State has not been required by law to prepare generally accepted accounting principles ("GAAP") financial statements, although it has prepared such statements annually since 1988. Legislation was passed in 2011 which facilitated a transition from the prior modified cash basis of accounting to a basis of accounting that incorporates certain policy objectives of GAAP. For an explanation of the differences between the statutory 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 certain funds including the General Fund of the State for Fiscal Year 2016 are included as **Appendix II-C** to this Information Statement. Statutory basis audited financial statements for the General Fund for Fiscal Years 2012 through 2016 are included in **Appendix II-D** to this Information Statement. The adopted budget and final financial statutory basis results for Fiscal Year 2016, the adopted budget and estimated (as of December 31, 2016) budget for Fiscal Year 2017, and the Governor's proposed budget for Fiscal Years 2018 and 2019 are included as **Appendix II-E** to this Information Statement. Unless otherwise stated, amounts set forth in the discussion that follows under this caption **STATE GENERAL FUND** refer to such amounts as calculated on the statutory basis of accounting.

### General Fund Revenues

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

***Procedure For Forecasting Revenues.*** Revenues are forecast by the Legislature in adopting a budget and by the executive branch in proposing a budget and tracking performance through the year and for other planning purposes. 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 and IHS Global Inc., a nationally recognized econometric forecasting firm.

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 tolerance levels derived 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.

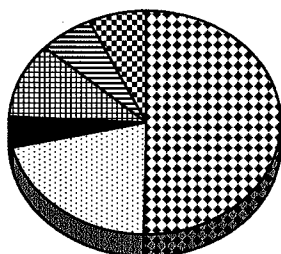
***Fiscal Year 2016 and 2017 Adopted Revenues.*** General Fund revenues are forecasted by the Legislature at the adoption of the budgets for Fiscal Years 2016 and 2017 ("Adopted Revenues") and are reflected in **Appendix II-E** to this Information Statement.

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. The State, as of the forecast date, expected to derive approximately 86.6 percent and 86.7 percent of its General Fund revenues from taxes during Fiscal

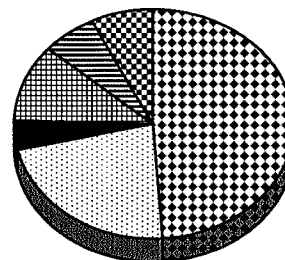
Year 2016 and Fiscal Year 2017, respectively. A summary of anticipated General Fund revenue sources based on the Adopted Revenues for Fiscal Years 2016 and 2017, is set forth below:













### Adopted General Fund Revenues (In Millions)

**Adopted Revenues  
Fiscal Year 2016  
\$18,162.4 <sup>(a)</sup>**



**Adopted Revenues  
Fiscal Year 2017  
\$17,886.7 <sup>(a)</sup>**



	Personal Income Tax	\$ 9,834.4	50.3%		Personal Income Tax	\$ 9,519.0	49.0%
	Sales and Use Tax	4,121.1	21.1%		Sales and Use Tax	4,328.7	22.3%
	Corporate Business Tax	902.2	4.6%		Corporate Business Tax	839.3	4.3%
	Other Taxes <sup>(b)</sup>	2,078.8	10.6%		Other Taxes <sup>(b)</sup>	2,081.5	10.7%
	Unrestricted Federal Grants	1,265.2	6.5%		Unrestricted Federal Grants	1,257.6	6.5%
	Other Non-Tax Revenues <sup>(c)</sup>	1,355.1	6.9%		Other Non-Tax Revenues <sup>(c)</sup>	1,393.6	7.2%

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 \$19,556.8 million for Fiscal Year 2016 and \$19,419.7 million for Fiscal Year 2017, while the amounts in the title of the pie charts reflect reductions resulting from tax refunds, R&D Credit Exchange and transfers to other funds of \$1,394.4 million for Fiscal Year 2016 and \$1,533.0 million for Fiscal Year 2017. See **Appendix II-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 cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on healthcare providers, and other miscellaneous taxes. See **Appendix II-E**.

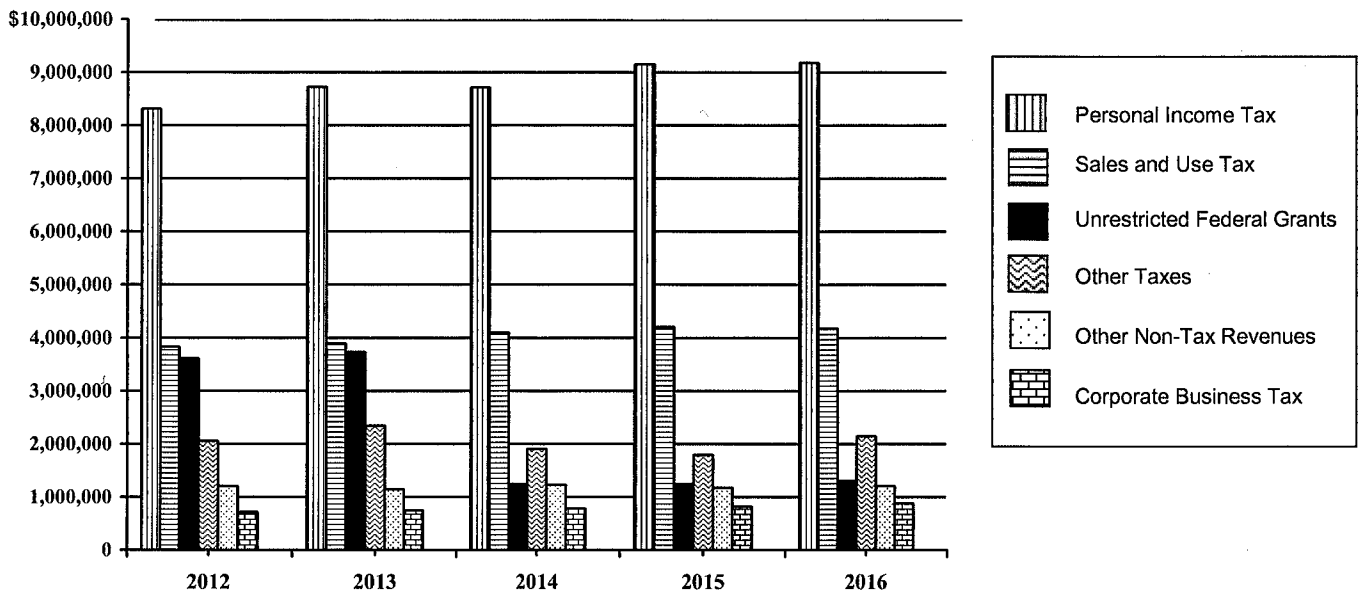
(c) Other non-tax revenues are comprised of special revenue transfers; Indian gaming payments; licenses, permits and fees; sales of commodities and services; rents, fines and escheats; investment income; other miscellaneous revenues; designated Tobacco Settlement Revenues and special transfers to the resources of the General Fund. See **Appendix II-E**.

SOURCE: Public Act No. 15-244, as amended by Public Act No. 15-5 of the June Special Session; Public Act No. 16-2 of the May Special Session, as amended; and Public Act No. 16-3 of the May Special Session, as amended.

### Historical General Fund Revenues

Actual General Fund revenues for Fiscal Years 2012 through 2016 are set forth in **Appendix II-D** to this 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)**



	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Taxes:</b>					
Personal Income Tax .....	\$ 8,310,820	\$ 8,719,245	\$ 8,718,659	\$ 9,151,037	\$ 9,181,648
Sales Tax .....	3,830,117	3,896,998	4,100,564	4,205,051	4,181,852
Corporate Business Tax .....	716,522	742,515	782,239	814,805	880,449
Other Taxes <sup>(b)</sup> .....	<u>2,055,644</u>	<u>2,343,005</u>	<u>1,909,126</u>	<u>1,792,973</u>	<u>2,142,039</u>
<b>Subtotal</b> .....	<b>\$14,913,103</b>	<b>\$15,701,763</b>	<b>\$15,510,588</b>	<b>\$15,963,866</b>	<b>\$16,385,988</b>
R & D Credit Exchange .....	(3,563)	(4,086)	(5,055)	(7,878)	(7,623)
Refunds of Taxes .....	<u>(1,105,171)</u>	<u>(1,144,993)</u>	<u>(1,182,397)</u>	<u>(1,163,639)</u>	<u>(1,223,198)</u>
<b>Total Net Taxes</b> .....	<b>\$13,804,369</b>	<b>\$14,552,684</b>	<b>\$14,323,136</b>	<b>\$14,792,349</b>	<b>\$15,155,167</b>
<b>Other Revenue:</b>					
Federal Grants					
(Unrestricted) .....	\$ 3,607,163	\$ 3,733,909	\$ 1,243,861 <sup>(d)</sup>	\$ 1,241,244 <sup>(d)</sup>	\$ 1,301,532 <sup>(d)</sup>
Other Non-Tax Revenues <sup>(c)</sup> .....	1,207,800	1,143,366	1,229,032	1,174,912	1,207,958
Transfers to Other Funds .....	(61,800)	(128,028)	(61,800)	(61,780)	(61,688)
Transfers from Other Funds .....	<u>4,101</u>	<u>103,100</u>	<u>873,828<sup>(e)</sup></u>	<u>135,313</u>	<u>177,853</u>
<b>Total Other Revenues</b> .....	<b>\$ 4,757,264</b>	<b>\$ 4,852,347</b>	<b>\$ 3,284,921</b>	<b>\$ 2,489,689</b>	<b>\$ 2,625,655</b>
<b>Total Revenues</b> .....	<b>\$18,561,633</b>	<b>\$19,405,031</b>	<b>\$17,608,057</b>	<b>\$17,282,038</b>	<b>\$17,780,822</b>

- (a) The bar graph reflects the gross listed tax and revenue amounts and does not reflect the listed adjustments for tax credits and refunds and transfers to or from other funds. See **Appendix II-D** for adjustments to revenues.
- (b) Other taxes are comprised of inheritance and estate taxes; taxes on gross receipts of public service corporations, net direct premiums of insurance companies, oil companies, cigarettes and alcoholic beverages, real estate transfers, admissions and dues, and 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; other miscellaneous revenues and special transfers to the resources of the General Fund less refunds of payments.
- (d) Beginning with Fiscal Year 2014, the State significantly altered the manner in which it handles federal Medicaid grants for budget and accounting purposes. Previously, the State appropriated Medicaid expenditures on a gross basis within the Department of Social Services, and reflected any federal reimbursements related to those expenditures as revenues, resulting in both the State and federal share of Medicaid costs being included in the State appropriation for Medicaid. Beginning with Fiscal Year 2014, the State commenced net budgeting Medicaid expenditures within the Department of Social Services, resulting in only the State's share of Medicaid expenditures being appropriated.
- (e) The Fiscal Year 2014 amount includes \$598.5 million in GAAP Conversion Bonds, the proceeds of which were used to reduce the cumulative GAAP deficit of the state.

SOURCE: 2012, 2013, 2014, 2015 and 2016 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 current tax is imposed on a graduated scale, with a maximum rate of 6.99%, 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 \$15,000 to \$24,000. 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 higher income levels. Under the current structure, the top rate increases to 6.99% 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, rising thereafter to 6.99%. Lower rates are phased out for all filers who exceed certain income thresholds. There is an income tax credit for property taxes paid of \$200 per filer for tax years beginning on or after January 1, 2016. Taxpayers also are subject to a Connecticut minimum tax, based on their liability, if any, for payment of the federal alternative minimum tax. Neither the personal exemption nor the tax credits described above are available to trusts or estates.

**Sales and Use Taxes.** A 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) retail sales 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) hotel or lodging house rooms for a period not exceeding thirty consecutive calendar days. A 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 each of 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 these taxes are generally due monthly on or before the last day of the month next succeeding the taxable month.

**Corporation Business Taxes.** A 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 that carries on or has the right to carry on business within the State, owns or leases property, 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, which 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. Corporations are required to compute their tax liability under three methods, determine which calculation produces the greatest tax, and pay that amount to the State.

- The first method of computing the Corporation Business Tax 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. The Income-Base Tax is at a rate of 7.5% for taxable years commencing on and after January 1, 2000.
- The second method of computing the Corporation Business Tax is a tax on capital. This 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 the corporation's capital stock and balance sheet surplus, profit and deficit.

- The third method of computing the Corporation Business Tax is a minimum tax in the amount of \$250.

The State limits corporation credits from reducing tax liability by more than 50.01% for most credits. The State imposes a corporation business tax surcharge of 20% for income years 2012 through 2017 for businesses with over \$100 million in federal adjusted gross income. Under current law, the surcharge will decrease to 10% for income year 2018 and phase out completely for income year 2019.

A \$250 charge, due biennially, 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.

**Other Taxes.** Other tax revenues are derived from inheritance and estate taxes; taxes on gross receipts of public service corporations, on net direct premiums of insurance companies, on cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on healthcare providers; and other miscellaneous taxes.

**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 based on expenditures. The largest components of federal grants in Fiscal Year 2016 were related to medical assistance provided to low income individuals under Medicaid and temporary assistance for needy families. The State also receives certain restricted federal grants that are not reflected in annual appropriations but that nonetheless are accounted for in the General Fund. In addition, the State receives certain federal grants that are not accounted for in the General Fund but are allocated to the Special Transportation Fund, various Capital Project Funds and other funds.

For the periods presented in this Information Statement, two matters affect comparability.

- Beginning with Fiscal Year 2014, the State significantly altered the manner in which it handles federal Medicaid grants for budget and accounting purposes. Previously, the State appropriated Medicaid expenditures on a gross basis within the Department of Social Services, and reflected any federal reimbursements related to those expenditures as revenues, resulting in both the State and federal share of Medicaid costs being included in the State appropriation for Medicaid. Beginning with Fiscal Year 2014, the State commenced net budgeting Medicaid expenditures within the Department of Social Services, resulting in only the State's share of Medicaid expenditures being appropriated. These changes reduced both appropriations and revenues by \$2,768.7 million in Fiscal Year 2014 and \$3,204.9 million in Fiscal Year 2015, compared to the prior method.
- Beginning January 1, 2014, the federal Affordable Care Act increased income eligibility under Medicaid from 53% of the federal poverty level to 133% of the federal poverty level, referred to as Medicaid expansion. The expansion of Medicaid will be off-budget and funded entirely from federal revenue. With a new administration at the federal level, it is not known at this time whether the Affordable Care Act will continue to operate under its existing provisions and structure and what impact, if any, any changes might have on the State's financial operations.

**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

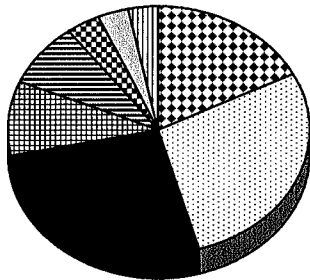
### Appropriated and Historical Expenditures

**Fiscal Year 2016 and 2017 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; Conservation and Development; and Legislative. State expenditures for Department of Transportation functions are generally paid from the Special Transportation Fund, although minor expenditures for transportation related expenditures are occasionally paid from the General Fund. See – **OTHER FUNDS, DEBT AND LIABILITIES - Special Transportation Fund and Debt** herein.

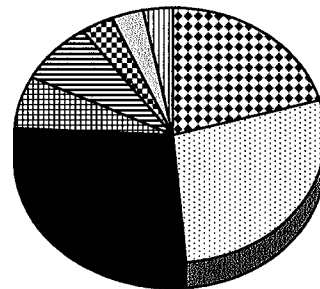
The adopted budget and final financial budgetary-basis results for Fiscal Year 2016, the adopted and estimated (as of December 31, 2016) budget for Fiscal Year 2017 are included as **Appendix II-E** to this Information Statement. A summary of appropriated General Fund expenditures for Fiscal Years 2016 and 2017 is set forth below.

















### Appropriated General Fund Expenditures (In Millions)

**Appropriated Expenditures  
Fiscal Year 2016  
\$18,161.6 <sup>(a)</sup>**



**Appropriated Expenditures  
Fiscal Year 2017  
\$17,886.4 <sup>(a)</sup>**



	Human Services	\$ 3,196.2	17.4%		Human Services	\$ 3,708.8	20.5%
	Education, Libraries and Museums	5,166.4	28.1%		Education, Libraries and Museums	5,067.8	28.0%
	Non-Functional	4,775.7	26.0%		Non-Functional	4,920.5	27.2%
	Health and Hospitals	1,817.4	9.9%		Health and Hospitals	1,217.0	6.7%
	Corrections	1,514.8	8.3%		Corrections	1,417.9	7.9%
	General Government	670.0	3.7%		General Government	602.2	3.3%
	Judicial	625.4	3.4%		Judicial	593.9	3.3%
	Other Expenditures <sup>(b)</sup>	596.2	3.2%		Other Expenditures <sup>(b)</sup>	547.7	3.1%

(a) The pie charts reflect the total listed expenditures of \$18,362.1 million for Fiscal Year 2016 and \$18,075.8 million for Fiscal Year 2017, while the references in the title of the pie charts reflect adjustments for unallocated lapses of \$200.5 million for Fiscal Year 2016 and \$189.4 million for Fiscal Year 2017. See **Appendix II-E** for anticipated adjustments to appropriated expenditures. The amounts reflected herein do not reflect the Governor's line-item veto of \$22.5 million in appropriations in Fiscal Year 2017.

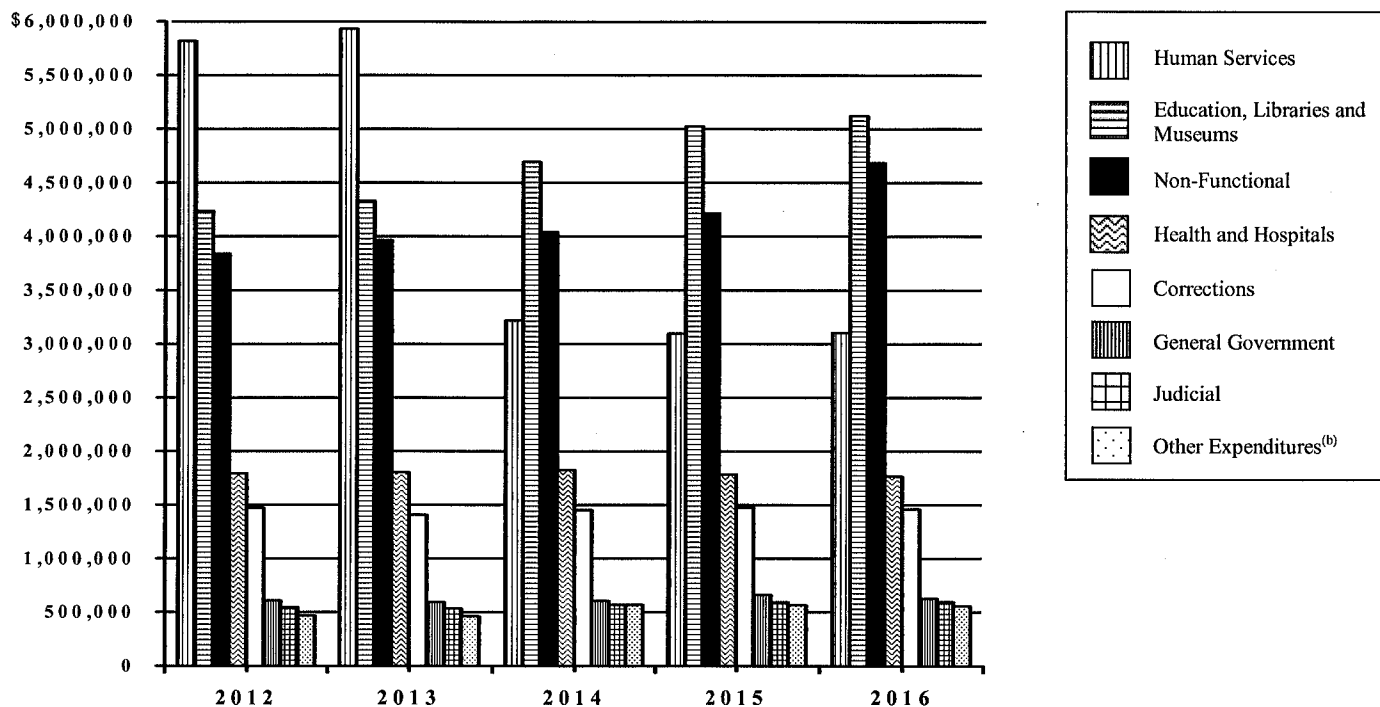
(b) Other expenditures are comprised of appropriations for Regulation and Protection; Conservation and Development; and Legislative.

SOURCE: Public Act No. 15-244, as amended by Public Act No. 15-5 of the June Special Session, Public Act No. 16-2 of the May Special Session and Public Act No. 16-3 of the May Special Session.

**Historical General Fund Expenditures**

Actual General Fund expenditures for Fiscal Years 2012 through 2016 are set forth in **Appendix II-D** to this 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Human Services.....	\$ 5,817,369	\$ 5,931,567	\$ 3,215,827 <sup>(c)</sup>	\$ 3,095,929 <sup>(c)</sup>	\$ 3,102,021 <sup>(c)</sup>
Education, Libraries and Museums.....	4,235,428	4,328,894	4,695,646	5,025,391	5,122,029
Non-Functional.....	3,841,292	3,965,211	4,042,481	4,215,341	4,686,059
Health and Hospitals.....	1,792,435	1,801,952	1,827,308	1,785,337	1,765,944
Corrections .....	1,472,685	1,408,761	1,454,442	1,476,753	1,463,065
General Government.....	609,239	593,367	605,677	661,000	627,035
Judicial.....	545,650	534,512	569,056	593,314	597,584
Other Expenditures <sup>(b)</sup> .....	<u>467,536</u>	<u>461,403</u>	<u>569,607</u>	<u>566,624</u>	<u>557,521</u>
Totals.....	\$18,781,634	\$19,025,667	\$16,980,044	\$17,419,689	\$17,921,258

(a) The bar graphs and amounts listed do not reflect the offsetting effect of restricted federal and other grants. See **Appendix II-D**.

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

(c) Beginning with Fiscal Year 2014, the State significantly altered the manner in which it handles federal Medicaid grants for budget and accounting purposes. Previously, the State appropriated Medicaid expenditures on a gross basis within the Department of Social Services, and reflected any federal reimbursements related to those expenditures as revenues, resulting in both the State and federal share of Medicaid costs being included in the State appropriation for Medicaid. Beginning with Fiscal Year 2014, the State commenced net budgeting Medicaid expenditures within the Department of Social Services, resulting in only the State's share of Medicaid expenditures being appropriated.

SOURCE: 2012, 2013, 2014, 2015 and 2016 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. Beginning with Fiscal Year 2014, the State commenced net budgeting Medicaid expenditures within the Department of Social Services, resulting in only the State's share of payments to private Medicaid providers being appropriated. Federal payments applied to such costs are not appropriated. This has reduced both appropriations and revenues by \$2,768.7 million in Fiscal Year 2014 and \$3,204.9 million in Fiscal Year 2015 compared to the cost of current services.

**Education, Libraries and Museums.** The majority of 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 consists of expenditures for higher education (including the University of Connecticut, the Board of Regents and Financial & Academic Affairs for Higher Education), the Office of Early Childhood Education, the Teachers' Retirement Board and the State Library.

**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 housing, historical sites, commerce and industry; and environment.

**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 corresponding State expenditures can be categorized into two groups, non-fixed costs and fixed costs. Non-fixed costs can be described as the costs of State administration and include expenditures used directly to operate the facilities and programs of State agencies. This includes such items as salaries and wages for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses, variable costs and discretionary items.

Fixed costs, consist largely of payments to State employee and teacher benefits including pensions and retiree health; entitlement programs such as Medicaid; and payments of debt service. Fixed costs amount to approximately 47.1% of total General Fund expenditures for Fiscal Year 2016 and 49.1% of total General Fund estimated expenditures for Fiscal Year 2017. A summary of non-fixed and fixed costs for the General Fund is shown below.

**TABLE 1<sup>(a)</sup>**  
**Fixed Costs - General Fund**  
**Summarized by Major Expenditure Category**  
**(In Millions of Dollars)**

	<b>Fiscal Year 2015 <u>(Actual)</u></b>	<b>Fiscal Year 2016 <u>(Actual)</u></b>	<b>Fiscal Year 2017 <u>(Estimated)</u></b>
Non-Fixed Costs	\$9,478.1	\$9,483.3	\$9,094.7
Fixed Costs:			
Debt Service	1,691.5	1,967.7	2,073.1
Teachers' Pensions	984.1	975.6	1,012.2
State Employees Retirement System	970.9	1,096.8	1,124.7
Other State Pensions	20.3	19.8	23.8
State and Teacher OPEB	617.5	665.9	751.0
Medicaid	2,347.7	2,391.1	2,447.2
All Other Entitlement Accounts <sup>(b)</sup>	<u>1,309.6</u>	<u>1,321.0</u>	<u>1,347.6</u>
<b>Total Fixed Costs</b>	<b>\$7,941.6</b>	<b>\$8,437.9</b>	<b>\$8,779.5</b>
 Fixed Cost Percent of Total Expenditures	 45.6%	 47.1%	 49.1%

(a) Table 1 includes actual expenditures for Fiscal Year 2015, actual expenditures for Fiscal Year 2016, and estimated expenditures for Fiscal Year 2017 per OPM's January 20, 2017 letter to the Comptroller.

(b) Includes entitlement programs under the Department of Mental Health and Addiction Services, Department of Development Services, Department of Social Services, Department of Children and Families and adjudicated claims under the Office of the State Comptroller.

Note: Totals may not add due to rounding.

SOURCE: Office of Policy and Management

## **Adopted Biennium Budget for Fiscal Years 2016 and 2017**

On June 3, 2015, the General Assembly passed a budget bill for the biennium ending June 30, 2017, subsequently amended during a June Special Session. The Governor signed into law the budget bill as amended by various implementer legislation. The act made General Fund appropriations of \$18,161.6 million in Fiscal Year 2016, which represented 3.9% growth over Fiscal Year 2015 appropriations, and \$18,711.2 million in Fiscal Year 2017. The budget projected General Fund revenues of \$18,162.4 million in Fiscal Year 2016 and \$18,713.6 million in Fiscal Year 2017, resulting in a projected surplus of \$0.8 million in Fiscal Year 2016 and \$2.5 million in Fiscal Year 2017. Section 2-33a of the Connecticut General Statutes sets out the State's expenditure cap. The adopted budget was \$23.0 million below the expenditure cap for Fiscal Year 2016 and \$106.2 million below the expenditure cap for Fiscal Year 2017, as calculated under Section 35 of the budget bill. The calculations as specified in such section made two changes in the manner in which the expenditure cap is calculated: first, the five year personal income growth rate is calculated on a calendar year rather than a fiscal year basis, and second, calculations assume that appropriations for the unfunded liabilities of the State's retirement systems are exempt from being counted as general budget expenditures under the expenditure cap. In December 2015, the General Assembly passed, and the Governor signed into law, Public Act No. 15-1, of the December Special Session, to make structural changes to the amended budget bill described above for Fiscal Year 2017. The bill reduced appropriated expenditures by \$195.8 million in both Fiscal Year 2016 and 2017. In addition, the bill made several revenue adjustments, including the delay of the sales tax revenue diversions from the General Fund to the Municipal Revenue Sharing Account and Special Transportation Fund, expected to result in \$137.5 million in additional revenue in Fiscal Year 2016. For Fiscal Year 2017, revenues were reduced by \$17.5 million due to the expansion of various tax credits, modifications of the cap on unitary combined reporting method under the corporation tax, and changes to certain transfers.

See **Appendix II-E** of this Information Statement for more information regarding the adopted budget for Fiscal Years 2016 and 2017.

### **Fiscal Year 2016 Operations**

Pursuant to the Comptroller's audited budgetary based financial report provided on November 30, 2016, as of June 30, 2016, General Fund revenues were \$17,780.8 million, General Fund expenditures and net miscellaneous adjustments and reservations (including net appropriations continued and estimated lapses) were \$17,951.2 million and the General Fund deficit for Fiscal Year 2016 was \$170.4 million. The entire deficit was eliminated through a transfer from the Budget Reserve Fund. As a result of such transfer, the balance in the Budget Reserve Fund was reduced from the prior level of \$406.0 million to \$235.6 million, which is equal to 1.3% of the net General Fund appropriations for Fiscal Year 2017.

The audited results for the final Fiscal Year 2016 operations of the General Fund have been outlined in **Appendix II-D** to this Information Statement.

### **Fiscal Year 2017 Midterm Budget Adjustments**

The General Assembly passed Public Act No. 16-2 of the May Special Session, as amended which made mid-term budget revisions for Fiscal Year 2017 along with additional legislation to implement the budget and policy changes reflected in the budget. Based upon the consensus revenue estimate at the time issued on April 29, 2016 by OPM and the Legislature's Office of Fiscal Analysis ("OFA") and adjusted for policy changes contained in the budget, projected revenues totaled \$17,886.7 million, expenditures are anticipated to be \$17,886.5 million, and the revised budget projects a General Fund surplus of \$0.2 million for Fiscal Year 2017, which would be approximately \$612.8 million below the expenditure cap.

The revised Fiscal Year 2017 budget included policy changes projected to result in approximately \$136.3 million in additional revenue above the consensus revenue forecast. The most significant change includes:

- A reduction in sales and use tax revenue transfers to both the Municipal Revenue Sharing Account and the Special Transportation Fund

The revised budget represents a reduction in appropriations of approximately \$824.7 million compared to the originally adopted budget for Fiscal Year 2017. The more significant changes include:

- Across-the-board reductions to funding for personal services (\$255.0 million) and other expenses (\$50.0 million)
- Fringe benefits reductions, principally as a result of the personnel reductions noted above (\$70.5 million)
- Funding eliminations for wage increases (\$67.6 million)
- Block grant reductions for higher education (\$54.5 million)
- Funding reductions for municipal payment in lieu of taxes grants, public school and non-public school transportation grants, adult education, and education cost sharing grants (net of the originally budgeted lapse) (\$68.3 million)
- Reduced hospital supplemental grant payments (\$44 million)

The Governor signed such bill, however he exercised his line-item veto authority for amounts totaling \$22.5 million in appropriations in order to offset projected savings anticipated from proposed legislation that was not passed by the General Assembly.

Pursuant to Public Act No. 16-4 of the May Special Session, which was passed by the General Assembly and signed into law by the Governor, the revised Fiscal Year 2017 budget includes cancellations of \$1,000.9 million in general obligation bond authorizations and \$358.6 million in new general obligation bond authorizations, resulting in a net decrease of \$642.3 million in general obligation bond authorizations to take effect in Fiscal Year 2017. It also includes an increase of \$68.6 million in special tax obligation bonds to take effect in Fiscal Year 2017.

The midterm budget adjustments have been reflected in **Appendix II-E** to this Information Statement but do not include the adjustments made by the Governor's line-item veto discussed above.

A special session of the General Assembly was held on September 28, 2016 pursuant to which Public Act No. 16-1 of the September 2016 Special Session was passed and signed into law. The Public Act allows the Department of Economic and Community Development commissioner to enter into an agreement with Lockheed Martin regarding the production of U.S. Navy heavy lift helicopters at Sikorsky, a subsidiary of Lockheed Martin. Lockheed Martin will have the opportunity to earn up to \$220 million over the 14 years of the agreement, provided they retain and grow full time employment to over 8,000 employees, nearly doubling spending with suppliers throughout the State (an increase of over \$300 million), and increase capital spending by 22% (approximately \$17 million).

### **Fiscal Year 2017 Operations**

By statute, the State's fiscal position is reported on or before the first day of each month by the Comptroller. Pursuant to Section 4-66 of the Connecticut General Statutes, by the twentieth day of each month, the Office of Policy and Management ("OPM") provides projected estimates to the Comptroller of revenues and expenditures for the current fiscal year for use by the Comptroller in preparing the Comptroller's monthly report. The following summarizes OPM's and the Comptroller's estimates of General Fund revenues; expenditures and miscellaneous adjustments (including net appropriations continued and estimated lapses); and surplus/(deficit) balance in the General Fund for the 2017 Fiscal Year as of the referenced ending period in accordance with specific budgetary basis accounting standards set forth by statute which incorporate new budgeted expenditure accruals consistent with specific statutory reporting requirements:

**OPM and Comptroller Estimates Fiscal Year 2017**  
(in Millions)

<b>Period Ending<sup>(a)</sup></b>	<b>OPM's Report</b>			<b>Comptroller's Report</b>		
	<b>Revenues</b>	<b>Expenditures<sup>(b)</sup></b>	<b>Surplus/ (deficit)</b>	<b>Revenues</b>	<b>Expenditures<sup>(b)</sup></b>	<b>Surplus/ (deficit)</b>
November 30, 2016	\$17,840.8	\$17,882.4	\$(41.6)	\$17,840.8 <sup>(c)</sup>	\$17,897.0 <sup>(c)</sup>	\$(56.2) <sup>(c)</sup>
December 31, 2016	17,897.5	17,874.2	23.3	17,897.5 <sup>(c)</sup>	17,888.8 <sup>(c)</sup>	8.7 <sup>(c)</sup>
January 31, 2017	17,897.5	17,874.6	22.9	N/A <sup>(d)</sup>	N/A <sup>(d)</sup>	N/A <sup>(d)</sup>

- (a) Estimates reflect projections for Fiscal Year 2017 as of the period ending date.
- (b) Expenditures include net appropriations, continued and estimated lapses and miscellaneous adjustments.
- (c) Figures derived from the Comptroller's monthly letters to the Governor.
- (d) Estimates are expected March 1, 2017 and not yet available.

On January 25, 2017, the OFA projected a deficit of \$11.9 million in the General Fund for Fiscal Year 2017, based on its projected changes in several revenue and expense items.

See also discussion below under "*Fiscal Accountability Report*" for additional information concerning Fiscal Year 2017.

The next monthly report of OPM is expected on March 20, 2017 and the next monthly report of the Comptroller is expected on March 1, 2017. The projections of OPM, the Comptroller and the OFA above are only estimates and no assurances can be given that future events will materialize as estimated, or that subsequent estimates or adjustments by OPM, the Comptroller or other State agencies will not reflect changes in the estimated or final result of Fiscal Year 2017 operations of the General Fund. In addition, adjustments or audit or actions of the State may also result in changes in the final result of Fiscal Year 2017 operations of the General Fund as reported by the Comptroller and as estimated by OPM and OFA. OPM's estimate for the Fiscal Year 2017 operations of the General Fund (as of the period ending December 31, 2016) has been outlined in **Appendix II-E** to this Information Statement. OPM's estimates for the period ending January 31, 2017 above have *not* been presented in **Appendix II-E** to this Information Statement.

**Forecasted Operation**

**Consensus Revenue Estimates**

Pursuant to Section 2-36c of the Connecticut General Statutes, on January 17, 2017, OPM and OFA issued their consensus revision to their original consensus revenue estimates as of November 10, 2016 for the current fiscal year and the three ensuing fiscal years as follows:

**General Fund Consensus Revenue Estimate**  
(in Millions)

	<b>Fiscal Year</b>			
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Revenue Estimate <sup>(a)</sup> .....	\$17,897.5	\$17,682.1	\$18,038.0	\$18,489.0

- (a) Pursuant to Public Act No. 16-2, the estimate assumes no transfers of sales tax revenues are made from the General Fund to the Municipal Revenue Sharing Fund in Fiscal Year 2017. Such transfers are assumed to be made in Fiscal Years 2018 through 2020 and thereby reduce the amount of General Fund revenues in those years.

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 actions of the State will not indicate changes in the final results of the fiscal years reported.

### **Fiscal Accountability Report**

On November 15, 2016, OPM and OFA each submitted a fiscal accountability report. Pursuant to the requirements of Public Act No. 16-3 of the May Special Session, the methodology for these reports varies from that used in prior years. The reports show the level of expenditure change from current year expenditures allowable by consensus revenue estimates in the General Fund, the changes to current year expenditures necessitated by fixed cost drivers which include generally, pension and other retiree costs, debt service, Medicaid, and certain other costs for the Department of Social Services and the Department of Children and Families, and the aggregate changes to current year expenditures required to accommodate such fixed cost drivers without exceeding current revenue estimates.

OPM's report estimated a deficit of \$67.7 million in the General Fund for Fiscal Year 2017 while OFA estimated a deficit of \$77.5 million. When comparing estimated costs for "fixed components" of the budget to the November consensus revenue forecast, both reports estimated fixed cost growth in the General Fund exceeding revenue growth for Fiscal Year 2018 by approximately \$1.2 to \$1.3 billion which would require a reduction in non-fixed costs by such amount in order to achieve a balanced budget. Beyond Fiscal Year 2018, revenue and fixed cost growth was anticipated to be more closely matched.

The State's expenditure cap would allow growth in capped expenditure of approximately \$300 million in Fiscal Year 2018 over Fiscal Year 2017 levels. Allowable growth rates are 2.00% in Fiscal Year 2018 over Fiscal Year 2017, 2.3% in Fiscal Year 2019 over Fiscal Year 2018, and 3.4% in Fiscal Year 2020 over Fiscal Year 2019.

The reports also 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 \$2.0 billion with the expenditure on debt service generally gradually increasing over such period.

The projections of OPM and OFA are only estimates and no assurances can be given that future events will materialize as estimated, or that subsequent estimates, adjustments or actions of the State will not reflect changes in the operations of the General Fund or in the estimated or final results of such fiscal years. In addition, the State has a balanced budget requirement and an expenditure cap as discussed in the **Financial Procedures** section under the heading **The Budgetary Process – Balanced Budget Requirement**. As such, budgets adopted for future fiscal years will need to comply with those requirements. As a result, the figures included in the report do not represent a projection of the actual financial results that might be expected, but instead serve as a planning tool.

### **Governor's Recommended Budget for Fiscal Years 2018 and 2019**

On February 8, 2017, the Governor presented to the General Assembly his proposed budget for Fiscal Years 2018 and 2019. General Fund revenues are projected to be \$18,002.9 million for Fiscal Year 2018 and \$18,325.4 for Fiscal Year 2019. General Fund appropriations total \$18,000.8 million for Fiscal Year 2018 and \$18,320.9 million for Fiscal Year 2019, resulting in projected surpluses of \$2.1 million in the first year and \$4.5 in the second year. This represents a growth of 0.8% and 1.8% in each year of the biennium respectively.

### Revenues

The Governor's budget proposal includes \$320.8 million in revenue enhancements in Fiscal Year 2018 and \$287.4 million in Fiscal Year 2019. The significant revenue changes include:

- Elimination of the \$200 property tax credit
- Decreasing the Earned Income Tax Credit from 27.5% to 25.0% of the federal level
- Increasing the tax on cigarettes from \$3.90 to \$4.35 per pack
- Lowering the insurance premiums rate from 1.75% to 1.50%
- Modifying the State Gift and Estate Tax by reducing the lifetime cap from \$20 million to \$15 million and phasing in the federal exemption levels over three years beginning in Fiscal Year 2019

### Expenditures

The Governor's proposed budget assumes \$1,363.8 million in expenditure reductions from the baseline (Fiscal Year 2017 appropriations plus growth in fixed costs and entitlements) in Fiscal Year 2018 and \$1,633.8 million in expenditure reductions in Fiscal Year 2019 resulting from:

- Collective bargaining savings
- Municipal sharing of one third of the pension costs for the Teachers' Retirement System
- Municipal aid adjustments
- Reductions to the college and hospital PILOT
- Maintaining caps on statutory formula grants at the State Department of Education

The Governor's budget proposal would be \$148.6 million below the expenditure cap for Fiscal Year 2018 and \$101.3 million below the expenditure cap for Fiscal Year 2019.

### Bond Authorizations

The Governor's proposed budget also includes several bonding authorizations, including:

- **General Obligation** – a net increase in general obligation bond authorizations totaling \$1,601.8 million in Fiscal Year 2018 and \$1,713.9 million in Fiscal Year 2019
- **Clean Water Fund** -- \$158.2 million in additional clean water revenue bond authorizations in Fiscal Year 2018 and \$350.3 million in Fiscal Year 2019
- **Special Transportation Obligation** -- \$818.8 million in new special transportation obligation bond authorizations in Fiscal Year 2018 and \$820.2 million in Fiscal Year 2019 in addition to \$551.7 million prior year authorizations effective in Fiscal Year 2018 and \$749.8 million in Fiscal Year 2019
- **University of Connecticut** -- \$265.9 million in general obligation bond authorizations for the University of Connecticut in Fiscal Year 2018 and \$225.9 million in Fiscal Year 2019
- **Connecticut State Colleges and Universities** -- \$150.0 million in general obligation bond authorizations for the Connecticut State Colleges and Universities in Fiscal Year 2018 and \$95.0 million in Fiscal Year 2019
- **Bioscience Collaboration and Innovation Funds** -- \$30.8 million in general obligation bond authorizations for bioscience collaboration and innovation in Fiscal Year 2018 and \$27.5 million in Fiscal Year 2019

Deliberations on the Governor’s budget recommendations are expected to continue throughout the legislative session with a scheduled adjournment date of June 7, 2017.

See **Appendix II-E** of this Information Statement for more information regarding the Governor’s Proposed Budget for Fiscal Years 2018 and 2019.

In addition to the proposed budget for the Fiscal Year 2018-2019 biennium, the Governor also presented a three year budget report for Fiscal Years 2020, 2021 and 2022. The report indicated out-year projected revenues, expenditures and balances in the General Fund as follows:

**Three Year Budget Report  
(In Millions)**

<u>Fiscal Year</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Revenues .....	\$ 18,735.6	\$ 19,250.1	\$ 19,756.0
Expenditures .....	<u>19,009.1</u>	<u>19,765.7</u>	<u>20,504.3</u>
Surplus / (Deficit) <sup>(a)</sup> .....	\$ (273.5)	\$ (515.6)	\$ (748.3)

(a) Article 3 Section 18 of the State Constitution requires a balanced budget.

**General Fund Budget History**

The table below summarizes the results of operation of the General Fund on a budgetary-basis. Summaries of actual revenues and expenditures on the budgetary (modified cash/statutory) basis for the Fiscal Years 2012 through 2016 are set forth in **Appendix II-D** to this Information Statement.

**TABLE 2  
General Fund  
Summary of Operating Results — Budgetary (Modified Cash/Statutory) Basis<sup>(a)</sup>  
(In Millions)**

<u>Fiscal Year</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total General Fund Revenues <sup>(b)</sup> .....	\$18,561.6	\$ 19,405.0	\$ 17,608.1	\$17,282.0	\$17,780.8
Net Appropriations/Expenditures <sup>(c)</sup> .....	<u>18,705.1</u>	<u>19,007.0</u>	<u>17,359.6</u>	<u>17,395.2</u>	<u>17,951.2</u>
<b>Operating Surplus/(Deficit)</b> .....	<b>\$ (143.5)<sup>(d)</sup></b>	<b>\$ 398.0<sup>(e)</sup></b>	<b>\$ 248.5<sup>(f)</sup></b>	<b>\$ (113.2)<sup>(g)</sup></b>	<b>\$ (170.4)<sup>(h)</sup></b>

(a) Fiscal Years 2012-2013 are reported on a modified cash basis while Fiscal Years 2014-2016 are reported on a statutory basis. See **Accounting Procedures** under **FINANCIAL PROCEDURES** for further explanation.

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

(c) 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 II-D**.

(d) The Fiscal Year 2012 deficit was eliminated through the release of a portion of funds from the Budget Reserve Fund.

(e) Pursuant to Public Act No. 13-184, \$220.8 million was reserved for future fiscal year funding and \$177.2 million was reserved for a statutory transfer to the Budget Reserve Fund, leaving no unappropriated surplus for Fiscal Year 2013.

(f) In accordance with State statute and accounting procedures, this amount was transferred to the Budget Reserve Fund.

(g) The Fiscal Year 2015 deficit was eliminated through the release of a portion of funds from the Budget Reserve Fund.

(h) The Fiscal Year 2016 deficit was eliminated through the release of a portion of funds from the Budget Reserve Fund.

SOURCE: Comptroller’s Office



The table below shows the reconciliation of the actual operations surplus (deficit) under the budgetary (modified cash/statutory) basis to the GAAP basis of accounting for the last five fiscal years. Audited GAAP based financial statements for Fiscal Year 2016 are included in **Appendix II-C**.

**TABLE 3**  
**General Fund**  
**Summary of Operating Results — Budgetary (Modified Cash/Statutory) Basis<sup>(a)</sup> vs. GAAP Basis**  
**(In Millions)**

<u>Fiscal Year</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Modified Cash/Statutory Basis Operating Surplus/(Deficit)<sup>(a)</sup></b> .....	\$ --	\$ 398.0	\$ 656.8	\$ (113.2)	\$ (170.4)
<b>Adjustments:</b>					
Increases (decreases) in revenue accruals:					
Governmental Receivables.....	(178.1)	(38.7)	(29.5)	147.7	(139.0)
Other Receivables .....	(117.2)	(74.5)	44.6	44.0	112.5
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities.....	590.2	87.8	(110.2)	(213.7)	(275.5)
Salaries and Fringe Benefits Payable.....	131.3	(32.8)	12.0	8.7	16.6
Increase (decrease) in Continuing Appropriations....	(70.6)	(17.9)	(26.5)	(21.0)	31.6
Transfer of prior year surplus.....	(143.5)	--	--	--	--
<b>GAAP Based Operating Surplus/(Deficit)</b> .....	<u>\$ 212.1</u>	<u>\$ 321.9</u>	<u>\$ 547.2</u>	<u>\$ (147.5)</u>	<u>\$ (424.2)</u>

(a) Fiscal Years 2012-2013 are reported on a modified cash basis while Fiscal Years 2014-2016 are reported on a statutory basis. See **Accounting Procedures** under **FINANCIAL PROCEDURES** for further explanation.

SOURCE: Comptroller's Office

The table below sets forth on the budgetary (modified cash/statutory) 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/Statutory) Basis<sup>(a)</sup>**  
**(In Millions)**

<u>Fiscal Year</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Operating Surplus/(Deficit)</b> .....	\$ (143.5)	\$ 398.0	\$ 248.5	\$ (113.2)	\$ (170.4)
<b>Fund Transfers and Reserves</b>					
Transfers to Budget Reserve Fund.....	0.0	177.2	248.5	0.0	0.0
Transfers from Budget Reserve Fund.....	143.5	--	--	113.2	170.4
Reserve for Subsequent Fiscal Year Operations <sup>(b)</sup> .....	--	220.8	--	--	--
Total Transfers/Reserves .....	\$ 143.5	\$ 0.0	\$ 0.0 <sup>(c)</sup>	\$ 0.0	\$ 0.0
<b>Unreserved Fund Balance</b>					
<b>Surplus/(deficit)</b> .....	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>

(a) Fiscal Years 2012-2013 are reported on a modified cash basis while Fiscal Years 2014-2016 are reported on a statutory basis. See **Accounting Procedures** under **FINANCIAL PROCEDURES** for further explanation.

(b) \$30 million reserved in Fiscal Year 2013 was released in Fiscal Year 2015.

(c) Fiscal Year 2014 General Fund balance includes \$598.5 million in GAAP Conversion Bonds.

SOURCE: Comptroller's Office

The table below shows the reconciliation of the actual cumulative unreserved General Fund balance (deficit) under the budgetary (modified cash/statutory) basis to the GAAP basis of accounting for the last five fiscal years.

**TABLE 5**  
**General Fund**  
**Unreserved Fund Balance — Budgetary (Modified Cash/Statutory) Basis<sup>(a)</sup> vs. GAAP Basis**  
**(In Millions)**

<u>Fiscal Year</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Unreserved Fund Balance (Deficit)</b>					
<b>Modified Cash/Statutory Basis<sup>(a)</sup></b> .....	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 116.1
<b>GAAP Based Adjustments</b>					
<b>Additional Assets</b>					
Taxes Receivable					
Income Tax Accrual Reduction .....	(328.1)	(372.5)	(437.0)	(475.0)	(447.1)
Eliminate Corporation Accrual .....	(4.4)	(8.9)	(7.8)	(19.3)	(18.5)
Additional Taxes Receivable .....	<u>3.7</u>	<u>4.4</u>	<u>4.4</u>	<u>1.9</u>	<u>4.3</u>
Net Increase (Decrease) Taxes.....	(328.8)	(377.0)	(440.4)	(492.4)	(461.3)
Net Accounts Receivable.....	299.9	291.4	326.8	398.1	388.0
Federal and Other Grants Receivable <sup>(b)</sup> .....	364.0	325.3	37.5	185.6	46.2
Due From Other Funds .....	19.0	26.2	39.2	48.7	46.4
GAAP Conversion Bonds.....	<u>--</u>	<u>--</u>	<u>598.5</u>	<u>--</u>	<u>--</u>
Total Additional Assets.....	\$ 354.1	\$ 265.9	\$ 561.6	\$ 140.0	\$ 19.3
<b>Additional Liabilities</b>					
Salaries and Fringe Payable .....	(114.6)	(147.4)	65.5	(74.2)	90.8
Accounts Payable—Department of					
Social Services.....	(588.8)	(550.8)	(1.9) <sup>(c)</sup>	(31.2)	(42.9)
Accounts Payable—Trade & Other .....	(543.7)	(575.3)	(538.5)	(432.3)	(728.6)
Payable to Federal Government.....	(176.6)	(124.6)	(202.9)	(304.7)	(360.8)
Due to Other Funds.....	<u>(76.4)</u>	<u>(84.9)</u>	<u>(81.0)</u>	<u>(90.8)</u>	<u>(92.8)</u>
Total Additional Liabilities.....	\$(1,500.1)	\$(1,483.0)	\$ (758.8)	\$ (933.2)	\$(1,134.3)
Statutory Requirement – Change in Accounting					
Method.....	<u>--</u>	<u>--</u>	<u>(529.9)</u>	<u>--</u>	<u>--</u>
<b>Unreserved Fund Balance (Deficit)</b>					
<b>GAAP Basis</b> .....	<u>\$ (1,146.0)</u>	<u>\$ (1,217.1)</u>	<u>\$ (727.1)</u>	<u>\$ (793.2)</u>	<u>\$ (998.9)</u>

- (a) Fiscal Years 2012-2013 are reported on a modified cash basis while Fiscal Years 2014-2016 are reported on a statutory basis. See **Accounting Procedures** under **FINANCIAL PROCEDURES** for further explanation.
- (b) Primarily reimbursement for additional liabilities accrued to federal grant accounts or programs with federal participation, e.g., Medicaid.
- (c) Due to a statutory change, Federal Medicare spending has been transferred from the General Fund to the Restricted Grants Account Fund.

SOURCE: Comptroller's Office

The table below 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)**

<u>Fiscal Year</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Reserved:</b>					
Budget Reserve .....	\$ 93.4	\$ 270.7	\$ 519.2	\$ 406.0	\$ 235.6
Future Budget Years .....	--	220.8	30.5	81.2	--
Loans & Advances to Other Funds .....	26.6	30.5	34.7	36.5	38.1
Inventories .....	13.6	15.5	15.7	14.6	14.4
Continuing Appropriations.....	<u>100.0</u>	<u>91.0</u>	<u>85.9</u>	<u>65.0</u>	<u>96.6</u>
Total.....	\$ 233.6	\$ 628.5	\$ 686.0	\$ 603.3	\$ 384.7
<b>Unreserved:</b>	<u>(1,146.0)</u>	<u>(1,217.1)</u>	<u>(727.2)</u>	<u>(793.2)</u>	<u>998.9</u>
<b>Total Fund Balance.....</b>	\$ (912.4)	\$ (588.6)	\$ (41.2)	\$ (189.9)	\$ (614.2)

SOURCE: Comptroller's Office

## 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. Several companies including Cigna, ESPN, NBC Sports, Bridgewater Associates, Henkel Corporation and AQR Capital Management have agreed to participate in this program, pledging to create over 4,600 combined jobs in Connecticut in return for 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 was 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 the form of 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 ten 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.

### **Bioscience Innovation Fund**

Legislation passed in 2013 which, in concert with the bioscience initiative above, would support the State's growing bioscience sector by strengthening the State's capacity to create competitive investment tools and attract additional federal and private dollars. The State will invest \$200 million in the new Bioscience Innovation Fund over ten years which will be administered by Connecticut Innovations, Inc.

### **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.

## STATE DEBT

### Constitutional Provisions

The State has no constitutional limit on its power to issue obligations or incur debt, except that it may borrow only 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, the General 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 that are maintained outside the State's General Fund; and special obligation and revenue debt, which is payable from specified revenues or other funds that 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

**Statutory Authorization and Security Provisions.** The State issues general obligation bonds pursuant to specific bond acts and Section 3-20 of the General Statutes (the "General Obligation Bond Procedure Act" or the "Act"). The 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. The Act further provides that, as a part of the contract of the State with the owners of such bonds, there is made an appropriation of all amounts necessary for the punctual payment of principal and interest on such bonds, 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 the State's 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 Connecticut 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 that 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 (i) the principal amount of revenue anticipation notes having a maturity of one year or less, (ii) refunded indebtedness, (iii) bond anticipation

notes, (iv) borrowings payable solely from the revenues of a particular project, (v) the balances of debt retirement funds associated with indebtedness subject to the debt limit as certified by the Treasurer, (vi) the amount of federal grants certified by the Secretary of OPM as receivable to meet the principal of certain indebtedness, (vii) all authorized and issued indebtedness to fund any budget deficit of the State for any fiscal year ending on or before June 30, 2009, (viii) all authorized debt to fund the tax increment bond program of Connecticut Innovations, Inc., (ix) 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, (x) any indebtedness issued for the purpose of meeting cash flow needs, and (xi) 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 Program*.

Under the Connecticut General Statutes, the Treasurer is required to compute the aggregate amount of indebtedness as of January 1 and July 1 each year and at other statutorily prescribed times 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 so that the aggregate amount of indebtedness authorized will be below 90% of the statutory debt limit. The General Assembly is not required to act upon such recommendations.

The total tax receipts for Fiscal Year 2016 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 15, 2017, are described in the following table.

**TABLE 7**  
**Statutory Debt Limit**  
**As of February 15, 2017**

Total General Fund Tax Receipts	\$15,519,900,000	
Multiplier	<u>1.6</u>	
Debt Limit		\$24,831,840,000
Outstanding Debt <sup>(a)</sup>	\$14,112,618,925	
Guaranteed Debt <sup>(b)</sup>	\$ 1,533,845,000	
Authorized Debt <sup>(c)</sup>	<u>\$ 5,560,503,264</u>	
Total Subject to Debt Limit		\$21,206,967,189
Less Debt Retirement Funds <sup>(d)</sup>	\$ 697,347	
Aggregate Net Debt		\$21,206,269,842
Debt Incurring Margin		\$ 3,625,570,158

- (a) See **Table 8**. Includes accreted value of capital appreciation bonds. Excludes General Obligation Notes (Economic Recovery Notes 2013 Series A and 2014 Series A), Pension Obligation Bonds, UConn 2000 Bonds, tax increment financings, CRDA Bonds, CHFA Supportive Housing Bonds, CHFA Emergency Mortgage Assistance Program Bonds, CHEFA Child Care Facilities Bonds and lease financings other than the Juvenile Training School.
- (b) See **OTHER FUNDS, DEBT AND LIABILITIES – Contingent Liability Debt**. **Table 7** reflects only guarantees for certain outstanding debt of Southeastern Connecticut Water Authority and UConn 2000 Bonds secured by the State’s debt service commitment.
- (c) Includes UConn 2000 Bonds secured by the State’s debt service commitment that are authorized but unissued under the statutory cap for Fiscal Year 2017.
- (d) Includes debt service funds available for self-liquidating debt issued to finance facilities at the University of Connecticut and the Connecticut State University System.

SOURCE: State Treasurer’s Office

**State Bond Commission.** The General Obligation Bond Procedure Act establishes the State Bond Commission (the “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 Administrative 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.

Upon authorization, the principal amount of bonds so authorized is deemed to be appropriated 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. Such contracts and obligations may at any particular time exceed the amount of the bond proceeds 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.

**Types of Direct General Obligation Debt**

**General Obligation Bonds.** Pursuant to various public or special bond acts, the General Assembly empowers the 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 generally 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.** In April 2008 the State issued \$2,277 million of bonds to fund up to \$2 billion of the unfunded accrued liability in the Teachers' Retirement Fund plus capitalized interest and issuance costs. \$2,351 million (reflecting the accreted value) of such bonds are outstanding as of February 15, 2017. The public act 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 are excluded from the calculation of the statutory debt limit.

**UConn 2000 Financing Program.** The University of Connecticut is a separate corporate entity and instrumentality of the State empowered to issue bonds and construct certain infrastructure improvements at the University's various campuses. Known as UConn 2000, the infrastructure improvement program now is estimated to cost \$4,619.3 million to be financed over a twenty-nine year period. The UConn 2000 program contemplates total issuance of \$4,282.9 million general obligation bonds of the University secured by the State's debt service commitment, which is an annual amount for any debt service requirements when due and payable. 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 Treasurer is obligated to make such payments. For this reason, all general obligation borrowings by the University that are secured by the State's debt service commitment are treated as part of the State's general obligation debt, and are reflected in **Tables 8 through 14**. The amount of the University's bonds 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. As of February 15, 2017, \$3,358.6 million of such debt secured by the State's debt service commitment had been issued (including refunding bonds), of which \$1,532.9 million remain outstanding, with a remaining authorization of \$102.4 million.

Special obligation bonds of the University are to be secured by particular revenues of the University and are not subject to the cap on the University's general obligation debt service commitment bonds and are not counted against the State's debt limit.

The General Assembly has and may continue to authorize capital improvements for the University of Connecticut in addition to the UConn 2000 Program. General obligation bonds authorized for such purposes are reflected in the Authorized but Unissued Direct General Obligation Debt shown in **Table 12**. However, the construction of a new \$203 million ambulatory care center at the University of Connecticut Health Center authorized in 2011, but which has been financed through a lease financing through the University of Connecticut Health Center Finance Corporation is not reflected in **Table 12**.

**Lease Financing.** The State has issued certificates of participation for the development of courthouse facilities (none of which are outstanding) 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. The State is evaluating opportunities for the lease financing of energy improvements under existing statutory authorizations. The State has entered into

other leasing arrangements for the development of government facilities that are not treated as general obligation debt, most often in circumstances where the lease is an operating lease or the State is not a participant in the securitization of rental payments under the lease.

***Tax Increment Financing.*** Connecticut Innovations, Inc. (“CI”) is authorized 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 CI for debt service on the bonds. 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 Commission. Such tax increment bonds are not reflected in **Table 7**, but are reflected in **Tables 8 through 12**.

***Supportive Housing Financing.*** The Connecticut Housing Finance Authority (“CHFA”) in conjunction with other state agencies developed a collaborative plan to create affordable housing and support services for specified eligible persons. 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 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 15, 2017, \$60.28 million of such bonds were outstanding. Any provision in the contract providing for the payment of annual debt service constitutes a full faith and credit obligation of the State, and any bonds for which the State provides assistance are excluded from the calculation of the statutory debt limit.

***Emergency Mortgage Assistance Program.*** CHFA is authorized to issue up to \$50 million of bonds to fund an Emergency Mortgage Assistance Program and the Treasurer and OPM are required 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 15, 2017, the entire \$50 million had been issued, of which \$40.16 million was then outstanding. Any provision in the contract providing for the payment of annual debt service constitutes a full faith and credit obligation of the State, and any bonds for which the State provides assistance are excluded from the calculation of the statutory debt limit.

***Economic Recovery Notes.*** The Treasurer was authorized to issue notes to fund the State’s budget deficit for Fiscal Year 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 calculation of the statutory debt limit. In December 2009, the State issued \$915,795,000 of such Economic Recovery Notes. As of February 15, 2017, \$177.12 million of such Economic Recovery Notes (including refunding notes) remain outstanding.

***Certain Short-Term Borrowings.*** The Connecticut 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 and credit facilities from time to time to cover periodic cash flow requirements. 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 Treasurer has the authority to issue refunding bonds, bond anticipation notes, and capital appreciation bonds. The 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 Commission has adopted a resolution authorizing bonds. The Treasurer is also

authorized by the Act to issue refunding bonds whenever the Treasurer finds that a refunding 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 that has accrued on capital appreciation bonds up to the date of the table is added to the principal amount of the State's outstanding 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 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 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 into, the counter-party to the arrangement must have a rating on its unsecured long-term obligations that is the same as or higher than the underlying rating of the State on the applicable bonds. The 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 II-C, Note 19 – Derivative Financial Instruments**.

**Swap Agreements as of February 15, 2017**

<u>Bond Issue</u>	<u>Notional Amount</u>	<u>Termination Date</u>	<u>Fixed Rate Paid by State</u>
2005 Series B	\$ 20,000,000	June 1, 2017	5.07%
2005 Series B	\$ 20,000,000	June 1, 2020	5.20%

**Debt Statement.** The following table shows all direct general obligation indebtedness (including the accreted value of capital appreciation bonds) 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 15, 2017**  
**(In Thousands)**

General Obligation Bonds	\$14,090,513
Pension Obligation Bonds	2,351,187
UConn 2000 Bonds	1,532,895
Other <sup>(b)</sup>	<u>326,883</u>
Long Term General Obligation Debt Total	\$18,301,478
Short Term General Obligation Debt Total	<u>                    </u>
Gross Direct General Obligation Debt	\$18,301,478
Deduct:	
University Auxiliary Services <sup>(c)</sup>	<u>697</u>
Net Direct General Obligation Debt	<u>\$18,300,781</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 increment financings, CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds. However, it does not include CRDA Bonds or CHEFA Child Care Facilities Bonds. See **OTHER FUNDS, DEBT AND LIABILITIES – Other Debt Service and Contractual Commitments**.
- (c) These bonds are 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**  
**Outstanding Long Term General Obligation Debt and Debt Ratios**

<u>Fiscal Year</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Gross Direct Debt <sup>(a)</sup>	\$14,678,736	\$14,762,696	\$15,819,826	\$16,879,336	\$17,704,949
Ratio of Debt to Personal Income <sup>(b)</sup>	6.28%	6.40%	6.60%	6.84%	7.18%
Ratio of Debt to Estimated Full Value of Equalized Grand List <sup>(c)</sup>	2.68%	2.75%	3.06%	3.32%	3.44%
Per Capita Debt <sup>(d)</sup>	\$4,084	\$4,105	\$4,404	\$4,708	\$4,951

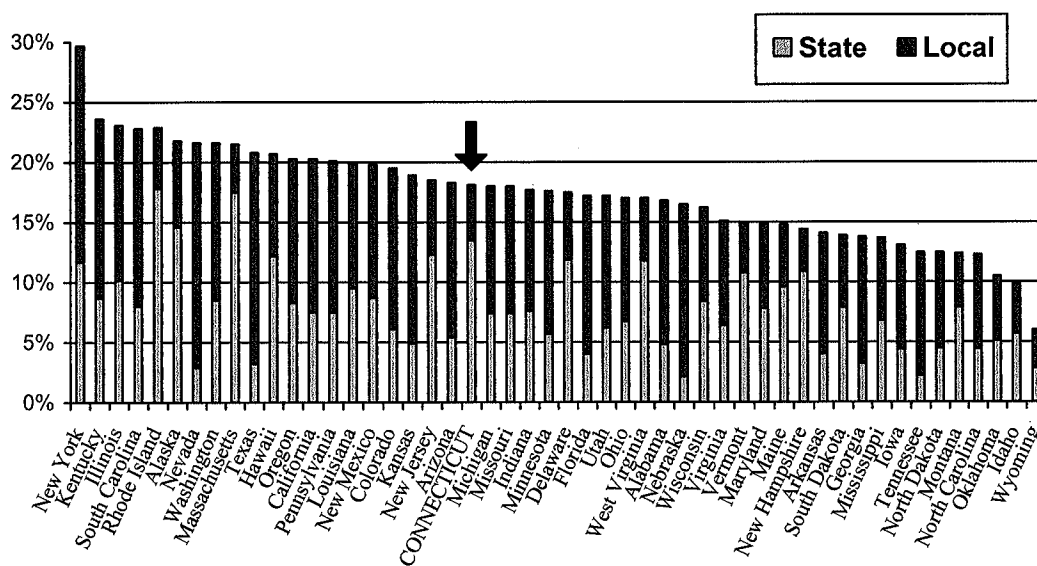
- (a) In thousands. Includes gross direct general obligation bonded indebtedness outstanding (including economic recovery notes) as of June 30 of each fiscal year as set out in **Table 11** which includes bonds that are considered self-liquidating.
- (b) See **Appendix II-B, Table B-2**. Personal Income: 2012 — \$233.7 billion; 2013 — \$230.6 billion; 2014 — \$239.8 billion and 2015 — \$246.7 billion. The 2016 ratio uses 2015 data.
- (c) Full value estimated by OPM. Uses final equalized net grand lists: 2010 — \$547.4 billion; 2011 — \$537.2 billion; 2012 — \$517.8 billion; 2013 — \$508.6 billion; and 2014 — \$515.2 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 2012 ratio uses 2010 data; 2013 ratio uses 2011 data; 2014 ratios use 2012 data; 2015 ratios use 2013 data and 2016 ratios use 2014 data.
- (d) See **Appendix II-B, Table B-1**. State population in thousands: 2012 — 3,594; 2013 — 3,596; 2014 — 3,592; 2015 — 3,585 and 2016 — 3,576.

**Aggregate State and Local Debt.**

The following table 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 30<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 seventh lowest ratio of per capita local debt to per capita personal income and fourth 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 absence 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, 2014 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, 2014 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 2015.
- (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 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 15, 2017. 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 15, 2017**

<u>Fiscal Year</u>	<u>Principal Payments<sup>(b)</sup></u>	<u>Interest Payments<sup>(b)(c)</sup></u>	<u>Total Debt Service</u>
2017	\$ 612,034,853	\$ 336,981,205	\$ 949,016,058
2018	1,536,007,299	788,799,370	2,324,806,669
2019	1,307,951,471	727,725,267	2,035,676,738
2020	1,251,365,614	674,258,009	1,925,623,623
2021	1,230,256,206	620,794,576	1,851,050,782
2022	1,195,094,111	617,316,449	1,812,410,561
2023	1,228,801,122	574,917,011	1,803,718,133
2024	1,129,124,066	547,077,271	1,676,201,338
2025	1,076,542,437	498,523,521	1,575,065,957
2026	1,050,365,000	364,419,283	1,414,784,283
2027	1,003,620,000	313,144,437	1,316,764,437
2028	950,825,000	262,872,770	1,213,697,770
2029-2037	<u>4,605,890,000</u>	<u>709,827,569</u>	<u>5,315,717,569</u>
<b>Totals</b>	<b>\$18,177,877,179</b>	<b>\$7,036,656,737</b>	<b>\$25,214,533,916</b>

- (a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments (\$18,177,877,179), plus accreted interest (\$122,903,442), total the amount of such long-term debt (\$18,300,780,621) 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. Capital appreciation bonds mature in Fiscal Years 2017 through 2025.
- (c) Some of the State's direct debt pays interest at variable rates. For purposes of this **Table 10**, 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>
2005	\$ 300,000,000	\$ 100,000,000	2019-2023	3.50%
2005*	20,000,000	20,000,000	2017	5.07
2005*	20,000,000	20,000,000	2020	5.20
2011	337,620,000	129,485,000	2017-2018	3.50
2011	75,000,000	25,000,000	2019	3.50
2012	212,400,000	118,000,000	2017-2020	3.50
2012	219,865,000	119,865,000	2017-2024	3.50
2013	244,570,000	184,570,000	2017-2025	3.50
2013	115,000,000	70,000,000	2017-2020	3.50
2013	314,295,000	156,500,000	2017-2018	3.00
2014	47,000,000	47,000,000	2017-2023	3.50
2014	61,610,000	20,620,000	2017-2018	3.50
2015	200,000,000	200,000,000	2017-2024	3.50
2015	180,745,000	145,275,000	2017-2022	3.50
2016	<u>300,000,000</u>	<u>300,000,000</u>	2019-2034	3.50
<b>Totals</b>	<b>\$2,648,105,000</b>	<b>\$1,656,315,000</b>		

\* 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 sets forth the total long-term direct general obligation debt outstanding (including economic recovery notes) at the end of each of the last ten fiscal years. The long-term debt outstanding includes 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>
2007	\$10,615,810
2008	13,102,857
2009	14,008,863
2010	15,066,507
2011	14,680,676
2012	14,678,736
2013	14,762,696
2014	15,819,826
2015	16,879,336
2016	17,704,949

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 Commission to authorize direct general obligation bonds pursuant to certain bond acts. The table below shows, as of February 15, 2017, the amount of bonds authorized by bond acts in effect, the amount the Commission has authorized, the amount of bonds issued pursuant to Commission authorizations, the balance remaining authorized but unissued and the balance available for authorization. The following 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, 2017.



**TABLE 12**  
**Authorized but Unissued Direct General Obligation Debt**  
**As of February 15, 2017**  
**(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	\$37,413,806	\$2,276,578	\$2,775,777	\$74,750	\$42,540,911
Amount Authorized <sup>(e)</sup>	34,662,996	2,276,578	2,775,777	74,750	39,790,101
Amount Issued	32,004,278	2,276,578	2,673,377	68,040	37,022,273
Authorized but Unissued	2,658,718	0	102,400	6,710	2,767,828
Available for Authorization	2,750,810	0	0	0	2,750,810

- (a) Includes CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds and GAAP Deficit Bonds. Excludes CRDA Bonds, CHEFA Child Care Facilities Bonds, General Obligation Notes 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 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 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.
- (e) The amount authorized reflects amounts allocated by the State Bond Commission.

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 following table and graph list the amount of new authorizations of general obligation debt that take effect during the fiscal year listed, and the net amount after subtracting prior bond authorizations that have been repealed or reduced. Pension obligation bonds and economic recovery notes are not included since they are not recurring authorizations.

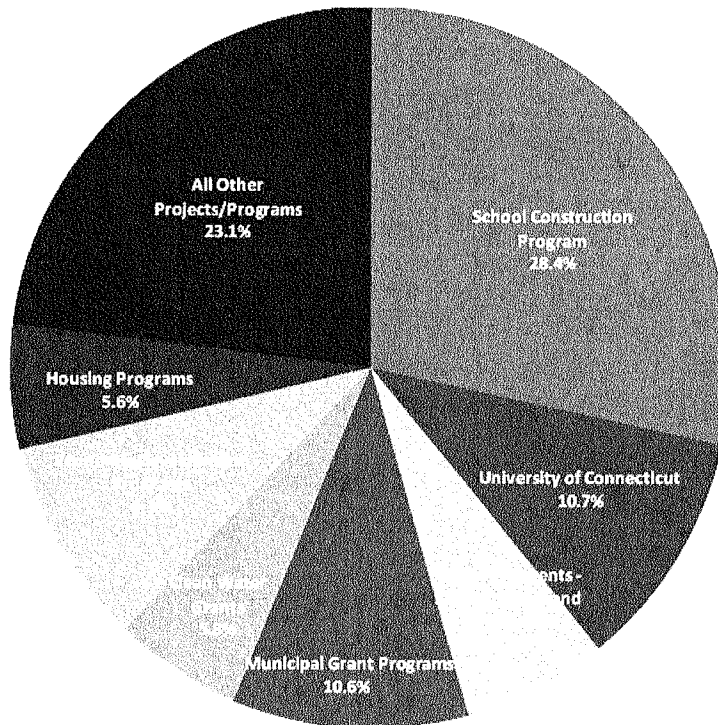
**TABLE 13**  
**Statutory General Obligation Bond Authorizations and Reductions<sup>(a)</sup>**  
**(In Millions of Dollars)**

<u>Fiscal Year</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>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
New Authorizations	1,290.4	1,388.7	1,965.0	1,564.5	1,195.4	1,147.2	1,724.8	2,673.3	1,993.6	2,843.6	2,391.5	2,661.3
Reductions	<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>	<u>(12.0)</u>	<u>(27.8)</u>	<u>(272.5)</u>	<u>(985.7)</u>
Net New Authorizations	1,249.1	1,388.7	1,758.1	1,564.5	1,054.9	672.6	1,714.0	2,651.0	1,981.6	2,815.8	2,119.0	1,675.6

(a) Does not include Pension Obligation Bonds, Economic Recovery Notes, lease financings, tax increment or cash flow borrowings. Does not include GAAP Deficit Bonds authorized in Fiscal Year 2014 in an aggregate principal amount sufficient to generate net proceeds of not more than \$598.5 million. Includes amount for UConn 2000 bonds available under the cap for Fiscal Years 2006 through 2017, 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 Fiscal Year 2017. See Table 14.

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

**TABLE 14**  
**Projected General Obligation Bond Allocations for Fiscal Years 2017 - 2020**



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, 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 pay debt service on loans to finance certain child care facilities and has committed to certain 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.

### Special 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 transportation infrastructure program is a continuous program for planning, construction and improvement of transportation infrastructure, and is administered by the Department of Transportation.

The cost of the transportation infrastructure program for Fiscal Years 1985-2020, which will be met from federal, State, and local funds, is currently estimated at \$37.8 billion. The State's share of such cost, estimated at \$18.6 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 \$0.8 billion and includes the expenses of the transportation infrastructure program that either are not sufficiently large or do not have a long enough life expectancy to justify the issuance of long-term bonds.

The State's share of the cost of the infrastructure program for Fiscal Years 1985-2020 to be financed by STO bonds currently is estimated at \$17.8 billion.

During Fiscal Years 1985-2017, \$31.8 billion of the total transportation infrastructure program was approved by the appropriate governmental authorities. The remaining \$6.0 billion of such infrastructure costs is anticipated to be funded by the issuance of \$4.0 billion in STO bonds, \$2.0 billion in anticipated federal funds, and \$59.1 million in anticipated revenues and other available 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 and other pledged receipts, funds or moneys. The aggregate of certain transportation related taxes and other transportation related revenue sources, and any direct pay federal interest subsidy received by the State in connection with the issuance 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 on STO bonds.

The table below shows the amount of STO bonds authorized by bond acts in effect, the amount the State Bond Commission (the "Commission") has authorized, the amount of bonds issued pursuant to 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 complete the transportation 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 bond indentures controlling the issuance of such bonds are met.

**TABLE 15**  
**Special Tax Obligation Bonds**  
**As of February 15, 2017**  
**(In Millions)**

	<u>New Money</u>	<u>Refundings</u> <sup>(a)</sup>	<u>Total</u>
<b>Bond Acts in Effect</b>	\$14,704.2	N/A	\$14,704.2
<b>Amount Authorized</b> <sup>(b)</sup>	14,275.2	N/A	14,275.2
<b>Amount Issued</b>	10,720.2	\$4,226.9	14,947.1
<b>Authorized but Unissued</b>	3,984.0	N/A	3,984.0
<b>Available for Authorization</b>	3,555.0	N/A	3,555.0
<b>Amount Outstanding</b>	4,207.8	834.0	5,041.8

(a) Refunding Bonds do not require legislative approval.

(b) The Amount Authorized reflects amounts allocated by the State Bond Commission.

SOURCE: State Treasurer's Office

In 2015 Governor Malloy proposed a 30-year, \$100 billion transportation initiative to modernize Connecticut's infrastructure. In conjunction with that proposal the Governor established the Transportation Finance Panel and appointed its members consisting of experts in transportation, finance and economic development. The panel was charged with examining funding options and developing recommendations for the implementation of Governor Malloy's transportation initiative and on January 15, 2016 the panel presented its report to the Governor.

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

**Bradley International Airport.** Bradley International Airport, located in Windsor Locks, Connecticut, is owned and operated by the Connecticut Airport Authority ("CAA"), a quasi-public authority of the State. The General Assembly 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. As of February 15, 2017, there were \$116.3 million of Bradley International Airport Revenue Refunding Bonds outstanding. In addition, the State is a party to certain interest rate swap agreements with respect to certain of these 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. See *Quasi Public Agencies - Connecticut Airport Authority ("CAA")*.

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 15, 2017, \$28.0 million of such bonds were outstanding.

**Clean Water Fund.** The General Assembly has authorized the issue of revenue bonds for the purpose of funding various State and federally mandated water pollution control and drinking water projects for up to \$3,375.6 million, of which \$1,967.0 million have been issued. 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 loan obligations of the municipalities and public water systems are secured by either the full faith and credit of each such entity, or the revenues and other funds of a municipal sewer or public

water system. As of February 15, 2017, \$746.4 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. No such borrowings from the Federal Unemployment Trust Fund are outstanding and none are anticipated.

***Second Injury Fund.*** The Second Injury Fund is a State-run workers' compensation insurance fund that pays lost wages and medical benefits to qualified injured workers. The Second Injury Fund is now closed to future second injury claims. However, there remain 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 ("SCRIF"), if established, provides additional security for bonds issued by a quasi-public agency, municipality or other authority. Subject to certain legislative exceptions, monies held in and credited to a SCRIF are intended to be used solely for the payment of the principal of bonds secured by such SCRIF, 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 SCRIF 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 SCRIF to its minimum level. The method for determining such required minimum capital reserve is set out in the legislation authorizing the SCRIF. If the SCRIF should fall below the required minimum capital reserve amount, an official of the issuer which established the SCRIF is to certify to the Secretary of OPM or the Treasurer or both the amount necessary to restore such SCRIF to the required minimum capital reserve amount. On or before December 1, annually, there is 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 SCRIF. On an annual basis, the State's liability under any SCRIF mechanism is limited to its obligation to restore each SCRIF to its minimum capital reserve amount.

By statute, the Connecticut Green Bank, CAA, CHEFA, CHESLA, CHFA, CI, CRDA, and MIRA may not borrow any money or issue any bonds or notes that are guaranteed by the State or for which there is a State supported SCRIF without the approval of the Treasurer or the Deputy Treasurer, and for certain of these quasi-public issuers, the Secretary of the Office of Policy and Management ("OPM"). 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 to be 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 State supported SCRF without the approval of the Treasurer. The 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.

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

The State has established a number of quasi-public agencies that 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. These organizations provide a wide range of services that might otherwise be provided directly by the State.

Among the public authorities are: the Connecticut Green Bank; the Connecticut Airport Authority; the Connecticut Health and Educational Facilities Authority; the Connecticut Higher Education Supplemental Loan Authority; the Connecticut Housing Finance Authority; Connecticut Innovations, Incorporated; the Capital Region Development Authority; the Materials Innovation and Recycling Authority; and the Connecticut Port Authority. Each of these public authorities is authorized to issue bonds in its own name to facilitate its activities and, with the exception of the Connecticut Airport Authority and the Connecticut Port Authority, each has issued bonds secured by a SCRF, or other contractual arrangement, for which the State has limited contingent liability.

***Connecticut Airport Authority ("CAA").*** CAA has ownership of and responsibility for the management and operations of Bradley International Airport and the State's other general aviation airports. The CAA is authorized to issue revenue bonds, including bonds backed by a SCRF.

***Connecticut Green Bank ("Green Bank").*** The Green Bank, was designated for the purposes of administering the Clean Energy Fund. The Green Bank is an energy finance authority, designed to leverage public and private funds to drive investment and increase clean energy deployment in Connecticut. The Green Bank is authorized to issue bonds to facilitate its activities, which bonds may be secured by a SCRF.

***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. CHEFA loans the proceeds of its bond issues to client institutions, which make debt service payments on such loans that match CHEFA's payment obligations under its bonds. CHEFA is also authorized to issue tax-exempt and taxable revenue bonds secured by one or more SCRFs 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.

CHEFA also is authorized to issue bonds and loan the proceeds to various entities to finance child care facilities. The State Treasurer is committed to pay the debt service on these loans, subject to annual appropriation. See **Other Debt Service and Contractual Commitments – CHEFA Child Care Program.**

***Connecticut Higher Education Supplemental Loan Authority ("CHESLA").*** CHESLA, a subsidiary of CHEFA, provides financial assistance in the form of education loans to students in or from the State. CHESLA is also authorized to provide loans to refinance eligible education loans of qualified borrowers. CHESLA is authorized to issue bonds the proceeds of which are used to fund or refinance education loans to applicants meeting certain eligibility requirements. The repayment of such loans is used to make debt service payments on CHESLA bonds. CHESLA bonds are further secured by a SCRF.

**Connecticut Housing Finance Authority (“CHFA”).** CHFA was established 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 multi-family housing. CHFA is authorized to issue bonds the proceeds of which are used to fund mortgage loans to applicants meeting certain eligibility requirements. CHFA also is authorized to make or purchase construction and permanent mortgage loans that 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 \$2.25 billion. In order to finance these activities, CHFA established a Housing Mortgage Finance Program and issued its general obligation bonds under a General Bond Resolution. Bonds issued under CHFA’s General Bond Resolution are secured by a SCRF.

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 which bonds are and will be secured by a SCRF. 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.**

**Connecticut Innovations (“CI”).** CI is authorized to offer various financing programs including The Mortgage Insurance and Loan Program (the “Insurance Fund”). As of February 15, 2017, \$19.5 million of State bonds have been authorized but remain unissued to fund the Insurance Fund and loans insured by the Insurance Fund totaled \$1.55 million.

Under its General Obligation Bond Program, CI may issue bonds secured by a SCRF to finance eligible economic development and information technology projects. As of February 15, 2017, no such bonds are outstanding. Although there remains legislative authority for the issuance of bonds secured by SCRFs under the Umbrella Bond Program, no loans have been initiated under that program since 1985, and CI does not anticipate a resumption of any lending activity under that program.

**Capital Region Development Authority (“CRDA”).** CRDA was granted authority to issue revenue bonds for a convention center project in the City of Hartford. The bonds are backed by State contractual assistance equal to annual debt service. CRDA retains authority to use SCRFs in connection with additional revenue bonds, but there are currently no plans to do so. The CRDA’s charge includes projects to stimulate development and redevelopment in the City of Hartford and the surrounding towns.

**Materials Innovation and Recycling Authority (“MIRA”).** MIRA is charged with the development and operation of solid waste disposal, volume reduction, recycling, intermediate processing, resource recovery and related support facilities necessary to carry out the State’s Solid Waste Management Plan. MIRA bonds may be secured by a SCRF.

**Connecticut Port Authority (“CPA”).** The CPA is charged with marketing and coordinating the development of the State’s ports and maritime economy. CPA bonds may be secured by a SCRF.

**UConn 2000 Special Obligation Financing.** The University of Connecticut may issue special obligation bonds that may be secured by a SCRF. The University may also issue special obligation bonds that are not secured by such a SCRF. As of February 15, 2017, the University has outstanding \$106 million special obligation student fee revenue bonds that are not secured by such a SCRF.

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

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 issued by the Southeastern

Connecticut Water Authority. The State previously was obligated to secure certain SCRF-backed bonds issued by the Cities of Bridgeport, Waterbury and West Haven to fund past budget deficits; however no such bonds are currently outstanding. Legislation also authorized distressed municipalities, in certain circumstances and subject to various conditions, to issue deficit funding obligations secured by a SCRF. There are no such obligations currently outstanding.

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

**Outstanding Special Capital Reserve Fund Debt**

The amount of outstanding debt that is secured by special capital reserve funds as described above is outlined in the following table.

**TABLE 16**

**Special Capital Reserve Fund Debt  
As of February 15, 2017  
(In Millions)**

<u>Indebtedness Secured by SCRF</u>	<u>Authorized Debt</u>	<u>Outstanding Debt</u>	<u>Minimum SCRF Requirement</u>
<b>Capital Region Development Authority</b> .....	\$ (a)	\$ 0.0	\$ 0.0
<b>Connecticut Airport Authority</b> .....	(a)	0.0	0.0
<b>Connecticut Green Bank</b> .....	100.0	2.96	0.26
<b>Connecticut Health and Educational Facilities Authority</b>			
Nursing Home Program .....	(a)	0.0	0.0
Connecticut State University System .....	(a)	339.0	31.0
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	137.5	19.1
<b>Connecticut Housing Finance Authority</b>			
Housing Mortgage Finance Program .....	(a)	3,674.3	231.0
Special Needs Housing Mortgage Finance Program .....	(a)	66.6	4.1
<b>Connecticut Innovations</b> .....	450.0	0.0	0.0
<b>Connecticut Port Authority</b> .....	(a)	0.0	0.0
<b>Materials Innovation and Recycling Authority</b> .....	725.0	0.0	0.0
<b>Southeastern Connecticut Water Authority<sup>(b)</sup></b> .....	15.0	0.95	N.A.
<b>University of Connecticut<sup>(b)</sup></b> .....	(a)	0.0	N.A.

(a) No statutory limit.

(b) Debt is secured by a non SCRF State guarantee.



## **Other Debt Service and Contractual Commitments**

***CHEFA Child Care Program.*** CHEFA is authorized to issue Child Care Facilities Bonds and loan the proceeds to various entities to finance child care facilities. Debt service payments are made by the State Treasurer and the State Office of Early Childhood is obligated to reimburse a portion of the debt service payments from intercepts of revenues from providers. Any obligation by the State Treasurer to pay such debt service is subject to annual appropriation. As of February 15, 2017 CHEFA had approximately \$53.58 million in Child Care Facilities Bonds outstanding under this program with annual debt service of approximately \$4.84 million, of which the State Office of Early Childhood is committed to reimburse approximately \$0.76 million. 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**. Two other Child Care Facilities programs also authorize the Commissioner of the State Office of Early Childhood 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 State Office of Early Childhood, 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**.

***Capital Region Development Authority.*** The Commission approved up to \$122.5 million of revenue bonds and other borrowings for the Hartford convention center project. The predecessor authority to CRDA 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 \$85.9 million was outstanding as of February 15, 2017. The State's obligation under the contract assistance agreement is limited to \$9.0 million per year, and the CRDA'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 CRDA 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 CRDA and the State, after completion of the convention center project, CRDA 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**.

A delay in completion of all 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 CRDA's revenue bonds continues to be paid under the contract assistance agreement, CRDA'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 CRDA.

***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 that 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 Administrative 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 in varying amounts. The State expects to authorize new school construction grant commitments of approximately \$778 million that take effect in Fiscal Year 2017. As

of June 30, 2016, the Commissioner estimates that current grant obligations under the program for school construction projects approved during the 1997 legislative session and thereafter are approximately \$2,894 million, which includes approximately \$10,664 million in grants approved as of such date less payments already made of \$7,770 million.

Prior to 1997 the grant program was conducted differently. Under the pre-1997 grant program, school construction project grants are paid to the cities, towns and districts in installments that correspond to the debt service payments due on the bonds or notes issued by the municipality to finance project costs. As of June 30, 2016, under the pre-1997 grant program, the State is obligated to various cities, towns and regional school districts for approximately \$66.2 million in aggregate principal installment payments and \$5.4 million in aggregate interest subsidies, for a total of \$71.6million.

The legislature has authorized the issuance of State bonds for both grant programs based on the amount of grants that the Commissioner of Administrative 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 that 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, 2016 the current and long-term liabilities of the Corporation total \$213.9 million.

## PENSION AND RETIREMENT SYSTEMS

The State sponsors several public employee retirement systems and also provides other post-employment benefits. This section will describe these plans in turn. It should be noted that the characteristics of the pension plan systems, where significant assets are available to meet the State's obligations, are different than the characteristics of the systems providing other post-employment benefits, which have not accumulated significant assets. Both types of plans have unfunded liabilities that represent significant financial obligations of the State, both now and in the future. In round numbers, the unfunded actuarial accrued liability ("UAAL") of the major pension systems aggregate approximately \$34.8 billion and the UAAL of the other major post-employment benefits systems aggregate approximately \$21.9 billion.

### Pension Systems -- Overview

The State sponsors several public employee retirement systems discussed in more detail in this section. The two largest of these are the State Employees' Retirement System ("SERS") and the Teachers' Retirement System ("TRS"). These plans have been in operation for a number of years and have significant assets held for the purposes of the plan. Like other similar plans, each plan began with "pay-as-you-go" funding, where benefits to beneficiaries were paid from the General Fund when due. In 1971 the plans were converted to actuarially funded plans and irrevocable trusts were established to accumulate assets that are invested on a long-term basis to fund future liabilities on an actuarial basis. In an actuarially funded pension plan, plan contributions, plus plan assets and the return on plan assets, are designed to meet the future benefits payments over the life of the plan.

The transition of the plans from a "pay-as-you-go" basis to a fully funded actuarial basis requires setting aside significant assets. As it would be impractical to set aside the accumulated liability in a short period, it was contemplated that the plans would achieve full funding over a period of time. The actuarially recommended contribution ("ARC") is the recommended annual payment by the State to the applicable pension plan in order to achieve full funding of the plan over the applicable period, assuming that the actuarial assumptions are met.

When both of the State's major pension plans were converted to an actuarial funding method, the original time period set to achieve full funding was set at 40 years, a period that was subsequently extended. Under the funding models in effect as of June 30, 2016, the remaining period as of that date to reach full funding would have been approximately 15.0 years for the State Employees' Retirement Fund and approximately 18.4 years for the Teachers' Retirement Fund, as long as the State fully funded the annual funding requirement recommended by the actuary and the actuarial assumptions were realized.

Recently, various State officials had proposed the State begin consideration as to whether the current funding model for pension benefits continues to be appropriate. Concerns had arisen regarding projected increases in State pension contributions under the current funding method that could be required in the latter years of the fixed amortization period in order to achieve 100% funding of the UAAL.

In 2016, the Governor created a task force of the stakeholders in the State's retirement systems, including the State Treasurer, the Comptroller, the State Employee Bargaining Agent Coalition ("SEBAC") and the State employees it represents, and Connecticut teachers, to develop a consensus as to making the State's retirement systems more affordable and more sustainable by avoiding the need to fund higher future State contributions towards the end of the fixed amortization period and to smooth out the future annual cost of funding the State's pensions over time. The Task Force, working with the plan actuaries, met and reviewed several scenarios and strategies for SERS. Based on this, the State, acting through OPM, began discussions with SEBAC, arriving at a memorandum of understanding on December 8, 2016, the effect of which modifies the funding calculation and amortization schedule for SERS. The agreement was approved by the General Assembly on February 1, 2017. The modifications were incorporated into the actuarial assumptions and methods used in the SERS

actuarial valuation as of June 30, 2016, discussed below. Specifically, the memorandum of understanding memorializes the following changes:

- Transitioning the actuarial cost method from “projected unit credit” to “entry age normal”
- Transitioning from level percent of payroll to a level dollar amortization for unfunded liabilities with a five year phase in period
- Recommending to the State Employees Retirement Commission a reduction of the assumed investment rate of return from 8% to 6.9%
- Resetting the amortization period for the unfunded liability as follows:
  - The UAAL as of January 1, 1984 (currently approximately \$4.3 billion) shall be paid off by June 30, 2032, the end of the then current amortization period
  - The remainder of the UAAL currently existing shall be paid off by June 30, 2047 using a fixed 30 year amortization period
  - Actuarial gains and losses going forward will be amortized using a 25-year layered amortization approach (recording gains and losses for each year and amortizing each such gain or loss over a 25 year period)

The effect of the changes to the amortization methods would be to level out future ARC contributions at a more stable level over a longer term than the original amortization period, while reducing the risk of relatively high contributions in the final years of the original fixed amortization period while at the same time, increasing the calculated UAAL and reducing the calculated funded ratio. Under the new methodology, the State expects to remain on schedule to extinguish \$4.3 billion in unfunded liability with respect to Tier I employees by 2032 and to resolve the remainder of the current unfunded liability by June 30, 2047 (a weighted average amortization period of 25.1 years). With the smoothing out of the remaining unfunded liability under the new funding methodology, the State’s annual contribution is expected to range between approximately \$1.5 billion and \$2.3 billion.

No specific recommendations with respect to TRS have been made by either the Task Force or OPM at this time. Any different methodology, if adopted, could change the manner in which the State funds the TRS, the time period over which it is funded, and the manner in which the annual funding amount is calculated. To be implemented, any proposal would need to take into account various accounting, actuarial, statutory and contractual factors including adherence to the TRS pension obligation bond covenant described below. No representation is made about the possible results of the consideration of these proposals and the impact they may have on the State’s current funding model.

It is important that the funding plan be revisited periodically. Accordingly, by statute, actuarial valuations are performed with respect to the systems every two years. Because these valuations are estimating future resources and future liabilities, it is necessary to make important assumptions in arriving at these future assets and liabilities. Using these assumptions, 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 UAAL. This UAAL represents the remaining amortization of the original unfunded status, changes in the UAAL arising from actual experience compared to these assumptions (including actual investment performance compared to assumed performance), changes in the actuarial assumptions, and any failure to fully fund actuarially recommended contributions in prior years. The actuarial valuation then arrives at a recalculated actuarially recommended contribution for future years, which represents the sum of benefits to be accrued in these years, plus the amortization of the recalculated UAAL over the remaining amortization period.

In addition to these recalculations, the State has taken several additional steps in the last few years to address the funding issues with the plans. In the case of SERS, it has negotiated reduced benefits, as described below, made more conservative assumptions which have had the effect of increasing the UAAL, and eliminated the provisions which permitted the State to not fund its full ARC payment. In the case of TRS, it has issued pension obligation bonds to augment the funding of the system, which bonds included a covenant requiring the

State to fund the ARC while the bonds (or any refunding of the bonds) are outstanding, subject to certain financial exigencies. These additional steps are described in more detail below for each plan.

While the UAAL for each plan is large and the funded ratio is low, in addition to statutory commitments (which can be, and have been, changed by legislation), and unlike many similar plans, the State now has contractual commitments requiring annual funding of the ARC. In the case of TRS, the State is required to fund the annual amount as a condition of a bond covenant which runs through the end of the plan's amortization period in 2032. In the case of SERS, the State is required to annually fund the ARC pursuant to its bargaining agreement with SEBAC.

### **Actuarial Valuations**

The actuarial value of the liabilities of the plan are not current liabilities but represent a present value measure of the stream of benefits that the plan is expected to pay over the foreseeable future. These benefits in turn depend on future events, such as the size of the workforce, the rate workers leave the workforce, the rate of retirement, the rate of mortality of retirees, the rate of salary increase and the rate benefits accrued at retirement increase by future cost of living increases, among other factors. The State engages actuaries to assist it in selecting assumptions about these factors, and based on these assumptions, the actuary estimates the current stream of future benefits. In order to come to an estimate of the accrued liabilities of the plan, this stream of estimated future benefits is discounted to a present value based on an assumed discount rate. The State uses a discount rate which is the same as its investment return assumption. The significant assumptions used in making these calculations are described below for each plan.

One measure of the level of plan funding is the "funded ratio", which is calculated by dividing the actuarial value of the assets of the plan by the actuarial accrued liability of the plan. The actuarial valuation will state the funded ratio for each plan, and is shown herein. Also shown is the funded ratio calculated based on the market value of the assets of the plan.

The actuarial valuation also will state an actuarially recommended contribution, the ARC, which is the recommended payment of the State to the applicable pension plan. These recommendations are used in the next budget cycle. The actuarially recommended contribution consists of two components: (1) normal cost, which represent the portion of the present value of retirement benefits that are allocable to active members' current year of service, and (2) an amortization of a portion of the UAAL. The normal cost is partially funded from active member contributions, if required under the particular plan, with the remainder funded by State contributions. The UAAL amortization component is made over the length of time chosen as the amortization period, and designed to eliminate the UAAL and bring the plan to the state of being fully funded. Following the full amortization of the UAAL, to maintain this full funding only the normal cost amount would need to be contributed, plus any contribution necessary due to the effect of actual experience compared to the actuarial assumptions.

One of the most significant factors in determining the annual UAAL amortization amount, and determining the point in time when the plan should be fully funded, is the remaining period over which the UAAL will be amortized. This period is approximately 17.6 years (as of June 30, 2016) for the Teachers' Retirement Fund, having originally started with an amortization period of 40 years. The State Employees' Retirement Fund now has a variable amortization period, as described above, with a weighted average amortization period 25.1 years (as of June 30, 2016). A second important factor is determining the amount to be amortized in each year of the remaining amortization period. Prior to entering into the December 8, 2016 memorandum of understanding, both of the State plans used a "level percent of payroll" formula for this purpose, where in each year the same percent of assumed payroll for that year is calculated as the amount to be amortized. This method assumes that the amortization payments increase in future years by the assumed increase in payroll since it calculates amortization payments as a constant percentage of projected payroll over a given number of years. This makes the assumption of the rate at which payroll increases each year an important assumption. TRS continues to use a "level percent of payroll" amortization method. SERS is now phasing in a "level dollar" amortization over a

five year period, where the cost is amortized in equal dollar amounts to be paid over the specified number of years. This method generally results in decreasing inflation-adjusted payments over time.

Both SERS and TRS now use an "entry age normal" actuarial cost method to calculate the annual amortization payments needed to amortize the UAAL. The entry age normal method calculates the annual normal cost for a member as a uniform and constant rate of employer contribution which, if applied to the compensation of the average new member during the entire period of the member's anticipated covered service, would be required in addition to contributions of the member to meet the cost of all benefits payable on behalf of the member. The actuaries have indicated that the entry age normal method is the most widely used cost method of large public sector plans and has demonstrated the highest degree of contribution stability to alternative methods. It also is the only method allowed under the new Governmental Accounting Standards Board ("GASB") reporting standards which came into effect for 2014. Prior to the most recent actuarial valuation method, SERS used a "projected unit credit" method. The projected unit credit method calculates the annual normal cost as the present value of the portion of the projected benefit attributable to the year following the actuarial valuation date, generally resulting with respect to an individual member in an increase in the annual normal cost as an employee draws closer to the end of service.

The State began reporting pensions in accordance with GASB 67 and GASB 68 beginning with Fiscal Year 2014, which prescribe certain methods for comparability and other purposes. These methods are not necessarily the same as those used in calculating the actuarial recommended contribution of the State, which are determined by statute and/or contract.

Set forth below in greater detail is information about the State Employees' Retirement Fund and the Teachers' Retirement Fund, including information about the matters discussed above, how plan benefits are calculated, how plan assets are invested, and the investment experience of these plans. With respect to SERS in particular, the discussion of plan benefits is complicated because the benefits are not uniform but are divided into "tiers," which have significantly decreased benefits for newer State employees.

### **State Employees' Retirement Fund**

The State Employees' Retirement Fund ("SERF") is one of the systems maintained by the State with approximately (i) 50,019 active members, consisting of 36,320 vested members and 13,699 non-vested members, (ii) 1,412 deferred vested members, and (iii) 48,191 retired members and beneficiaries as of June 30, 2016.

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 SERF. 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.

Between full actuarial valuations the State generally receives an interim valuation, in which the actuarial value of assets are “rolled forward” but the actuarial value of liabilities are not recalculated. Where these interim valuations have been performed the new funding ratios that result are set out below.

***November 2014 Actuarial Valuation, October 2015 Roll Forward Actuarial Valuation and Fiscal Years 2016 and 2017 Employer Contribution Requirements***

The State Employees Retirement Commission (the “SER Commission”) received on November 19, 2014 from Cavanaugh Macdonald Consulting, LLC an actuarial valuation as of June 30, 2014. This actuarial valuation was approved by the SER Commission’s Actuarial Subcommittee and the SER Commission on November 20, 2014. The November 2014 actuarial valuation determined the following employer contribution requirements, based on a projected unit credit actuarial cost method and level percentage-of-payroll contributions, which contributions are: (i) \$1,514.5 million for Fiscal Year 2016, resulting in an annual employer contribution rate of 43.42% of payroll and (ii) \$1,569.1 million for Fiscal Year 2017, resulting in an annual employer contribution rate of 43.69%. For Fiscal Year 2016, the State made an employer contribution of \$1,501.7 million, 99.2% of the actuarial employer contribution requirement. The adopted budget for Fiscal Year 2017 contains appropriations sufficient, together with anticipated grant reimbursement from Federal and other funds, to fully fund the employer contribution requirement for Fiscal Year 2017 pursuant to the November 2014 actuarial valuation.

The SER Commission received from Cavanaugh Macdonald Consulting, LLC a “roll forward” actuarial valuation report prepared as of June 30, 2015 and dated October 12, 2015. This roll forward valuation is an informational update to the actuaries’ projected required employer contribution amount, based on the actual experience of the investment return for the June 30, 2015 plan year and roll forward techniques, and offers a best estimate as to what payroll and liabilities were as of June 30, 2015. The actuaries do not recommend that the results of a roll forward valuation be used as the basis for adjusting the scheduled contribution requirements but rather as information as to the expected condition of the Fund as of the end of the interim year. Using the roll forward valuation results, the actuaries determined that the employer contribution requirement for Fiscal Year 2017, based on a projected unit credit actuarial cost method and level percentage-of-payroll contributions, would be \$1,573.3 million, an increase of \$4.2 million from the amount calculated in the full November 2014 actuarial valuation and used in the adopted biennium budget for Fiscal Years 2016 and 2017. This would have increased the Fiscal Year 2017 percentage-of-payroll contribution rate from 43.69% to 43.80%.

***January 2017 Actuarial Valuation and Fiscal Years 2018 and 2019 Employer Contribution Requirements***

The SER Commission received on January 19, 2017 from Cavanaugh Macdonald Consulting, LLC an actuarial valuation as of June 30, 2016. The January 2017 actuarial valuation incorporates the December 8, 2016 memorandum of understanding between the State and SEBAC. This actuarial valuation was approved by the SER Commission’s Actuarial Subcommittee on January 18, 2017 and by the SER Commission on January 19, 2017.

The January 2017 actuarial valuation reported the following results as of June 30, 2016 with respect to the SERF:

Market Value of Assets	\$10,636.7 million
Actuarial Value of Assets	11,923.0 million
Actuarial Accrued Liability	33,616.7 million
UAAL	21,693.8 million
Funded Ratio (based on the actuarial value of assets)	35.5%

Funded Ratio (based on the market value of assets)	31.6%
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The January 2017 actuarial valuation was based upon the following assumptions and methodologies, among others:

- 6.90% investment return assumption (including inflation at 2.50%)
- Entry Age Normal actuarial cost method
- Projected salary increases of 3.5% to 19.5% (including inflation at 2.50%)
- Cost-of-living adjustments of 2.25% to 3.25%
- Social security wage base increase of 3.5%
- Payroll growth of 3.5%
- Changes to the demographic assumptions including the rates of withdrawal, disability retirement, service retirement and mortality (including the extension of post-retirement life expectancy by an estimated 1.5 years for males and 2.0 years for females)
- The actuarial value of assets recognizes 20% of the difference between the market value of assets and the expected actuarial value of assets
- The amortization period is a weighted average of the portion of the UAAL as of 1984 (amortized over a period ending in 2032) and the balance of the UAAL (amortized over a closed 30 year period beginning in 2016). Future actuarial gains or losses will be phased in over closed 25 year periods. Weighted average amortization period of UAAL of 25.1 years
- Level dollar amortization method to be phased in over a five year period

The January 2017 actuarial valuation determined the following employer contribution requirements: (i) \$1,648.4 million for Fiscal Year 2018, resulting in an annual employer contribution rate of 44.31% of payroll and (ii) \$1,819.9 million for Fiscal Year 2019, resulting in an annual employer contribution rate of 47.26% of payroll. The Governor’s proposed budget for Fiscal Years 2018 and 2019 includes appropriations sufficient together with anticipated Federal and other reimbursements to meet these annual employee contribution amounts. The General Assembly has not yet considered a budget for Fiscal Years 2018 and 2019.

The January 2017 actuarial valuation breaks out the normal cost component and the UAAL amortization component as follows for Fiscal Years 2018 and 2019.

Annual Employer Contributions for:	2018		2019	
	Amount (in millions)	Percent of Payroll	Amount (in millions)	Percent of Payroll
Employer Normal Cost	\$365.6	9.83%	\$376.2	9.77%
Amortization of Net Unfunded Actuarial Accrued liabilities (amortized over 25.1 and 24.1 years, respectively)	\$1,282.8	34.48%	\$1,443.7	37.49%
<b>Total Employer Contribution Requirement</b>	<b>\$1,648.4</b>	<b>44.31%</b>	<b>\$1,819.9</b>	<b>47.26%</b>

SOURCE: January 2017 Actuarial Valuation.

Set forth in the following table are State contributions to the SERF, 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, 2012, June 30, 2014 and June 30, 2016 and interim “roll forward” valuations as of June 30, 2013 and June 30, 2015. The actuaries do not recommend that the results of a roll forward valuation be used as the basis for adjusting the scheduled contribution requirements but rather as information as to the expected condition of the Fund as of the end of the interim year.



**TABLE 17**  
**State Employees' Retirement Fund**  
**(In Millions)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Fund					
Contributions .....	\$ 652.6	\$ 721.5	\$ 916.0	\$ 970.9	\$ 1,096.8
Transportation Fund					
Contributions .....	90.1	107.9	108.3	130.1	122.1
Federal and other					
Reimbursements .....	183.7	228.8	244.5	396.5	282.8
Employee Contributions ...	<u>68.8</u>	<u>164.0</u>	<u>144.8</u>	<u>187.3</u>	<u>134.9</u>
Total Contributions.....	<u>\$ 995.1</u>	<u>\$ 1,222.2</u>	<u>\$ 1,413.6</u>	<u>\$ 1,684.8</u>	<u>\$ 1,636.6</u>
Benefits Paid <sup>(a)</sup> .....	\$ 1,417.0	\$ 1,487.7	\$ 1,563.0	\$ 1,653.6	\$ 1,729.1
Investment Income/Net Gains (Losses) .....	\$ (90.5)	\$ 997.6	\$ 1,447.1	\$ 370.2 <sup>(b)</sup>	\$ (0.3) <sup>(b)</sup>
Actuarial Recommended Contribution.....	\$ 926.4	\$ 1,059.7	\$ 1,268.9	\$ 1,379.2	\$ 1,514.5
Percentage of Actuarial Recommended Contribution Made.....	100.0%	99.9%	100.0%	99.5%	99.2%
Actuarial Accrued Liabilities .....	\$23,018.8	\$23,768.2	\$25,505.6	\$26,255.5	\$33,616.7 <sup>(c)</sup>
Actuarial Values of Assets .....	\$ 9,745.0	\$ 9,784.5	\$10,584.8	\$11,375.8	\$11,923.0
Unfunded Accrued Liabilities.....	\$13,273.8	\$13,983.7	\$14,920.8	\$14,879.7	\$21,693.8 <sup>(d)</sup>
Market Value of Assets ....	\$ 8,468.5 <sup>(e)</sup>	\$ 9,182.4 <sup>(f)</sup>	\$10,472.6 <sup>(g)</sup>	\$10,668.4 <sup>(h)</sup>	\$10,636.7 <sup>(i)</sup>
Funded Ratio (actuarial value) .....	42.3%	41.2%	41.5%	43.3%	35.5%
Funded Ratio (market value).....	36.8%	38.6%	41.1%	40.6%	31.6%
Ratio of Actuarial Value of Assets to Market Value of Assets.....	115.1%	106.6%	101.1%	106.6%	112.1%

(a) Does not include refunds with respect to withdrawals of account balances by inactive members who terminate membership.

(b) Adjusted to comply with GASB 72.

(c) The increase in the Actuarial Accrued Liabilities from June 30, 2015 to June 30, 2016 did not result from changes to SERS retirement benefits, but rather, in substantial part, from changes in the actuarial assumptions and methodologies used for the January 2017 actuarial valuation, as described above, from those used in prior actuarial valuations. Among the more significant assumption and methodology changes were the reduction of the investment return assumption from 8.00% to 6.90%, changes to the demographic assumptions including the extension of post-retirement life expectancy, changes to expected experience and a change of the actuarial cost method from the "projected unit credit" method to the "entry age normal" method.

(d) Does not total due to rounding.

(e) As reported in Actuarial Valuation. This amount includes \$6,635,867 of receivables.

(f) As reported in Roll Forward Actuarial Valuation. This amount includes \$5,839,847 of receivables.

(g) As reported in Actuarial Valuation. This amount includes \$6,198,255 of receivables.

(h) As reported in Roll Forward Actuarial Valuation. This amount includes \$6,158,929 of receivables.

(i) As reported in Actuarial Valuation. This amount includes \$15,989,968 of receivables.

The January 2017 actuarial valuation breaks out the normal cost component and the amortization component associated with the several tiers of employees for Fiscal Year 2016 as set forth below:

**TABLE 18**  
**Normal Cost by Tier**

<b>Group</b>	<b>Number of Active Members<sup>(a)</sup></b>	<b>Average Age (years)<sup>(a)</sup></b>	<b>Average Service (years)<sup>(a)</sup></b>	<b>Normal Cost (Millions)</b>	<b>Normal Rate (percent of payroll)</b>
Tier I-Hazardous	35	58.7	31.9	\$ 877,540	22.69%
Tier I-Plan B	1,428	59.5	34.6	\$ 11,811,772	8.42%
Tier I-Plan C	45	61.1	34.4	\$ 256,394	6.30%
Tier II-Hazardous	1,512	51.0	22.5	\$ 31,873,412	20.80%
Tier II-Others	11,204	54.9	24.9	\$ 82,512,307	8.29%
Tier IIA-Hazardous	5,957	44.0	12.5	\$ 89,969,539	18.37%
Tier IIA-Others	16,063	48.4	11.3	\$ 86,361,068	7.56%
Tier III-Hazardous	2,551	34.4	2.5	\$ 20,192,645	12.90%
Tier III Hybrid	2,087	50.4	12.7	\$ 12,990,459	6.94%
Tier III-Others	9,137	38.7	2.3	\$ 28,725,132	6.40%
<b>Total</b>	<b>50,019</b>	<b>47.3</b>	<b>13.5</b>	<b>\$365,570,268</b>	<b>9.83%</b>

(a) As of June 30, 2016.

***Modeling of Future Funded Ratios and Annual Contributions through Fiscal Year 2048***

The Office of Policy and Management (“OPM”) engaged the consulting actuary for the SERF to prepare a baseline open group model of future funded ratios and annual contribution requirements for the SERF through Fiscal Year 2048. The modeling presented in Table 19 is based on the assumptions used for the actuarial valuation and actuarial methods of future annual employer contribution requirement figures as set out in the January 2017 actuarial valuation, including, but not limited to, a 6.90% investment return assumption, an Entry Age Normal actuarial cost method, a level dollar amortization method to be phased in over a five year period, a UAAL amortization period of 25.1 years, being the weighted average of the portion of the UAAL as of 1984 (amortized over a period ending in 2032) and the balance of the UAAL (amortized over a closed 30 year period beginning in 2016), with future actuarial gains or losses to be phased in over closed 25 year periods. The modeling does not represent a forecast, estimate or projection. The modeling does not reflect future factors or conditions that would cause the actual future experience of the SERF 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 19**

**Modeling Of State Employees' Retirement Fund  
Future Funded Ratios and Annual Contribution Requirements  
(In Thousands)**

The funded ratio and annual contributions for each fiscal year have 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.

<b>Fiscal Year Ending June 30</b>	<b>Valuation Date June 30</b>	<b>Funded Ratio as of Valuation Date</b>	<b>Normal Cost</b>	<b>Amortization of Unfunded Accrued Liability</b>	<b>Total State Contribution</b>	<b>Employee Contribution</b>	<b>Total State and Employee Contribution</b>
2018	2016	35.5%	\$365,570	\$1,282,837	\$1,648,407	\$83,775	\$1,732,182
2019	2017	36.0	361,215	1,446,837	1,808,051	92,167	1,900,219
2020	2018	36.6	361,172	1,622,362	1,983,533	94,627	2,078,160
2021	2019	37.1	361,498	1,809,598	2,171,097	97,248	2,268,345
2022	2020	38.2	362,973	1,988,486	2,351,459	100,464	2,451,924
2023	2021	40.1	363,445	2,145,114	2,508,559	103,239	2,611,798
2024	2022	42.4	364,850	2,158,686	2,523,536	106,535	2,630,070
2025	2023	45.1	366,138	2,159,710	2,525,848	109,876	2,635,725
2026	2024	47.7	369,018	2,159,283	2,528,301	113,813	2,642,115
2027	2025	50.3	372,037	2,158,985	2,531,022	117,777	2,648,798
2028	2026	52.9	374,590	2,158,786	2,533,376	121,870	2,655,245
2029	2027	55.4	378,253	2,158,388	2,536,640	126,129	2,662,769
2030	2028	58.0	380,287	2,158,244	2,538,531	130,127	2,668,658
2031	2029	60.6	384,510	2,157,445	2,541,955	134,514	2,676,468
2032	2030	63.3	389,667	2,156,355	2,546,023	139,276	2,685,299
2033	2031	66.0	396,334	1,673,440	2,069,773	144,406	2,214,179
2034	2032	68.8	403,642	1,630,684	2,034,326	149,663	2,183,989
2035	2033	70.6	412,992	1,626,002	2,038,993	155,472	2,194,465
2036	2034	72.4	423,580	1,624,194	2,047,774	161,512	2,209,285
2037	2035	74.2	434,165	1,622,442	2,056,607	167,422	2,224,029
2038	2036	76.2	445,227	1,620,236	2,065,463	173,437	2,238,900
2039	2037	78.2	457,156	1,617,482	2,074,638	179,682	2,254,320
2040	2038	80.4	469,451	1,614,333	2,083,784	186,109	2,269,893
2041	2039	82.7	482,000	1,610,698	2,092,698	192,672	2,285,370
2042	2040	85.1	494,625	1,606,705	2,101,330	199,316	2,300,646
2043	2041	87.6	507,207	1,602,368	2,109,576	206,053	2,315,629
2044	2042	90.3	519,924	1,575,166	2,095,090	212,988	2,308,078
2045	2043	93.1	532,757	1,535,193	2,067,951	220,138	2,288,089
2046	2044	96.0	545,526	1,482,436	2,027,961	227,507	2,255,468
2047	2045	99.1	558,346	1,437,756	1,996,102	235,091	2,231,193
2048 <sup>(a)</sup>	2046	102.1	571,164	(99,954)	471,210	242,933	714,143

(a) In fiscal year ending June 30, 2048 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. In the model, there no longer remains an unfunded actuarial accrued liability to be amortized.

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

Generally, State employees hired before July 2, 1984 participate in the Tier I plan of the SERF, which requires employee contributions. As of July 1, 2016 approximately 3.0% 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, 2016, approximately 25.4% 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, 2016, approximately 44.0% of the total work force was covered under the Tier IIA Plan. The 2011 agreement between the State and SEBAC ("SEBAC 2011") provides for two new retirement plans for State employees first hired on and after July 1, 2011, Tier III employees 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. As of July 1, 2016, approximately 23.4% of the total work force was covered under the Tier III Plan and approximately 4.2% of the total work force was covered under 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 for their prior State service in that plan at the full actuarial cost. From time-to-time the State has instituted, and in the future may institute, early retirement incentive plans that may impact retirement plan eligibility and benefits.

The average annual benefit payable to a retired Tier I, Tier II, Tier IIA, Tier III or Hybrid Plan member in fiscal year ending June 30, 2016 was approximately \$46,522, \$29,465, \$10,215, \$15,069 and \$34,094, respectively. The SERF 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 in the following table:

**TABLE 20**

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

<b>Tier</b>	<b>Member Contribution Requirements</b>	<b>Eligibility For Normal Retirement Benefits</b>	<b>Normal Retirement Benefits Based On Final Average Earnings ("FAE")<sup>(a)</sup></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 years
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
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	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  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	1.40% of FAE plus (a) 0.433% 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 years of service up to 35 years, and (b) 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

Tier	Member Contribution Requirements	Eligibility For Normal Retirement Benefits	Normal Retirement Benefits Based On Final Average Earnings ("FAE") <sup>(a)</sup>
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>	1.40% of FAE plus (a) 0.433% 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 years of service up to 35 years, and (b) 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	1.40% of FAE plus (a) 0.433% 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 years of service up to 35 years, and (b) 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
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>	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	1.40% of FAE plus (a) 0.433% 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 years of service up to 35 years, and (b) 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 <sup>(b)</sup>

- (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 SERF provides annual cost-of-living allowance adjustments each July 1 as set forth below:

**TABLE 21**  
**State Employees' Retirement Benefit Cost-Of-Living Allowances<sup>(a)</sup>**

Retirement Date	Adjustment Based On	Minimum Increase	Maximum Increase	Maximum Increase For Members And Beneficiaries Not Covered By Social Security And Age 62 And Over
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%	7.5%	N/A

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

***GASB 67 and GASB 68 Disclosure***

Governmental Accounting Standards Board Statement No. 67 ("GASB 67") requires a determination of the Total Pension Liability ("TPL") for a plan using the Entry Age Normal actuarial funding method. The Net Pension Liability ("NPL") is then set equal to the TPL minus the plan's Fiduciary Net Position ("FNP") which, generally, is the market value of assets in the plan as of the measurement date. Among the assumptions needed for the liability calculation is a Single Equivalent Interest Rate ("SEIR"). To determine the SEIR, the FNP must be projected into the future for as long as there are anticipated benefits payable to the membership and beneficiaries of the system on the measurement date. If the FNP of the plan is not expected to be depleted at any point in the future, the plan may use its long-term expected rate of return as the SEIR. If, on the other hand, the FNP of the plan is expected to be depleted, then the SEIR is the single rate of interest that will generate a present value of benefits equal to the sum of (i) the present value of all benefits through the date of depletion at a discount rate equal to the long-term expected rate of return, plus (ii) the present value of benefits after the date of depletion discounted at a rate based on 20-year, tax-exempt, general obligation municipal bonds, with an average credit rating of AA/Aa or higher.

Governmental Accounting Standards Board Statement No. 68 (“GASB 68”) requires, among other things, that Pension Expense (“PE”) be calculated and a proportionate share of NPL and PE be recognized in the employer’s financial reporting. PE includes amounts for service cost (the normal cost under the Entry Age Normal actuarial cost method for the year), interest on the TPL, changes in benefit structure, amortization of increases/decreases in liability due to actuarial experience and actuarial assumption changes, and amortization of investment gains/losses. The actuarial experience and assumption change impacts are amortized over the average expected remaining service life of the plan membership as of the measurement date, and investment gains/losses are amortized over five years. PE should not be considered a proxy for funding or contribution levels.

The SER Commission received from Cavanaugh Macdonald Consulting, LLC a report prepared as of June 30, 2015 and dated February 17, 2016 containing supplemental information to assist the SER Commission in meeting the requirements of GASB 67. Much of the material provided in the report is based on the data, assumptions and results of the November 2014 actuarial valuation as of June 30, 2014 and does not reflect the January 2017 actuarial valuation as of June 30, 2016. The liabilities of that November 2014 actuarial valuation were rolled forward to the measurement date of June 30, 2015. This supplement reported the following results as of June 30, 2015 with respect to the SERF in accordance with GASB 67:

Total Pension Liability	\$27,192.5 million
Fiduciary Net Position	10,668.4 million
Net Pension Liability	16,524.1 million
Ratio of Fiduciary Net Position to Total Pension Liability	39.23 %

The GASB 67 report used a discount rate of 8.50%, which was the rate used in the November 2014 actuarial valuation as of June 30, 2015, since the results currently indicate that the FNP will not be depleted at any point in the future. The January 2017 actuarial valuation as of June 30, 2016 used a lower discount rate of 6.90%. GASB 67 also requires sensitivity calculations based on a SEIR 1% in excess and 1% less than the SEIR used, which would decrease the NPL to \$13,885.6 million or increase the NPL to \$19,655.9 million, respectively.

The SER Commission received from Cavanaugh Macdonald Consulting, LLC a report prepared as of June 30, 2015 and dated February 17, 2016 containing supplemental information to assist the SER Commission in meeting the requirements of GASB 68. This supplement reported a Pension Expense of \$1,306.8 million for the fiscal year ending June 30, 2016. See also note 10 of **Appendix II-C** hereto.

The audited financial statements for Fiscal Year 2016 which are included as **Appendix II-C** hereto, and in particular note 10 and the Pension Plans Required Supplementary Information of the accompanying Basic Financial Statements, reflect the supplemental information reported in the February 17, 2016 GASB 67 and GASB 68 reports. As those reports were prepared as of June 30, 2015 based on data, assumptions and results of the November 2014 actuarial valuation, they do not reflect data, assumptions and results of the January 2017 actuarial valuation.

**Teachers’ Retirement Fund**

The Teachers’ Retirement Fund (“TRF”), 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. While setting and paying salaries for teachers, municipalities do not provide contributions to the maintenance of the fund. As of June 30, 2016, there were 101,977 active and former employees and beneficiaries, consisting of (i) 50,877 active members, (ii) 2,085 inactive vested members, (iii) 12,667 inactive non-vested members, (iv) 1,859 annuity reserve members, and (v) 36,065 retired members and beneficiaries, including 283 members on disability allowance.

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 2008 included \$2.0 billion of the proceeds of the State's Taxable General Obligation Bonds (Teachers' Retirement Fund 2008 Series), as discussed under "Pension Obligation Bonds".

#### ***October 2014 Actuarial Valuation and Fiscal Years 2016 and 2017 Employer Contribution Requirements***

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 TRF. 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 TRF received from Cavanaugh Macdonald Consulting, LLC an actuarial valuation as of June 30, 2014 dated October 29, 2014. The October 2014 actuarial valuation determined the following employer contribution requirements, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions: (i) \$975.6 million for Fiscal Year 2016; and (ii) \$1,012.2 million for Fiscal Year 2017, resulting in an annual employer contribution rate of 23.65% of payroll. For Fiscal Year 2016, the State made an employer contribution of \$975.6 million, 100.0% of the actuarial employer contribution requirement. The adopted budget for Fiscal Year 2017 contains appropriations sufficient to fully fund the employer contribution requirement determined for Fiscal Year 2017 pursuant to the November 2014 actuarial valuation.

#### ***October 2015 Experience Study, November 2016 Actuarial Valuation and Fiscal Years 2018 and 2019 Employer Contribution Requirements***

The TRF received an experience study dated October 29, 2015 prepared by Cavanaugh Macdonald Consulting, LLC, the actuaries for the Teachers' Retirement Fund, for the five-year period ending June 30, 2015, 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 November 4, 2015. The revised assumptions were incorporated into the actuarial valuation completed as of June 30, 2016, to be used to calculate the State's employer contribution requirements for the fiscal years ending June 30, 2018 and June 30, 2019. The following changes to the prior assumptions significantly impact the calculation of the UAAL:

- Decrease in the earnings assumption from 8.5% to 8.0%, reducing the discount of TRS' liabilities
- Updating the post-retirement mortality assumption to the Retired Pensioner 2014 (RP 2014) mortality table with the rates projected to year 2020 using projection scale BB, to reflect mortality improvements, extending the anticipated duration of pension payments to TRS members

The TRF received from Cavanaugh Macdonald Consulting, LLC an actuarial valuation as of June 30, 2016 dated November 2, 2016. The November 2016 actuarial valuation reported the following results as of June 30, 2016 with respect to the TRF:

Market Value of Assets	\$15,584.6 million
Actuarial Value of Assets	16,712.3 million
Actuarial Accrued Liability	29,839.9 million
UAAL	13,127.6 million
Funded Ratio (based on the actuarial value of assets)	56.01%
Funded Ratio (based on the market value of assets)	52.23%

Most notably, the UAAL grew by \$2,213 million from the UAAL calculated in the October 2014 actuarial valuation due to changes in assumptions adopted by the board as a result of the 2015 experience study for the five-year period ending June 30, 2015. The November 2016 actuarial valuation was based upon the following assumptions among others:

- 8.0% earnings assumption (including inflation at 2.75%)
- Projected salary increases of 3.25% to 6.5% (including inflation at 2.75%)
- Assumed rates of mortality are updated to most recent trends and project further improvements in mortality rates through 2020
- Cost-of-living adjustments of 3.0% annually for members retired before September 1992, 2.0% for members retired on and after September 1, 1992 and hired prior to July 1, 2007 and 1.75% for members retired on and after September 1, 1992 and hired on or after July 1, 2007
- Payroll Growth Rate of 3.25%
- Net effective amortization period for the computed State contribution amounts for Fiscal Year 2016 is 17.6 years

The November 2016 actuarial valuation determined the following employer contribution requirements, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions: (i) \$1,290.4 million for Fiscal Year 2018; and (ii) \$1,332.4 million for Fiscal Year 2019, resulting in an annual employer contribution rate of 30.35% of payroll. The adopted biennium budget for Fiscal Year 2018-2019 has not yet been adopted by the General Assembly.

The TRF uses the Entry Age Normal cost method to calculate the annual amortization payments needed to amortize the unfunded actuarial accrued liability, which method allocates the plan's actuarial present value of future benefits to various periods based on service. The amortization period begins with 40 years as of July 1, 1991 for the contribution for fiscal year beginning July 1, 1992 and the annual required employer contribution amount is based on a level percentage of payroll payments over such declining period of years. The net effective amortization period for the computed State contribution amounts for Fiscal Year 2017 is approximately 16.4 years. While this method of funding should 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 TRF is not anticipated to be reduced significantly until the later 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.

Set forth in the following table are State contributions to the TRF, 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, 2012, June 30, 2014 and June 30, 2016.

**TABLE 22**  
**Teachers' Retirement Fund<sup>(a)</sup>**  
**(In Millions)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Fund					
Contributions .....	\$ 757.2	\$ 787.5	\$ 948.5	\$ 984.1	\$ 975.5
Employee					
Contributions <sup>(b)</sup> .....	<u>263.5</u>	<u>274.3</u>	<u>275.5</u>	<u>279.0</u>	<u>290.5</u>
Total Contributions.....	<u>\$ 1,020.7</u>	<u>\$ 1,061.9</u>	<u>\$ 1,224.0</u>	<u>\$ 1,263.1</u>	<u>\$ 1,266.0</u>
Benefits Paid <sup>(c)</sup> .....	\$ 1,531.7	\$ 1,625.7	\$ 1,714.4	\$ 1,773.4	\$ 1,842.9
Investment Income/Net Gains (Losses) .....	\$ (145.4)	\$ 1,584.3	\$ 2,250.8	\$ 569.1 <sup>(d)</sup>	\$ (18.8) <sup>(d)</sup>
Actuarial Recommended					
Contribution.....	\$ 757.2	\$ 787.5	\$ 948.5	\$ 984.1	\$ 975.5
Percentage of Actuarial Recommended Contribution Made.....	100.0%	100.0%	100.0%	100.0%	100.0%
Actuarial Accrued					
Liabilities.....	\$24,862.2	N/A	\$26,349.2	N/A	\$29,839.9
Actuarial Values of					
Assets .....	\$13,734.8	N/A	\$15,546.5	N/A	\$16,712.3
Unfunded Accrued					
Liabilities.....	\$11,127.4	N/A	\$10,802.7	N/A	\$13,127.6
Market Value of Assets ..	\$13,473.7 <sup>(e)</sup>	\$14,480.5	\$16,220.9 <sup>(e)</sup>	\$16,110.4	\$15,584.6 <sup>(e)</sup>
Funded Ratio					
(actuarial value).....	55.2%	N/A	59.0%	N/A	56.0%
Funded Ratio					
(market value).....	54.2%	N/A	61.6%	N/A	52.23%
Ratio of Actuarial Value of Assets to Market Value of Assets.....	102.0%	N/A	96.0%	N/A	107.2%

(a) As actuarial valuations are performed every two years, not all of the data is available for each year.

(b) Includes municipal contributions under early retirement incentive programs \$582,142 during Fiscal Year 2012, \$361,042 during Fiscal Year 2013, \$668,924 during Fiscal Year 2014, \$668,924 during Fiscal Year 2015 and \$510,391 during Fiscal Year 2016). Does not include employee contributions to the Teachers' Retirement Health Insurance Fund.

(c) Does not include refunds with respect to withdrawals of account balances by inactive members who terminate membership (\$13,831,495 during Fiscal Year 2012, \$14,658,485 during Fiscal Year 2013, \$18,241,716 during Fiscal Year 2014, \$50,328,762 during Fiscal Year 2015 and \$46,125,368 during Fiscal Year 2016).

(d) Adjusted to comply with GASB 72.

(e) Figure derived from actuarial valuation.

### ***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 TRF plus amounts required for costs of issuance and up to two years of capitalized interest. The Secretary of OPM 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 \$2,276.6 million of such bonds.

Section 8 of Public Act No. 07-186 provides that in each fiscal year that any TRF Bonds (or any refunding of TRF Bonds) are outstanding, there shall be deemed appropriated from the General Fund an amount equal to the annual required contribution to the TRF, 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 TRF 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 that 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***

Each member of the TRF 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 Connecticut 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 Connecticut service, 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 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, 2016 was approximately \$51,906.

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

**TABLE 23**  
**Teachers' Retirement Benefit Cost-Of-Living Allowances**

Retirement Date	Adjustments Consistent With Adjustments To:	Minimum Increase	Maximum Increase	Limitation On Maximum Increase Based On Previous Year's Plan Assets Return
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	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	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 2010 and 2011 was granted for members retiring on or after September 1, 1992. For Fiscal Year 2012, a 3.6% benefit adjustment was granted. For Fiscal Year 2013, a 1.5% benefit adjustment was granted.

A 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 TRF 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.

***GASB 67 and GASB 68 Disclosure***

Governmental Accounting Standards Board Statement No. 67 ("GASB 67") requires a determination of the Total Pension Liability ("TPL") for a plan using the Entry Age Normal actuarial funding method. The Net Pension Liability ("NPL") is then set equal to the TPL minus the plan's Fiduciary Net Position ("FNP") which, generally, is the market value of assets in the plan as of the measurement date. Among the assumptions needed for the liability calculation is a Single Equivalent Interest Rate ("SEIR"). To determine the SEIR, the FNP must be projected into the future for as long as there are anticipated benefits payable to the membership and beneficiaries of the system on the measurement date. If the FNP of the plan is not expected to be depleted at any point in the future, the plan may use its long-term expected rate of return as the SEIR. If, on the other hand, the FNP of the plan is expected to be depleted, then the SEIR is the single rate of interest that will generate a present value of benefits equal to the sum of (i) the present value of all benefits through the date of depletion at a discount rate equal to the long-term expected rate of return, plus (ii) the present value of benefits after the date of depletion discounted at a rate based on 20-year, tax-exempt, general obligation municipal bonds, with an average credit rating of AA/Aa or higher.

Governmental Accounting Standards Board Statement No. 68 ("GASB 68") requires, among other things, that Pension Expense ("PE") be calculated and a proportionate share of NPL and PE be recognized in the employer's financial reporting. PE includes amounts for service cost (the normal cost under the Entry Age

Normal actuarial cost method for the year), interest on the TPL, changes in benefit structure, amortization of increases/decreases in liability due to actuarial experience and actuarial assumption changes, and amortization of investment gains/losses. The actuarial experience and assumption change impacts are amortized over the average expected remaining service life of the plan membership as of the measurement date, and investment gains/losses are amortized over five years. PE should not be considered a proxy for funding or contribution levels.

The Teachers' Retirement Board received from Cavanaugh Macdonald Consulting, LLC a report prepared as of June 30, 2015 and dated April 19, 2016 containing supplemental information to assist the Board in meeting the requirements of GASB 67. Much of the material provided in the report is based on the data, assumptions and results of the October 2014 actuarial valuation as of June 30, 2014 and does not reflect the November 2016 actuarial valuation as of June 30, 2016. The liabilities of that October 2014 actuarial valuation were rolled forward to the measurement date of June 30, 2015. This supplement reported the following results as of June 30, 2015 with respect to the TRF in accordance with GASB 67:

Total Pension Liability	\$27,092.1 million
Fiduciary Net Position	16,120.1 million
Net Pension Liability	10,972.0 million
Ratio of Fiduciary Net Position to Total Pension Liability	59.50%

The GASB 67 report used a discount rate of 8.50% which was the rate used in the October 2014 actuarial valuation as of June 30, 2014, since the results currently indicate that the FNP will not be depleted at any point in the future. The November 2016 actuarial valuation as of June 30, 2016 used a lower discount rate of 8.0%. GASB 68 also requires sensitivity calculations based on a Single Equivalent Interest Rate ("SEIR") 1% in excess and 1% less than the SEIR used, which would decrease the NPL to \$8,537.1 million or increase the NPL to \$13,836.6 million, respectively.

The Teachers' Retirement Board received from Cavanaugh Macdonald Consulting, LLC a report prepared as of June 30, 2015 and dated August 17, 2016 containing supplemental information to assist the Board in meeting the requirements of GASB 68. This supplement reported a collective Pension Expense of \$879.1 million for the fiscal year ending June 30, 2016. See also note 10 of **Appendix II-C** hereto.

The audited financial statements for Fiscal Year 2016 which are included as **Appendix II-C** hereto, and in particular note 10 and the Pension Plans Required Supplementary Information of the accompanying Basic Financial Statements, reflect the supplemental information reported in the April 19, 2016 GASB 67 report and August 17, 2016 GASB 68 report. As those reports were prepared as of June 30, 2015 based on data, assumptions and results of the October 2014 actuarial valuation as rolled forward to that date, they do not reflect data, assumptions and results of the November 2016 actuarial valuation.

**Investment of Pension Funds**

Twelve investment funds serve as the investment medium for both the State Employees' Retirement Fund and the Teachers' Retirement Fund, as listed below along with the percentage allocation of holdings for the SERF and the TRF as of June 30, 2016 in each of these funds. See also **FINANCIAL PROCEDURES** herein.

**TABLE 24**  
**Pension Fund Investment Allocations**  
**As of June 30, 2016**

	<u>State Employees'</u> <u>Retirement Fund</u>	<u>Teachers'</u> <u>Retirement Fund</u>
Mutual Equity Fund .....	22.8%	23.9%
Developed Markets International Stock Fund	18.2	18.5
Emerging Markets International Stock Fund	8.7	8.8
Core Fixed Income Fund.....	8.4	7.4
Emerging Markets Debt Fund.....	4.2	5.4
High Yield Fund.....	5.4	5.6
Inflation Linked Bonds Fund .....	5.7	3.7
Liquidity Investment Fund.....	3.2	4.0
Real Estate Fund .....	7.6	7.6
Private Investment Fund .....	9.9	9.1
Commercial Mortgage Fund .....	0.0	0.0
Alternative Investment Fund.....	<u>5.9</u>	<u>6.0</u>
	100.0%	100.0%

Source: Combined Investment Funds 2016 Comprehensive Annual Financial Report.

***Investment Returns***

**Annualized Net Returns on Investment Assets in  
Retirement Funds  
Periods Ending June 30, 2016**

	<u>5 Year</u>	<u>10 Year</u>	<u>15 Year</u>	<u>20 Year</u>	<u>25 Year</u>
SERF	5.74%	5.14%	5.43%	6.78%	7.47%
TRF	5.71%	5.25%	5.54%	6.90%	7.56%

**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, 2016, there were approximately 175 active members of these plans and approximately 254 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 (“OPEB”)**

***Social Security***

State employees and teachers are treated in various ways for purposes of federal social security. Most state employees are covered under social security, and most teachers are not. As of June 30, 2016, approximately 56,012 State employees were entitled to Social Security coverage. The following table summarizes this treatment.

<u>Category</u>	<u>Covered</u>
Teachers	No
State employees under the State Employees' Retirement Fund	Yes
State employees under other retirement systems hired after 2/21/58	No
State police hired after 2/21/58 and before 5/8/84	No
State police hired after 5/8/84	Yes
Employees under the Connecticut Alternate Retirement Program hired after 7/12/90	Yes
Employees under the Connecticut Alternate Retirement Program hired before 7/12/90	Could elect

The amount expended by the State for Social Security coverage for fiscal year ending June 30, 2016 was \$319.4 million. Of this amount, \$228.3 million was paid from the General Fund and \$15.5 million was paid from the Special Transportation Fund and the balance was recovered from other funds, including federal funds and higher education funds. The State has appropriated \$245.9 million for Social Security coverage for fiscal year ending June 30, 2017. Of this amount, \$227.7 million has been appropriated from the General Fund and \$18.2 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 eligible employees who retire from State employment. The State currently finances the cost of such benefits on a pay-as-you-go basis through a transfer of an appropriation from the General Fund to a trust fund (the “OPEB Trust”) established for the payment of post-retirement health care and life insurance benefits, and for the accumulation of assets with which to pay post-retirement health care benefits and post-retirement life insurance benefits to future retirees in future years. All employees hired on or after July 1, 2009 are required to contribute 3% of salary for ten years, to be deposited into the trust. Commencing July 1, 2010, employees with less than five years of service are required to contribute 3% of salary for ten years, 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, 2016, the fair market value of the net assets within the trust totaled \$395.4 million, invested in the Combined Investment Funds. See also notes 13 and 14 of **Appendix II-C** hereto and **FINANCIAL PROCEDURES** herein. It is not currently anticipated that the trust will provide any significant contribution to the funding for post-retirement health care and life insurance benefits in the near future. The Governor’s proposed budget for Fiscal Years 2018 and 2019 includes for each year, in accordance with SEBAC 2011, an appropriation of \$120.0 million to match State employee contributions to the OPEB Trust. The State will need to make significant General Fund appropriations for post-retirement health care and life insurance benefits in upcoming fiscal years. Because the plan is being funded on a pay-as-you-go basis, the amounts are much less than the annual required employer contribution payment calculated for the plan, which includes a component to amortize the UAAL.



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 August 24, 2016 (“2016 OPEB Report”) 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 SERS and other State retirement systems, excluding the TRS from The Segal Company, which indicated the following as of June 30, 2015:

Actuarial Accrued Liability	\$19,119.6 million	
UAAL	18,889.9 million	
Actuarial Value of Assets	229.6 million	Based on Market Value at June 30, 2015
Funded Ratio	1.20%	
Annual Required Contribution	\$1,443.7 million (Fiscal Year 2016) (comprised of normal cost of \$364.4 million, amortization of UAAL of \$1,036.8 million, and adjustment for timing of \$42.5 million)	Based on a projected unit credit actuarial cost method and level percent-of-payroll amortization over 30 years (with 22 years remaining as of June 30, 2015)
Annual OPEB Cost	\$1,435.6 million (Fiscal Year 2016)	The annual OPEB cost adjusts the annual required contribution and contribution in relation to the annual required contribution. The annual OPEB cost is the cost of OPEB actually booked as an expense for the fiscal year.

In Fiscal Years 2015 and 2016, the State contributed 36.10% and 42.2% of the ARC and 35.43% and 42.4% of the Annual OPEB Cost, respectively.

The 2016 OPEB Report includes the following assumptions, among others:

- A discount rate of 5.7%
- Payroll growth rate of 3.75%
- Medical cost trend rate of 5.0%
- Drug cost trend rate of 10.0% graded to 5.0% over 5 years
- Dental and Part B trend rates of 5.0%
- Projected salary increases of 3.25% to 20.0%
- Updated medical, prescription drug and dental claim costs for recent experience and adjusting trend rates for medical and prescription drug
- Explicit administrative expense of \$250 per participant through June 30, 2018 and increasing at 3% per year thereafter
- Average contribution of \$174 was used for plans requiring contributions in the valuation year. An average contribution of \$356 was used in the valuation year for dental benefits. Average premium used to calculate the early retirement premiums was updated to \$14,271
- Adjustment of the retiree contribution increase
- Adjustment of the assumption for Medicare Part B
- Includes certain plan changes made pursuant to revised agreements with SEBAC

The State anticipates receiving in Summer 2017 a “roll forward” actuarial valuation report prepared as of June 30, 2016 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 SERS and other State retirement systems, excluding the TRS.

In June 2015, GASB released new accounting standards for public sector OPEB plans and sponsoring employees, including GASB Statements Nos. 74 (effective for Fiscal Year 2017) and 75 (effective for Fiscal Year 2018). Generally, the changes made by the new GASB statements to OPEB plan reporting substantially parallel the changes made by GASB Statements Nos. 67 and 68 to pension plan reporting. The State is in the process of preparing to implement the new GASB statements, and anticipates timely implementation. It is anticipated that the discount rate determined in accordance with the new GASB statements used in calculating the actuarial accrued liability of the plan will decrease from the discount rate currently used. All other factors unchanged, a decrease in the discount rate would result in an increase in the actuarial accrued liability of the plan.

For Fiscal Years 2012 through 2016, the State paid \$549.1 million, \$587.4 million, \$548.7 million, \$598.6 million and \$646.0 million, respectively, for retirees’ health care costs. While not a part of post-employment costs, for Fiscal Years 2012 through 2016, the State paid \$518.4 million, \$559.8 million, \$614.3 million, \$635.1 million and \$662.9 million, respectively, for General Fund eligible employees’ health care costs. For fiscal year ending June 30, 2017, the projected General Fund expenditures on retirees’ health care costs and on General Fund eligible employees’ health care costs were \$720.5 million and \$669.7 million, respectively. For fiscal year ending June 30, 2016, General Fund expenditures on life insurance benefits were \$7.8 million, and the projected General Fund expenditures for fiscal year ending June 30, 2017 on life insurance benefits was \$7.7 million.

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 25**

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Retirees Eligible to Receive Benefits.....	44,770 <sup>(a)</sup>	47,510	48,844	50,356	51,350
Retirees Receiving Health Care Benefits .....	44,659	45,092	46,037	47,556	48,089
Retirees Receiving Life Insurance Benefits .....	28,405	28,204	28,580	29,164	30,064
General Fund Appropriations for Retiree Health Care and Life Insurance Benefits (millions).....	\$574.1 <sup>(b)</sup>	\$596.1 <sup>(c)</sup>	\$557.5 <sup>(d)</sup>	\$598.6 <sup>(e)</sup>	\$653.7 <sup>(f)</sup>

- (a) Prior to the conversion of the retirement payroll and retirement benefit systems in May 2013 to the same system, it was not possible to accurately account for retirees eligible but not enrolled in benefits.
- (b) The \$574.1 million appropriated for Fiscal Year 2012 includes a combined appropriation of \$8.9 million for active employee and retiree life insurance benefits. Of the \$574.1 million appropriation, \$562.2 million was expended on retiree health care benefits and \$4.4 million was expended on retiree life insurance benefits.
- (c) The \$596.1 million appropriated for Fiscal Year 2013 includes a combined appropriation of \$8.7 million for active employees and retiree life insurance benefits. Of the \$596.1 million appropriation, \$587.4 million was expended on retiree health care benefits and \$4.4 million was expended on retiree life insurance benefits.
- (d) The \$557.5 million appropriated for Fiscal Year 2014 includes a combined appropriation of \$8.8 million for active employees and retiree life insurance benefits. Of the \$557.5 million appropriation, \$548.7 million was expended on retiree health care benefits and \$4.4 million was expended on retiree life insurance benefits.
- (e) The \$598.6 million appropriated for Fiscal Year 2015 includes a combined appropriation of \$7.6 million for active employees and retiree life insurance benefits. Of the \$598.6 million appropriation, \$591.1 million was expended on retiree health care benefits and \$4.4 million was expended on retiree life insurance benefits.
- (f) The \$653.7 million appropriated for Fiscal Year 2016 includes a combined appropriation of \$7.8 million for active employees and retiree life insurance benefits. Of the \$653.7 million appropriation, \$646.0 million was expended on retiree health care benefits and \$4.6 million was expended on retiree life insurance benefits.

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

The State is required to (i) 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 that is not funded from the amounts available in the Teachers’ Retirement Health Insurance Fund; (ii) subsidize the health insurance costs of retired teachers who are not members of the Teachers’ Retirement Board’s health benefit plan; and (iii) provide an additional health insurance subsidy of at least \$110 per month on behalf of retired teachers who are ineligible to participate in Medicare Part A “premium free” and who pay at least \$220 per month to participate in the local board of education retiree health benefit plans. The State made General Fund appropriations of \$32.3 million, \$34.4 million, \$22.4 million, \$20.2 million and \$19.9 million for Fiscal Years 2013, 2014, 2015, 2016 and 2017 respectively, to subsidize the Teachers’ Retirement Health Insurance Fund. The Governor’s proposed budget for Fiscal Years 2018 and 2019 includes \$20.0 million and \$25.0 million for Fiscal Years 2018 and 2019, respectively, to subsidize the Fund. The Governor’s midterm budget adjustments for Fiscal Year 2013, reduced the State’s appropriation from 33% to 25% of the Medicare supplemental health insurance program cost, and utilized retiree drug subsidies which would have otherwise already been available to the Teachers’ Retirement Health Insurance Fund, to offset, in part, the State’s share of retiree health costs. As of Fiscal Year 2015 the retiree drug subsidies have expired. For Fiscal Year 2016, the State contributed was further reduced to 15% of the Medicare supplemental health insurance program cost. The Governor’s proposed budget for Fiscal Years 2018 and 2019 includes funding for 25% of the Medicare supplemental health insurance program cost.

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 sponsored through the Teachers' Retirement Board 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. The Teachers' Retirement Board received an actuarial valuation as of June 30, 2016 dated November 1, 2016 from Cavanaugh Macdonald Consulting, LLC 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 report indicates an actuarial accrued liability as of June 30, 2016 of \$2,997.5 million on an unfunded basis, based upon certain stated assumptions including a 4.25% 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, 2016 the plan had no present assets for valuation purposes. The actuarial valuation determined a \$166.8 million employer contribution requirement for Fiscal Year 2017 based on an individual entry-age actuarial cost method and level percent-of-payroll contributions and applying a 4.25% discount rate resulting in an annual employer contribution of 4.09% of payroll.

In June 2015, GASB released new accounting standards for public sector OPEB plans and sponsoring employees, including GASB Statements Nos. 74 (effective for Fiscal Year 2017) and 75 (effective for Fiscal Year 2018). Generally, the changes made by the new GASB statements to OPEB plan reporting substantially parallel the changes made by GASB Statements Nos. 67 and 68 to pension plan reporting. The State is in the process of preparing to implement the new GASB statements, and anticipates timely implementation. It is anticipated that the discount rate determined in accordance with the new GASB statements used in calculating the actuarial accrued liability of the plan will decrease from the discount rate currently used. All other factors unchanged, a decrease in the discount rate would result in an increase in the actuarial accrued liability of the plan.

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 teachers' 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 26**  
**Teachers' Retirement Health Insurance Fund**  
**(In Thousands)**

	Fiscal Year				
	2012	2013	2014	2015	2016
General Fund Contribution Attributable To Post Retirement Medicare Supplement Health Insurance .....	\$ 27,886.3	\$ 21,816.2 <sup>(c)</sup>	\$ 20,793.6 <sup>(d)</sup>	\$ 19,698.1 <sup>(a)</sup>	\$ 14,566.8
General Fund Contribution Attributable To Non-Board Health Insurance Cost Subsidy.	<u>7,372.7</u>	<u>5,223.9</u>	<u>5,198.9</u>	<u>5,447.3</u>	<u>5,392.8</u>
Total General Fund Contributions .....	\$ 35,259.0	\$ 27,040.1	\$ 25,992.5	\$ 25,145.4	\$ 19,959.6
Teacher Contributions (Active and Retired) .....	85,483.4	85,483.6	86,225.0	85,566.4	92,135.4
Investment Income .....	99.1	124.5	12,753.0	109.1	220.1
Federal Drug Subsidy .....	<u>14,227.1</u>	<u>0</u> <sup>(a)</sup>	<u>0</u> <sup>(b)</sup>	<u>0</u>	<u>0</u>
Total Receipts .....	\$135,068.5	\$112,648.2	\$ 124,970.5	\$ 85,675.5	\$ 92,355.5
Fund expenditures .....	(\$ 96,347.4)	(\$101,450.5)	(\$105,325.5)	(\$124,992.1) <sup>(d)</sup>	(\$129,654.3)
Fund Balance as of June 30 .....	\$ 91,776.6	\$102,974.3	\$ 109,532.4 <sup>(c)</sup>	\$ 95,361.2	\$ 78,022.0

- (a) Retiree Federal Drug Subsidy amount of \$10,203,832 included in General Fund Contribution Attributable to Post-Retirement Medicare Supplement Health Insurance and not shown in Federal Drug Subsidy receipts below.
- (b) Retiree Federal Drug Subsidy amount of \$9,362,367 included in General Fund Contribution Attributable to Post-Retirement Medicare Supplement Health Insurance and not shown in Federal Drug Subsidy receipts below.
- (c) A fifteen year audit of the fund has determined the reported fund balance of June 30, 2014 was overstated by \$13.0 million. A correcting adjustment was made as of June 30, 2015.
- (d) Correcting adjustment as to prior fund expenditures; does not reflect actual activity.

**Additional Information**

The audited financial statements for Fiscal Year 2016 which are included as **Appendix II-C** hereto, and in particular notes 10 through 14 and note 16 and the Pension Plans and Other Postemployment Benefit Plans Required Supplementary Information of the accompanying Basic Financial Statements, provide additional information about the foregoing retirement systems and their funding.

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.

## 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 \$50 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. 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 Public Act No. 97-290, An Act Enhancing Educational Choices and Opportunities, in response to the Supreme Court decision.

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 institute a number of measures and programs designed to advance integration for Hartford Students. That agreement expired in June, 2007, but the State and the plaintiffs have subsequently negotiated a number of follow on agreements obligating the State to programming and other efforts designed to promote achievement of specified integration goals. The parties negotiated a stipulation that governs the parties' obligations through June of 2016 which received legislative approval pursuant to the provisions of Connecticut General Statutes Section 3-125a. The parties entered into a stipulation extending current efforts through June 30, 2017 and which included a commitment to mediation which may provide the opportunity to negotiate a long term resolution of this litigation. The parties continue mediation efforts.

*State Employees Bargaining Agent Coalition ("SEBAC") v. Rowland* is a Federal District Court case in which a purported class of laid off State employees 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 claimed back wages, damages, attorneys' fees and costs. The matter proceeded through a series of rulings and appeals. After lengthy discussions, the parties reached a tentative agreement to resolve all claims in the SEBAC cases. The settlement was submitted to the legislature on May 1, 2015 and was deemed approved, in accordance with provisions of Connecticut General Statutes Section 3-125a, on or about June 1, 2015. The court held a Final Fairness Hearing on October 1, 2015 and granted final approval of the settlement. The settlement also resolved two related cases that were brought in the Connecticut Superior Court: *Conboy v. State of Connecticut* and *Parzio v. State of Connecticut*. The settlement provides for cash payments estimated at approximately \$44 million payable over the next three fiscal years, and additional vacation and personal time accruals. The overall value of the settlement is estimated at \$100 million to \$125 million. The parties are in the process of calculating economic damages for each class member who sustained damages as a result of the layoffs.

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. 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. 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. After some preliminary rulings by the court, the plaintiffs sought and obtained permission to appeal immediately to the Connecticut Supreme Court. On March 30, 2010 a plurality of the Supreme 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.

On September 7, 2016, the court issued a decision in part for the plaintiffs, and in part for the defendants. The court ruled that the overall amount spent by the State on education was more than the amount constitutionally required, and that the court could not dictate the amount of education spending. It ruled, however, that the State must propose a plan to distribute its education funding in the future according to a more rational and consistent system. It also required the State to propose plans to change certain policies relating to elementary school completion, high school graduation, teachers' compensation and evaluations, and special education. The court did not order any increase in spending on any aspect of education. On September 15, 2016, the State applied to the Chief Justice for certification to appeal the trial court's judgment. On September 20, 2016, the Chief Justice granted the application for certification to appeal and also granted the plaintiff's request to review issues decided adversely to the plaintiffs. In addition, the Supreme Court stayed the trial court's order. An appeal was filed on September 23, 2016.

***American Indian Tribes.*** It is possible that land claims could be brought by American 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. The federal Bureau of Indian Affairs ("BIA") has adopted new regulations for the federal recognition of tribes under relaxed standards, but those regulations do not presently allow for previously denied petitioners, such as the Schaghticoke Tribal Nation, Golden Hill Paugussett Tribe and the Eastern Pequot Tribal Nation, to seek recognition under new regulations. The Historical Eastern Pequot Tribe ("HEP") has filed a petition with the BIA seeking to be acknowledged as a federal American Indian Tribe. The BIA declined to accept the petition on the grounds that the HEP were previously denied acknowledgment. The HEP has appealed to the U.S. Department of Interior's Office of Hearings and Appeals.

In October, 2016, the Schaghticoke Tribal Nation initiated a lawsuit against the State and the Commissioner of Energy and Environmental Protection seeking approximately \$610.5 million for the alleged unconstitutional taking of reservation lands in the nineteenth and early twentieth centuries. The suit alleges that from 1801 to 1918, state-appointed overseers sold portions of the Schaghticoke Tribal Nation reservation and used the proceeds of those sales to lend monies to State residents in the form of mortgages and loans and not for the benefit of the Schaghticoke Tribal Nation. It alleges that these actions were in violation of the federal and state constitutional prohibitions against taking property without just compensation and in breach of the State's fiduciary duties. It seeks money damages and declaratory and injunctive relief to account for the funds allegedly due and to make the Schaghticoke whole. The matter is pending in state superior court.

***Bouchard v. State Employees Retirement Commission*** is a state court proceeding representing an administrative appeal from a denial by the State Employees Retirement Commission ("SERC") of a request to recalculate the pensions of three retirees, based on the 2007 case of ***Longley v. State Employees Retirement Commission*** and its progeny. In ***Longley*** the State Supreme Court held that SERC was required to include a retiree's final prorated longevity payment in their final year salary, for the purpose of calculating retirement benefits. SERC initially interpreted ***Longley***, with the exception of the ***Longley*** plaintiffs, as prospective in

application. In April 2009, SERC adopted a resolution to extend *Longley* retroactively to October 2, 2001. The plaintiffs in *Bouchard et al.*, comprise State employees who retired prior to October 2, 2001, who have appealed the denial and seek a recalculation of current pension benefits, an award of past underpayment of benefits and attorney's fees. This case had been certified as a class but the trial court denied plaintiffs' request for a mandatory class action. The approximate size of the class would be 18,000 retirees. On June 18, 2015, the trial court ordered SERC to apply *Longley* to the three named plaintiffs' retirement income calculation from the time of retirement. The court also ordered postjudgment interest of 5% per annum from the date of final judgment until the date the judgment is fully paid. The trial court also ruled that the plaintiff's request for mandatory class action relief for those similarly situated is barred by the three year statute of limitations under Connecticut General Statutes Section 52-577. The plaintiff appealed to the Appellate Court on September 30, 2015. SERC cross-appealed to preserve its position that no liability exists. The appeal is pending. On September 2, 2016, the Supreme Court transferred this matter to itself pursuant to Connecticut Practice Book Section 65-1.

*Martinez v. Malloy* is a federal district court suit brought in August of 2016 in which several students, and their parents or legal guardians, from the Hartford and Bridgeport school districts brought suit asserting federal constitutional claims. They allege that they are not receiving a minimally adequate education in the traditional public schools that they attend, in violation of the Due Process Clause and the Equal Protection Clause of the U.S. Constitution. In particular, they allege that the State's failure to provide a minimally adequate education is the result of various statutes ("the Alternative Choice Statutes") and educational policies that limit the number of students who may attend charter and magnet schools or who may participate in the Open Choice program, which permits certain urban students to attend school in nearby suburban towns. By way of relief, plaintiffs ask the Court to declare the Alternative Choice Statutes unconstitutional and to enjoin their enforcement. The State has filed a motion to dismiss the action, which is pending.

*D.J. v. Conn. State Board of Ed* is a recently filed case in federal district court. D.J. is a case brought by a special education student and a purported class of similarly situated special education students. Plaintiffs allege that state law violates the Individuals with Disabilities in Education Act ("IDEA") by terminating the obligation of local school districts to provide special education at the end of the school year in which a special education student turns 21. Plaintiffs' allegations are premised on the fact that Connecticut provides education services to non-special education students beyond the age of 21 and that such a distinction is not permitted under the IDEA. Plaintiffs seek a declaration that Connecticut violates the IDEA by limiting public schools' obligation to provide education services to all special education students before the end of the school year of their 22nd birthday. The plaintiffs further seek compensatory education for the class which is made up of all special education students deprived of special education services after reaching the of age 21 for the two years before the action was filed and during the pendency of the case. If plaintiffs are successful, the State could be ordered to ensure the provision of a one year extension of current duration of services for all special education students. The State has filed a motion to dismiss the case, which is pending.

*Juan F. v. Malloy*. Since 1991, the State Department of Children and Families ("DCF") has been operating under the provisions of a federal court-ordered consent decree in the Juan F. v. Malloy 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 continued to work with the plaintiffs and the Court Monitor to meet the requirements of the Exit Plan. The Court Monitor's report for the period ending September 30, 2012 indicates that DCF was in compliance with 15 of 22 outcome measures during the reporting period. The Exit Plan required compliance with all 22 outcome measures as a condition precedent for ending judicial oversight of DCF. Rather than wait until DCF is in compliance with all 22 outcome measures, by agreement of the parties, the Court Monitor has begun the process of pre-certifying the outcome measures for compliance through a case review process. In 2016, the parties entered into a proposed revised



exit plan agreement which reduced and revised the number of outcome measures to end judicial oversight. The plan was submitted to the legislature pursuant to Connecticut General Statutes Section 3-125a. On February 1, 2017, the legislature rejected the proposed plan, thereby leaving the previous Exit Plan in effect. By letter dated February 1, 2017, the plaintiffs provided notice of alleged non-compliance with provisions of the Revised Exit Plan as modified in July 2006. Pursuant to the terms of previous orders, the parties are engaged in negotiations regarding the alleged non-compliance.

## **OTHER MATTERS**

In Fiscal Year 2012, the State began levying a tax on the net patient revenue of each hospital in the State. A petition for a declaratory ruling was received by the Department of Social Services (“DSS”) and the Department of Revenue Services (“DRS”) claiming that this tax is invalid as implemented under various constitutional and administrative theories. The determination of DSS and DRS with respect to the petition could affect the collection of the tax going forward, provide the basis for potential refund claims, or result in litigation. On September 22, 2016, DSS and DRS rejected the assertions of the petitioning hospitals. The petitioning hospitals subsequently appealed the Departments' ruling to the Superior Court. That appeal is pending. No representation is made concerning the possible resolution or financial impact of this matter, or what actions the State might implement in response to any adverse rulings.

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## GOVERNMENTAL ORGANIZATION AND SERVICES

### Introduction

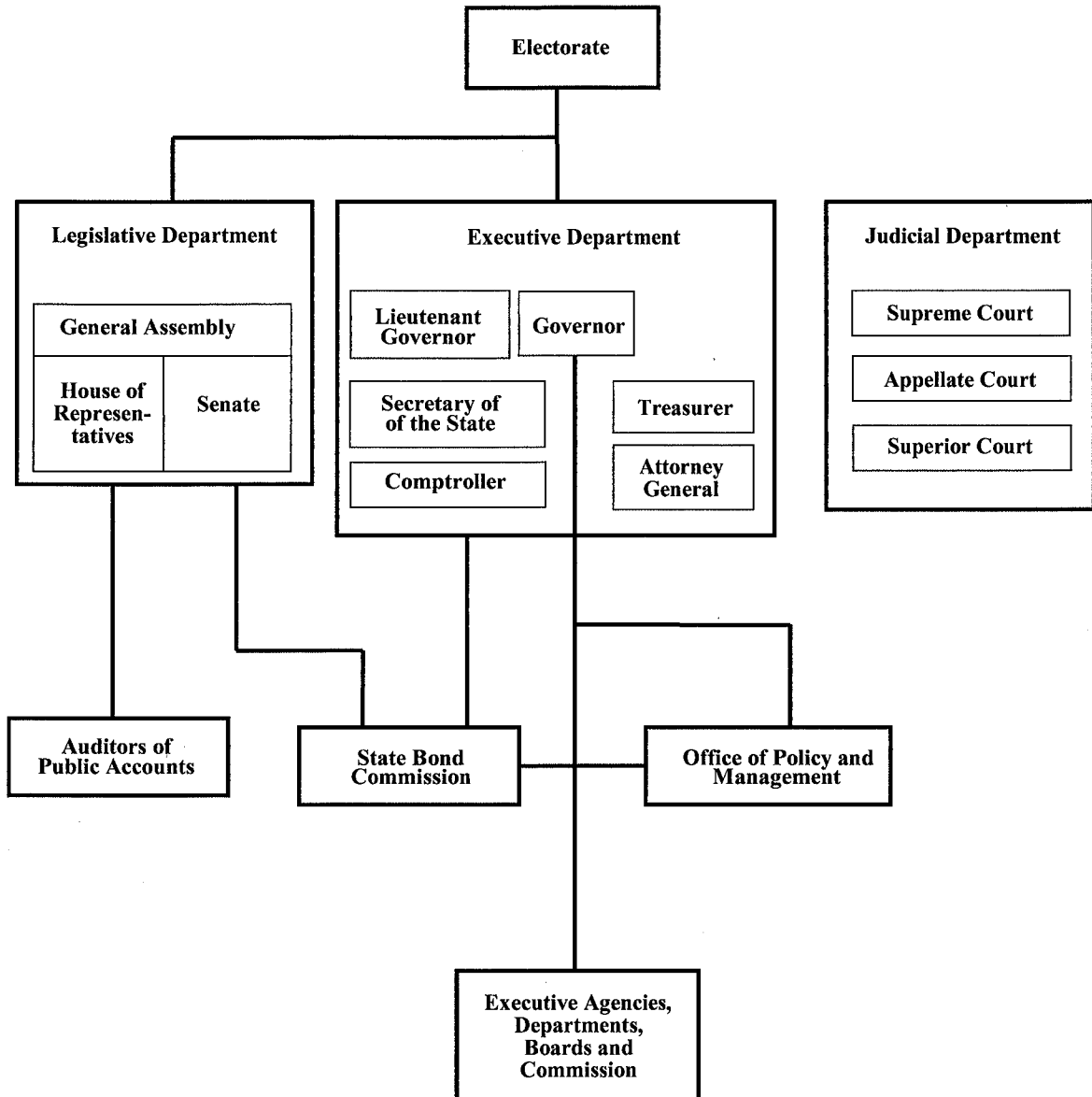
The components and structure of State governmental organization are laid out in the State's Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General 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 2016, and the new members took office in January 2017.

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 2014 for terms beginning in January 2015. 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. By statute, there are 201 authorized Superior Court judges, with approximately 149 sitting judges as of January 1, 2017, each nominated by the Governor and appointed by the General Assembly to eight-year terms.

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 nine 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Legislative.....	678	660	706	721	693
General Government.....	3,028	3,064	3,072	3,092	2,995
Regulation and Protection.....	4,084	4,188	4,349	4,345	4,201
Conservation and Development....	1,424	1,367	1,381	1,397	1,365
Health and Hospitals.....	6,534	7,082	6,979	6,977	6,807
Transportation.....	3,646	3,759	3,885	4,008	4,258
Human Services.....	1,923	1,817	1,824	1,915	1,834
Education.....	17,272	16,129	16,689	17,272	17,311
Corrections.....	8,590	8,446	8,813	8,826	8,695
Judicial.....	<u>4,299</u>	<u>4,479</u>	<u>4,555</u>	<u>4,543</u>	<u>4,490</u>
<b>Total.....</b>	<b>51,478</b>	<b>50,991</b>	<b>52,253</b>	<b>53,096</b>	<b>52,649</b>

(a) Table shows count of employees by fund category and function of government paid in April of each year. Employees working in multiple government functions or paid through multiple fund sources are counted multiple times.

(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, 2016<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>TOTALS</u>
Legislative	693					693
General Government	2,734	1	15	111	134	2,995
Regulation and Protection	2,219	659	410	644	269	4,201
Conservation and Development	812	29	123	61	340	1,365
Health and Hospitals	6,169		11		627	6,807
Transportation	1	3,008			1,249	4,258
Human Services	1,769				65	1,834
Education	5,703			11,382	226	17,311
Corrections	8,603			76	16	8,695
Judicial	<u>4,392</u>		<u>58</u>		<u>40</u>	<u>4,490</u>
<b>Total</b>	<b>33,095</b>	<b>3,697</b>	<b>617</b>	<b>13,523</b>	<b>1,717</b>	<b>52,649</b>

(a) Table shows a count of employees by fund categories. Employees working in multiple government functions or paid through multiple fund sources are counted multiple times.

(b) Reflects funding source based on Core-CT chart of accounts coding.

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 34 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 in 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>Covered by Collective Bargaining</u>	<u>Percentage of State</u> <u>Employees Represented<sup>(a)</sup></u>	<u>Contract Status, if any<sup>(b)</sup></u>
Administrative and Residual (P-5)	5.74%	Contract in place through 6/30/2016
Administrative Clerical (NP-3)	6.43	Contract in place through 6/30/2016
American Federation of School Administrators	0.11	Contract in place through 6/30/2016
Assistant Attorneys General	0.36	Contract in place through 6/30/2016
Board for State Academic Awards	0.13	Contract in place through 6/30/2016
Community College Administration - AFSCME	0.17	Contract in place through 6/30/2016
Community College Administration - CCCC	1.44	Contract in place through 6/30/2016
Community College AFT - Counselors/Librarians	0.03	Contract in place through 6/30/2016
Community College Faculty - AFT	0.35	Contract in place through 6/30/2016
Community College Faculty - CCCC	1.32	Contract in place through 6/30/2016
Connecticut Association of Prosecutors	0.49	Contract in place through 6/30/2016
Correctional Officers (NP-4)	8.92	Contract in place through 6/30/2016
Correctional Supervisor (NP-8)	0.93	Contract in place through 6/30/2016
Criminal Justice Inspectors	0.14	Contract in place through 6/30/2016
Criminal Justice Residual	0.24	Contract in place through 6/30/2016
DPDS Chief Public Defenders	0.04	Contract in place through 6/30/2016
DPDS Public Defenders	0.33	Contract in place through 6/30/2016
DPDS Supervising Attorney	0.05	Contract in place through 6/30/2016
Education Administrative (P-3A)	0.46	Contract in place through 6/30/2016
Education Technical (P-3B)	1.07	Contract in place through 6/30/2016
Engineering, Scientific and Technical (P-4)	5.10	Contract in place through 6/30/2016
Health Care Unit-Non-Professional (NP-6)	5.62	Contract in place through 6/30/2016
Health Care Unit-Professional (P-1)	6.04	Contract in place through 6/30/2016
Higher Education - Professional Employees	0.05	Contract in place through 6/30/2016
Judicial - Judges	0.35	Contract in place through 6/30/2016
Judicial - Judicial Marshals	1.16	Contract in place through 6/30/2016
Judicial - Law Clerks	0.11	Contract in place through 6/30/2016
Judicial - Non-Professional	2.47	Contract in place through 6/30/2016
Judicial - Professional	2.45	Contract in place through 6/30/2016
Judicial - Supervising Judicial Marshals	0.13	Contract in place through 6/30/2016
Protective Services (NP-5)	1.66	Contract in place through 6/30/2016
Service/Maintenance (NP-2)	7.57	Contract in place through 6/30/2016
Social and Human Services (P-2)	7.86	Contract in place through 6/30/2016
State Vocational Federation of Teachers	2.38	Contract in place through 6/30/2016
State Police (NP-1)	2.10	Contract in place through 6/30/2018
State Police Lieutenants and Captains (NP-9)	0.08	Contract in place through 6/30/2016
State University-Faculty	2.97	Contract in place through 6/30/2016
State University- Non-Faculty Professional	1.63	Contract in place through 6/30/2016
UHC - Faculty	0.66	Contract in place through 6/30/2016
UHC University Health Professionals	3.46	Contract in place through 6/30/2016
UConn - Faculty	3.48	Contract in place through 6/30/2016
UConn - Law School Faculty	0.09	Contract in place through 6/30/2016
UConn - Non-Faculty	3.59	Contract in place through 6/30/2016
Total Covered by Collective Bargaining	89.77 %	

<u>Bargaining Unit/Status Group</u> <u>Covered by Collective Bargaining</u>	<u>Percentage of State</u> <u>Employees Represented<sup>(a)</sup></u>	<u>Contract Status, if any<sup>(b)</sup></u>
<u>Not Covered by Collective Bargaining</u>		
Auditors of Public Accounts	0.22%	Not Applicable
Other Employees	<u>10.01%</u>	Not Applicable
Total Not Covered by Collective Bargaining	<u>10.23%</u>	
<b>Total Full-Time Work Force</b>	100.00%	

(a) Percentage expressed reflects approximately 48,602 filled full-time positions as of February 14, 2017.

(b) With the exception of the State Police bargaining unit, all collective bargaining contracts expired on June 30, 2016. The State and the remaining bargaining units are currently in active negotiations to establish successor contracts, with one unit in the early stages of binding arbitration. Notwithstanding, the parties continue to negotiate and resolve open issues. The State is in mediation with one bargaining unit. Following expiration of the contracts, the State engaged in negotiations regarding extension agreements in order to clarify the terms to be extended in the absence of successor agreements. Unused funds for negotiated items such as tuition reimbursement, conferences and professional development were carried over for use, but with no additional funding. While many terms were extended, negotiations continue on proposals notwithstanding the status quo. The agreements reflect that the parties maintain their respective contrary positions with respect to whether protection against layoff in the event of subcontracting ends upon expiration of the contract.

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>**

<p><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</p> <p><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            Attorney General            Division of Criminal Justice</p>	<p><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</p> <p><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            Department of Housing            Agricultural Experiment Station</p> <p><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</p>	<p><b><u>Transportation</u></b>            Department of Transportation</p> <p><b><u>Human Services</u></b>            Department of Social Services            State Department on Aging            Department of Rehabilitation                Services</p> <p><b><u>Education, Libraries and Museums</u></b>            Department of Education            State Library            Office of Early Childhood            University of Connecticut            University of Connecticut Health                Center            Board of Regents for Higher                Education            Office of Higher Education            Teachers’ Retirement Board</p> <p><b><u>Corrections</u></b>            Department of Correction            Department of Children and                Families</p> <p><b><u>Judicial</u></b>            Judicial Department            Public Defender Services                Commission</p>
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(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 July 1, 2016.

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.*** The Department of Emergency Services and Public Protection (DESPP) is responsible for providing a coordinated, integrated program for the protection of life and property and for state-wide emergency management and homeland security. Through the Division of Emergency Management and Homeland Security (DEMHS), the Department is responsible for the preparation of a comprehensive civil preparedness plan and program, including integration and coordination with planning and activities of the federal government, other states, and towns, cities and tribal nations within the State. The State's plans include the State Response Framework and the State Recovery Framework. For planning purposes, DEMHS has given priority for preparedness to the following potential scenarios: (i) a severe weather event in or affecting Connecticut; (ii) a terrorist attack in or affecting Connecticut (cyber and/or physical), and (iii) a release of contamination from the Millstone Power Plant. Current planning activities at the State level include multiple cyber security initiatives. DESPP 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. DEMHS includes a Radiological Emergency Preparedness Unit, which, among other things, conducts regular exercises evaluated by the Federal Emergency Management Agency (FEMA). 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. In April 2015, the State received accreditation for its emergency management and homeland security activities from the nationally recognized Emergency Management Accreditation Program.

## 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 the 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.** 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 1.4% from 2007 to 2016 versus 3.2% in New England and 7.3% for the nation. The mid-2016 population in Connecticut was estimated at 3,576,452 down 0.2% from a year ago, compared to increases of 0.2% and 0.7% for New England and the United States, respectively. From 2007 to 2016, within New England, Massachusetts (5.9%) and New Hampshire (1.7%) experienced growth higher than Connecticut (1.4%); while Maine (0.3%), Vermont (0.2%) and Rhode Island (-0.1%) all experienced lower or falling growth.

TABLE B-1

**Population  
(In Thousands)**

<u>Calendar Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Total</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>
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
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....	3,574	0.3	14,445	0.3	308,746	0.6
2011....	3,590	0.4	14,528	0.6	311,663	0.9
2012....	3,594	0.1	14,581	0.4	313,998	0.7
2013....	3,596	0.1	14,635	0.4	316,205	0.7
2014....	3,592	(0.1)	14,683	0.3	318,563	0.7
2015....	3,585	(0.2)	14,710	0.2	320,897	0.7
2016....	3,576	(0.2)	14,736	0.2	323,128	0.7

Note: 1940-2010, April 1 Census. Figures are for census comparison purposes.

2007-2016 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 Census Bureau

The State is highly urbanized with a 2016 population density of 738 persons per square mile, as compared with 91 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 2015 Connecticut ranked 4<sup>th</sup> in the nation with 37.6% of the State population over the age of 25 holding a bachelor's degree or higher.

Connecticut is home to over 45 colleges and universities, including among others: Yale University, Wesleyan University, 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 2015 Fortune 500: United Technologies, Aetna, Cigna, Hartford Financial Services, Praxair, Stanley Black & Decker, Terex, Emcor Group, and Priceline.com. 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 approximately 90 weekday departures to 31 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.

The Connecticut Department of Transportation funds and oversees the operation of rail, bus, paratransit and ferry services throughout the State. The New Haven Line (including the Waterbury, Danbury and New Canaan branch lines) and Shore Line East provide service to communities between New London and New York City and intermediate points, serving approximately 43 million passengers per year. State-sponsored public bus and paratransit transportation programs provide over 43 million passenger trips a year on urban transit, commuter express bus, rural transit, and Americans with Disabilities Act paratransit services. The overall program includes State-owned CTTransit bus services in 8 urbanized areas and CTfastrak bus rapid transit services provided in the greater Hartford area, as well as urban and rural transit and paratransit services provided by 13 independent transit districts. The State also operates two historic passenger and vehicular ferries, linking communities on the Connecticut River.

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. Positioned between the ports of New York and Boston, with access to European and South American markets, the State's deep draft harbors at Bridgeport, New Haven, and New London offer similar direct access to international markets and U.S. ports.

**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 for New England. An independent system operator, ISO New England, Inc., operates this regional system.

Most consumers in Connecticut can choose an independent electric supplier as their provider of electricity. Consumers that do not choose an independent electric supplier will automatically be placed on Connecticut's standard service. The electricity is delivered to the consumer over the wires of the regulated distribution companies (Eversource Energy and The United Illuminating Company). Electric suppliers are not subject to rate regulation by the State Public Utilities Regulatory Authority (PURA), formerly known as the Department of Public Utility Control (DPUC), but must receive a license issued by the PURA before commencing service to consumers. In general, Connecticut consumers located in a municipally owned electric service territory can continue to purchase and receive their electrical needs from the municipal electric company.

Legislation enacted in 2011 merged PURA under a new Department of Energy and Environmental Protection (DEEP) structure, where it continues its mandates related to rates, reliability and safety, but now must also be guided in accordance with the goals of DEEP as outlined in its Integrated Resource Plan and Comprehensive Energy Strategy. These include a focus on clean energy, creating jobs and building a state energy economy. The legislation declares DEEP as a successor to the PURA, and divides DEEP into three bureaus, Energy, Environmental Protection and PURA. This legislation also established the position of a procurement manager which now resides within PURA.

The procurement manager is responsible for developing a plan for the procurement of electric generation services and related wholesale electricity market products that will enable each electric distribution company to manage a portfolio of contracts to reduce the average cost of "standard service" while maintaining "standard service" cost volatility within reasonable levels.

Lastly, the legislation created a quasi-public authority, the Connecticut Green Bank (Formerly the Clean Energy Finance and Investment Authority) to administer the Clean Energy Fund which is funded by a charge on consumer's electric bills. Pursuant to legislation, Green Bank's scope was expanded to include more types of projects the fund can support with respect to the financing of clean energy sources and energy efficiency.

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 Eversource Energy, Connecticut Natural Gas Company, and Southern Connecticut Gas Company. Over the past few years, UIL Holdings Corp. has acquired both Connecticut Natural Gas and Southern Connecticut Gas. UIL Holdings Corp., the parent company of The United Illuminating Company, is a New Haven, Connecticut-based utility holding company.

Since 1996 the PURA 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 open 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 Frontier Corporation and Verizon New York, Inc. Connecticut also has 115 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 3.0 thousand British Thermal Units (BTU) per 2009 chained dollar of Gross State Product in 2014, the latest available data, ranking it the 2<sup>nd</sup> most efficient state among the 50 states and 51.6% less than the national average of 6.2 thousand BTU. When compared to the national per person average, Connecticut residents use a moderate amount of energy. Connecticut consumed 209 million BTU of energy per person in 2014, ranking it 46<sup>th</sup> among the 50 states and 33.2% less than the national average of 313 million BTU.

Energy prices in Connecticut were down compared to 2015, however they remain elevated relative to the nation. Nationally, home heating oil, gasoline and natural gas prices have fallen to 10 year lows due to a dramatic increase in supply globally. For the past decade the United States has experienced a significant rise in oil production, due in large part to technological innovations in the area of shale oil fracking. To maintain market share oil exporters increased production, even as prices declined, as many of their economies rely heavily on such energy resources. All of this, in combination with a reduction in demand in Europe and weak economic growth in China and emerging markets, have led to a historic oversupply in the oil market which drove prices down.

### **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 2015, per capita personal income in Connecticut equaled \$68,709, 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 2014 indicates that if they were states, four 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 following table shows total and per capita personal income for Connecticut residents during the period from 2006 to 2015 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>
2006	\$190,615	\$54,172	115.6%	142.3%
2007	204,296	57,872	117.7	145.8
2008	217,102	61,199	119.4	149.3
2009	215,234	60,393	119.6	153.6
2010	222,405	62,120	119.4	154.4
2011	229,212	63,850	118.2	150.5
2012	233,711	65,028	116.7	147.1
2013	230,615	64,122	115.6	144.5
2014	239,829	66,727	115.5	144.0
2015	246,709	68,709	114.2	143.1

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)
2006	8.2%	7.6%	7.3%	5.4%	4.8%	4.6%
2007	7.2	5.2	5.3	4.6	2.7	2.7
2008	6.3	4.7	4.2	3.2	1.7	1.1
2009	(0.9)	(1.0)	(3.3)	(0.6)	(0.7)	(3.2)
2010	3.3	3.5	3.2	2.5	2.1	1.5
2011	3.1	4.3	6.2	1.0	2.0	3.7
2012	2.0	3.5	5.0	(0.2)	1.9	3.0
2013	(1.3)	(0.0)	1.1	(2.3)	(1.4)	(0.2)
2014	4.0	4.5	5.2	2.4	2.9	3.7
2015	2.9	4.5	4.4	2.5	4.1	4.0

Note — Real dollars are adjusted for inflation using the national personal consumption expenditures price index and regional price parities.

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 2015.

**TABLE B-4**  
**Sources of Personal Income By Place of Residence**  
**Calendar Year 2015**  
**(In Millions)**

	<u>Conn.</u>	<u>Percent of Total</u>	<u>U.S.</u>	<u>Percent of Total</u>
Wages in Non-manufacturing .....	\$111,281	45.1%	\$ 7,048,100	45.6%
Property Income (Div., Rents & Int.) .....	52,179	21.2	2,913,400	18.8
Wages in Manufacturing.....	14,328	5.8	806,700	5.2
Transfer Payments less Social Insurance Paid.....	13,381	5.4	1,475,100	9.5
Other Labor Income.....	27,670	11.2	1,838,400	11.9
Proprietor's Income .....	<u>27,871</u>	<u>11.3</u>	<u>1,376,800</u>	<u>8.9</u>
Personal Income — Total .....	\$246,709	100.0%	\$15,458,500	100.0%

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 2015, the State produced \$252.9 billion worth of goods and services and \$225.5 billion worth of goods and services in 2009 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)**

Calendar Year	Connecticut		New England <sup>(a)</sup>		United States <sup>(b)</sup>	
	\$	Percent Growth	\$	Percent Growth	\$	Percent Growth
2006	221,420	5.4%	762,565	4.7%	13,855,900	5.8%
2007	236,640	6.9	799,219	4.8	14,477,625	4.5
2008	238,211	0.7	807,857	1.1	14,718,575	1.7
2009	233,562	(2.0)	805,107	(0.3)	14,418,725	(2.0)
2010	234,528	0.4	828,780	2.9	14,964,400	3.8
2011	234,233	(0.1)	845,612	2.0	15,517,925	3.7
2012	239,462	2.2	872,280	3.2	16,155,250	4.1
2013	240,750	0.5	884,417	1.4	16,691,500	3.3
2014	245,160	1.8	910,699	3.0	17,393,100	4.2
2015	252,930	3.2	955,127	4.9	18,036,650	3.7

(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.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table shows the Gross State Product in 2009 chained dollars.

**TABLE B-6**  
**Gross State Product**  
**(In Millions of 2009 Chained Dollars\*)**

Calendar Year	Connecticut		New England		United States	
	\$	Percent Growth	\$	Percent Growth	\$	Percent Growth
2006	237,280	2.5%	813,345	1.9%	14,613,800	2.7%
2007	247,248	4.2	830,570	2.1	14,873,750	1.8
2008	243,856	(1.4)	825,272	(0.6)	14,830,375	(0.3)
2009	233,562	(4.2)	805,106	(2.4)	14,418,750	(2.8)
2010	232,357	(0.5)	821,438	2.0	14,783,800	2.5
2011	228,454	(1.7)	826,466	0.6	15,020,575	1.6
2012	228,212	(0.1)	834,011	0.9	15,354,625	2.2
2013	224,724	(1.5)	828,491	(0.7)	15,612,175	1.7
2014	223,899	(0.4)	835,178	0.8	15,982,250	2.4
2015	225,507	0.7	855,005	2.4	16,397,200	2.6

\* 2009 chained dollar series are calculated as the product of the chain-type quantity index and the 2009 current-dollar value of the corresponding series, divided by 100. Figures for the United States 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 2015 Connecticut's production was concentrated in four areas: finance, insurance and real estate (FIRE), services, manufacturing and government. Production in these four industries accounted for 76.4% of total production in Connecticut compared to 78.3% in 2008 and 71.8% for the nation in 2015. 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 services has been increasing. The share of production from the manufacturing sector decreased from 15.2% in 2008 to 10.6% in 2015 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 to 59.8% of the total GSP in 2015 from 57.4% in 2008. The broadly defined services in the private sector increased by 10.6% from 2008 to 2015 compared to 12.9% 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)**

<u>Calendar Year</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>Sector</b>								
Manufacturing	\$ 36,311	\$ 27,688	\$ 28,080	\$ 26,734	\$ 27,636	\$ 28,652	\$ 27,340	\$ 26,744
Construction <sup>(a)</sup>	7,897	7,380	6,816	6,787	7,172	7,220	7,491	8,216
Agriculture <sup>(b)</sup>	319	295	320	306	316	362	325	295
Utilities <sup>(c)</sup>	7,936	7,887	7,892	8,040	7,964	8,262	8,653	8,791
Wholesale Trade	13,627	13,032	13,831	14,149	15,168	15,525	15,953	16,664
Retail Trade	11,576	11,498	11,617	12,046	12,782	12,946	13,597	14,103
Information	10,360	9,907	9,779	9,594	9,788	11,257	11,269	11,660
Finance <sup>(d)</sup>	67,123	74,106	72,976	71,426	69,981	66,516	67,099	69,703
Services <sup>(e)</sup>	59,162	57,780	58,785	60,353	63,824	64,585	67,250	69,772
Government	<u>23,901</u>	<u>23,990</u>	<u>24,435</u>	<u>24,799</u>	<u>24,834</u>	<u>25,426</u>	<u>26,183</u>	<u>26,984</u>
Total GSP	\$238,211	\$233,562	\$234,528	\$234,234	\$239,463	\$240,751	\$245,160	\$252,929

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 2006 and 2015. Connecticut's nonagricultural employment reached a high in March 2008 of 1,713,300 persons employed, but began declining with the onset of the recession falling to 1,594,200 jobs by February 2010, and has since risen to 1,679,900 by November 2016.

**TABLE B-8**  
**Non-agricultural Employment<sup>(a)(b)</sup>**  
**(In Thousands)**

Calendar Year	Connecticut		New England		United States	
	Employment	Percent Growth	Employment	Percent Growth	Employment	Percent Growth
2006	1,681.2	1.1%	7,007.6	1.0%	136,457.8	1.8%
2007	1,698.5	1.0	7,070.7	0.9	137,997.4	1.1
2008	1,699.0	0.0	7,072.1	0.0	137,240.8	(0.5)
2009	1,626.3	(4.3)	6,818.1	(3.6)	131,299.8	(4.3)
2010	1,607.9	(1.1)	6,803.7	(0.2)	130,352.8	(0.7)
2011	1,624.4	1.0	6,867.6	0.9	131,940.8	1.2
2012	1,637.7	0.8	6,951.4	1.2	134,172.5	1.7
2013	1,650.0	0.8	7,036.6	1.2	136,381.3	1.6
2014	1,661.1	0.7	7,134.5	1.4	138,939.3	1.9
2015	1,673.3	0.7	7,230.4	1.3	141,832.8	2.1

(a) Non-agricultural employment excludes agricultural workers, proprietors, self-employed individuals, domestic workers, family workers and members of the armed forces.

(b) 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 2015. 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, Calendar Year 2015**  
**(In Thousands)**

	Connecticut		United States	
	Total	Percent	Total	Percent
Services <sup>(a)</sup>	758.2	45.3%	62,460.2	44.0%
Trade <sup>(b)</sup>	297.0	17.7	26,913.4	19.0
Manufacturing	158.9	9.5	12,318.1	8.7
Government	238.8	14.3	22,002.8	15.5
Finance <sup>(c)</sup>	130.0	7.8	8,124.4	5.7
Information <sup>(d)</sup>	32.5	1.9	2,751.0	1.9
Construction <sup>(e)</sup>	58.0	3.5	7,262.9	5.1
Total <sup>(f)</sup>	1,673.3	100.0%	141,832.8	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 the services industries has surged. In calendar year 2015, approximately 90.5% 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)**

<b>Calendar Year</b>	<b>Manufacturing</b>	<b>Trade<sup>(a)</sup></b>	<b>Services<sup>(b)</sup></b>	<b>Government</b>	<b>Finance<sup>(c)</sup></b>	<b>Information<sup>(d)</sup></b>	<b>Construction<sup>(e)</sup></b>	<b>Total Non-agricultural Employment<sup>(f)</sup></b>
2006	193.1	307.2	682.4	248.4	144.3	37.9	68.0	1,681.2
2007	190.2	308.0	696.2	251.7	144.6	38.4	69.4	1,698.5
2008	186.6	305.7	704.7	254.8	143.4	37.8	66.1	1,699.0
2009	170.6	289.0	689.0	250.6	137.6	34.3	55.2	1,626.3
2010	164.9	285.9	693.2	246.4	135.2	31.7	50.6	1,607.9
2011	165.4	288.9	709.0	242.8	135.0	31.3	52.0	1,624.4
2012	163.9	291.3	725.0	241.2	133.1	31.3	52.0	1,637.7
2013	162.4	293.8	736.6	240.6	130.5	32.0	54.0	1,650.0
2014	159.4	295.7	749.1	240.1	128.8	32.1	56.0	1,661.1
2015	158.9	297.0	758.2	238.8	130.0	32.5	58.0	1,673.3

- (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 20th in the nation for its dependency on manufacturing wages in Calendar Year 2015. 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. In calendar year 2015 approximately 9.5% of the State's workforce, versus 8.7% for the nation, was employed in the manufacturing sector.

**TABLE B-11**  
**Manufacturing Employment**  
**(In Thousands)**

<b>Calendar Year</b>	<b>Connecticut</b>		<b>New England</b>		<b>United States</b>	
	<b>Number</b>	<b>Percent Growth</b>	<b>Number</b>	<b>Percent Growth</b>	<b>Number</b>	<b>Percent Growth</b>
2006	193.1	(0.9)%	720.2	(1.8)%	14,156.5	(0.5)%
2007	190.2	(1.5)	708.8	(1.6)	13,877.8	(2.0)
2008	186.6	(1.9)	690.6	(2.6)	13,403.4	(3.4)
2009	170.6	(8.6)	622.9	(9.8)	11,847.8	(11.6)
2010	164.9	(3.3)	605.4	(2.8)	11,528.7	(2.7)
2011	165.4	0.3	606.4	0.2	11,727.1	1.7
2012	163.9	(0.9)	604.3	(0.3)	11,927.3	1.7
2013	162.4	(0.9)	601.4	(0.5)	12,019.2	0.8
2014	159.4	(1.9)	598.3	(0.5)	12,184.2	1.4
2015	158.9	(0.3)	599.0	0.1	12,318.1	1.1

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, machinery, and computer and electronics for the total number employed in 2015.

**TABLE B-12**  
**Manufacturing Employment**  
**By Industry**  
**(In Thousands)**

<b>Calendar Year</b>	<b>Transportation Equipment</b>	<b>Fabricated Metals</b>	<b>Computer &amp; Electronics</b>	<b>Machinery</b>	<b>Other<sup>(a)</sup></b>	<b>Total Manufacturing Employment<sup>(b)</sup></b>
2006	43.6	33.8	14.4	18.1	83.2	193.1
2007	43.6	33.4	14.1	18.2	81.0	190.2
2008	44.3	33.1	14.2	17.7	77.2	186.6
2009	43.1	29.4	13.4	16.0	68.6	170.6
2010	42.2	28.1	13.3	15.0	66.3	164.9
2011	42.2	28.6	13.4	14.8	66.5	165.4
2012	42.0	29.2	13.0	14.5	65.1	163.9
2013	41.4	30.0	12.8	14.1	64.1	162.4
2014	40.1	29.7	12.6	14.0	63.0	159.4
2015	40.7	29.2	12.3	14.1	62.6	158.9

(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.

(b) 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



During the past ten years, Connecticut's manufacturing employment was at its highest in 2006 at 193,100 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 158,900 in 2015. The total number of manufacturing jobs dropped 34,200, or 17.7%, from its decade high in 2006.

**Exports.** In Connecticut, the export sector of manufacturing is an important component of the overall economy. According to figures published by the United States Census Bureau Foreign Trade Division, compiled by the World Institute for Strategic Economic Research, exports of manufacturing products registered at \$15.2 billion in 2015, accounting for 6.0% of Gross State Product. From 2011 to 2015, the State's export of goods fell at a compound annual rate of 2.1% versus 2.6% growth 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>Calendar Year</u>					<u>Percent of 2015 Total</u>	<u>Compound Annual Growth Rate 2011-2015</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>		
<b>A. Manufacturing Products</b>							
Transportation Equipment	\$ 6,878.6	\$ 7,158.2	\$ 8,004.8	\$ 7,317.3	\$ 7,012.8	46.0%	0.6%
Computer & Electronics	1,444.4	1,365.9	1,237.0	1,268.1	1,188.7	7.8	(6.3)
Machinery, Except Electronics	1,858.9	1,761.2	1,758.8	2,071.8	1,666.9	10.9	(3.6)
Fabricated Metal Production	674.8	690.4	720.2	733.0	706.9	4.6	1.6
Chemicals	914.7	1,026.2	992.6	970.5	1,039.9	6.8	4.4
Misc. Manufacturing	240.6	273.1	307.8	330.7	326.2	2.1	10.7
Electrical Equipment	742.5	873.3	900.1	1,002.7	1,033.0	6.8	11.6
Plastics & Rubber	311.3	267.6	239.8	233.5	230.3	1.5	(9.6)
Paper	176.9	146.3	141.1	142.7	131.2	0.9	(9.5)
Primary Metal Mfg.	569.1	704.3	648.2	637.8	675.6	4.4	5.9
Others	2,421.0	1,604.6	1,476.3	1,248.6	1,229.1	8.1	(20.2)
<b>Total</b>	<b>\$16,232.8</b>	<b>\$15,871.1</b>	<b>\$16,426.7</b>	<b>\$15,956.8</b>	<b>\$15,240.6</b>	<b>100.0%</b>	<b>(2.1)%</b>
% Growth	1.3%	(2.2)%	3.5%	(2.9)%	(4.5)%		
<b>B. Gross State Product<sup>(a)</sup></b>	<b>\$234,233</b>	<b>\$239,462</b>	<b>\$240,750</b>	<b>\$245,160</b>	<b>\$252,930</b>		<b>2.6%</b>
Mfg Exports as a % of GSP	6.9%	6.6%	6.8%	6.5%	6.0%		

(a) In millions

SOURCE: United States Census Bureau Foreign Trade Division  
World Institute for Strategic Economic Research

**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 2002. In federal Fiscal Year 2015 Connecticut received \$12.1 billion of prime contract awards. These total awards accounted for 4.8% of national total awards and ranked 5th in total defense dollars awarded and second in per capita dollars awarded among the 50 states. In federal Fiscal Year 2015, Connecticut had \$3,383 in per capita defense awards, compared to the national average of \$972. 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 4.7% of Gross State Product in Fiscal Year 2015.

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, Lockheed Martin with its Sikorsky Division in Stratford, and 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>
2006	\$ 7,664,577	10 <sup>th</sup>	(14.7)%	9.5%
2007	8,616,669	12 <sup>th</sup>	12.4	14.0
2008	12,226,104	9 <sup>th</sup>	41.9	18.7
2009	11,851,941	9 <sup>th</sup>	(3.1)	(6.7)
2010	11,238,752	8 <sup>th</sup>	(5.2)	(2.4)
2011	12,491,324	7 <sup>th</sup>	11.1	2.0
2012	12,750,304	7 <sup>th</sup>	2.1	(3.3)
2013	10,036,202	8 <sup>th</sup>	(21.3)	(15.6)
2014	13,207,901	4 <sup>th</sup>	31.6	(3.0)
2015	12,147,055	5 <sup>th</sup>	(8.0)	(2.9)

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 90.5% by 2015. This trend has diluted the State's dependence on manufacturing. From 2006 to 2015, Connecticut had a loss of 7,900 jobs in non-agricultural employment. During this period total non-manufacturing jobs increased by 26,300, while manufacturing jobs declined by 34,200.

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)**

<b>Calendar Year</b>	<b>Connecticut</b>		<b>New England</b>		<b>United States</b>	
	<b>Number</b>	<b>Percent Growth</b>	<b>Number</b>	<b>Percent Growth</b>	<b>Number</b>	<b>Percent Growth</b>
2006	1,488.1	1.4%	6,287.4	1.3%	122,301.3	2.1%
2007	1,508.3	1.4	6,361.9	1.2	124,119.6	1.5
2008	1,512.5	0.3	6,381.5	0.3	123,837.3	(0.2)
2009	1,455.8	(3.7)	6,195.2	(2.9)	119,452.0	(3.5)
2010	1,443.0	(0.9)	6,198.3	0.0	118,824.2	(0.5)
2011	1,458.9	1.1	6,261.2	1.0	120,213.7	1.2
2012	1,473.8	1.0	6,347.0	1.4	122,245.3	1.7
2013	1,487.6	0.9	6,435.1	1.4	124,362.2	1.7
2014	1,501.8	1.0	6,536.1	1.6	126,755.2	1.9
2015	1,514.4	0.8	6,631.4	1.5	129,514.8	2.2

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 92.9% of the State's employment in the non-manufacturing sector. Connecticut non-manufacturing employment for 2006, 2013 and 2015 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 2006 and 2015, employment in the service industry expanded by 75,800 workers driving an increase of 26,300 non-manufacturing jobs, amid a time when all other non-manufacturing jobs registered a decrease in jobs.

**TABLE B-16**  
**Connecticut Non-manufacturing Employment By Industry**  
**(In Thousands)**

<u>Industry</u>	<u>Calendar Year 2006</u>	<u>Calendar Year 2013</u>	<u>Calendar Year 2014</u>	<u>Calendar Year 2015</u>	<u>Percent Change 2013-15</u>	<u>Percent Change 2006-15</u>
Construction <sup>(a)</sup>	68.0	54.0	56.0	58.0	3.5%	(14.7)%
Information	37.9	32.0	32.1	32.5	1.2	(14.4)
Trade <sup>(b)</sup>	307.2	293.8	295.7	297.0	0.4	(3.3)
Finance, Insurance & Real Estate	144.3	130.5	128.8	130.0	1.0	(9.9)
Services <sup>(c)</sup>	682.4	736.6	749.1	758.2	1.2	11.1
Federal Government	19.7	17.4	17.5	17.6	0.9	(10.3)
State and Local Government	<u>228.7</u>	<u>223.3</u>	<u>222.7</u>	<u>221.1</u>	<u>(0.7)</u>	<u>(3.3)</u>
Total Non-manufacturing Employment <sup>(d)</sup>	1,488.1	1,487.6	1,501.8	1,514.4	0.8%	1.8%

(a) Includes natural resources and mining.

(b) Includes wholesale & retail trade, transportation, and utilities.

(c) Covers a considerable variety of activities, including professional, business, education, health care and personal services.

(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 over 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 five fiscal years. Connecticut retail trade in Fiscal Year 2016 totaled \$55.4 billion, an increase of 1.5% from Fiscal Year 2015. Sales in the durable goods category, which were severely impacted during the recession, registered three consecutive yearly declines before beginning to recover in Fiscal Year 2011 and accelerating further through Fiscal Year 2016. 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		Percent of Fiscal Year		Percent of Fiscal Year		Percent of Fiscal Year		Percent of Fiscal Year		Compound Annual Growth Rate 2012-2016
		2012	Total	2013	Total	2014	Total	2015	Total	2016	Total	
441	Motor Vehicle and Parts Dealers	\$ 7,996	15.7%	\$ 8,393	16.1%	\$ 9,099	17.0%	\$ 9,585	17.6%	\$ 9,899	17.9%	5.5%
442	Furniture and Home Furnishings Stores	1,675	3.3	1,665	3.2	1,707	3.2	1,768	3.2	1,898	3.4	3.2
443	Electronics and Appliance Stores	1,748	3.4	1,620	3.1	1,641	3.1	1,653	3.0	1,644	3.0	(1.5)
444	Building Material and Garden Supply Stores	2,567	5.0	2,585	5.0	2,715	5.1	2,836	5.2	3,035	5.5	4.3
445	Food and Beverage Stores <sup>(b)</sup>	10,797	21.2	11,102	21.3	11,184	20.9	10,743	19.7	10,964	19.8	0.4
446	Health and Personal Care Stores	4,667	9.1	4,413	8.5	4,715	8.8	4,848	8.9	5,075	9.2	2.1
447	Gasoline Stations	3,788	7.4	3,790	7.3	3,774	7.0	3,330	6.1	3,196	5.8	(4.2)
448	Clothing and Clothing Accessories Stores	2,827	5.5	2,920	5.6	2,946	5.5	2,993	5.5	3,083	5.6	2.2
451	Sporting Goods, Hobby, Book and Music Stores	979	1.9	1,071	2.1	1,055	2.0	1,055	1.9	1,085	2.0	2.6
452	General Merchandise Stores	5,377	10.5	5,439	10.5	5,381	10.0	5,509	10.1	5,503	9.9	0.6
453	Miscellaneous Store Retailers	5,017	9.8	5,163	9.9	5,053	9.4	5,740	10.5	5,774	10.4	3.6
454	Nonstore Retailers	<u>3,591</u>	<u>7.0</u>	<u>3,859</u>	<u>7.4</u>	<u>4,333</u>	<u>8.1</u>	<u>4,496</u>	<u>8.2</u>	<u>4,204</u>	<u>7.6</u>	<u>4.0</u>
	<b>Total<sup>(a)</sup></b>	\$51,028	100.0%	\$52,019	100.0%	\$53,601	100.0%	\$54,554	100.0%	\$55,359	100.0%	2.1%
	Durables (NAICS 441, 442, 443, 444)	\$13,985	27.4%	\$14,262	27.4%	\$15,162	28.3%	\$15,843	29.0%	\$16,475	29.8%	4.2%
	Non Durables (all other NAICS)	\$37,042	72.6%	\$37,757	72.6%	\$38,439	71.7%	\$38,712	71.0%	\$38,884	70.2%	1.2%

(a) Totals may not agree with detail due to rounding.

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 2.4% in 2000, compared to New England's average of 2.8% and the national average of 4.0%. After climbing to 5.4% in 2003, Connecticut's unemployment rate declined to 4.3% by 2006, but climbed during the most recent recession to 9.1% in 2010. Connecticut's average unemployment rate fell to 5.7% in 2016 (average of the first six months) compared to the New England average of 4.5% and the national average of 4.9% for the same period.

The following table compares the unemployment rate averages of Connecticut, New England, and the United States for the calendar years 2007 through 2016.

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

<b>Calendar Year</b>	<b>Unemployment Rate</b>		
	<b>Connecticut</b>	<b>New England</b>	<b>United States</b>
2007	4.5%	4.5%	4.6%
2008	5.7	5.6	5.8
2009	8.1	8.2	9.3
2010	9.1	8.3	9.6
2011	8.8	7.7	8.9
2012	8.3	7.2	8.1
2013	7.7	6.8	7.4
2014	6.6	5.8	6.2
2015	5.6	4.9	5.3
2016 <sup>(a)</sup>	5.7	4.5	4.9

(a) Reflects average for the first six months.

(b) On a preliminary basis. Connecticut's unemployment rate was estimated at 4.4% for December 2016 compared to the national average of 4.7%.

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 II-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**

December 30, 2016

The Honorable Denise L. Nappier  
State Treasurer  
55 Elm Street  
Hartford, CT 06106

Dear Ms. Nappier

I have reviewed the accompanying general purpose financial statements of the State of Connecticut for the Fiscal Year ended June 30, 2016. 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.

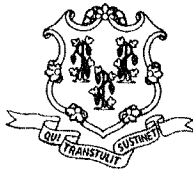
Sincerely,

A handwritten signature in black ink that reads "Kevin Lembo". The signature is written in a cursive style with a long horizontal flourish at the end.

Kevin Lembo  
State Comptroller



STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL  
210 CAPITOL AVENUE  
HARTFORD, CONNECTICUT 06106-1559

**INDEPENDENT AUDITORS' REPORT**

Governor Dannel P. Malloy  
Members of the General Assembly

**Report on the Financial Statements**

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, 2016, and the related notes to the financial statements, which collectively comprise the state's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 and the Transportation Special Tax Obligations account within the Debt Service Fund, which in the aggregate, represent six percent of the assets, two percent of the net position and eight 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 System, Connecticut Community Colleges, Connecticut Airport Authority, Bradley International Airport Parking Facility, and the Federal accounts for the Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 57 percent of the assets, 51 percent of the net position and 33 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 98 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 John Dempsey Hospital account within the University of Connecticut and Health Center, the Connecticut State University System, the Connecticut Community Colleges, Bradley International Airport Parking Facility, and the federal accounts for the Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 57 percent of the assets, 33 percent of the net position and 33 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.

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 from material misstatement. In addition, the financial statements of the Special Transportation Fund, Transportation Special Tax Obligations Fund, Drinking Water Fund, Clean Water Fund, Connecticut Airport Authority, Capital Region Development Authority, Connecticut Lottery Corporation, Materials Innovation and Recycling Authority, Connecticut Health and Educational Facilities Authority, Connecticut Health Insurance Exchange, Connecticut Housing Finance Authority, Connecticut Innovations Incorporated and the Connecticut Green Bank were audited by other auditors in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audits of the financial statements of the Bradley International Airport Parking Facility, Connecticut State University System, Connecticut Community Colleges and the University of Connecticut Foundation and University of Connecticut Law School Foundation were not conducted in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, 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, 2016, and the respective budgetary comparison for the General Fund and the Transportation Fund, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Notes 22 and 24 to the basic financial statements, in the 2016 fiscal year the State of Connecticut adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement for financial reporting purposes, for applying fair value to certain investments and for disclosures related to all fair value measurements. As a result of the implementation of GASB Statement No. 72 the State reported a restatement for a change in accounting principle by an increase of its beginning net position for governmental funds and fiduciary funds totaling \$182 thousand and \$214.8 million, respectively. The amounts reported for the beginning and ending net position reflect a change in methodology of the State Treasurer for valuing investments that do not have a readily determinable market value. Our opinions are not modified in respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedules, the pension plans schedules and information and

the other post-employment benefits schedule, as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the course of our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary and Other Information*

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 combining and individual nonmajor fund financial statements 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 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the financial statements taken as a whole.

The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2016, 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 *Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters for the Fiscal Year Ended June 30, 2016, State of Connecticut Comprehensive Annual Financial Report* 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.



John C. Geragosian  
Auditor of Public Accounts

December 30, 2016  
State Capitol  
Hartford, Connecticut

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)**

### **INTRODUCTION**

The following is a discussion and analysis of the State's financial performance and condition providing an overview of the State's activities for the fiscal year ended June 30, 2016. The information provided here should be read in conjunction with the letter of transmittal in the front of this report and with the State's financial statements, which follow this section.

### **FINANCIAL HIGHLIGHTS**

#### **Government-wide Financial Statements**

The State's total net position (deficit) increased \$2.5 billion (or 7.0 percent) as a result of this year's operations. Net position (deficit) of governmental activities increased by \$3.2 billion (or 7.9 percent) and business-type activities increased by \$770 million (or 14.0 percent). At year-end, net position (deficit) of governmental activities and business-type activities totaled a negative \$44.1 billion and \$6.30 billion, respectively.

Component units reported net position of \$2.35 billion, a decrease of \$24.4 million or 1.0 percent from the previous year. The majority of the net position is attributable to the Connecticut Housing Finance Authority, a major component unit.

#### **Fund Financial Statements**

The governmental funds reported combined ending fund balance of \$1.8 billion, a decrease of \$0.3 million in comparison with the prior year. Of this total fund balance, \$191.6 million represents nonspendable fund balance, \$2.3 billion represents restricted fund balance, \$354.8 million represents committed fund balance, and \$24.9 million represents assigned fund balance. A negative \$1.0 billion unassigned fund balance offsets these amounts. This deficit, which belongs primarily to the General Fund, increased by \$265.7 million during the fiscal year.

The State's stabilization account, the General Fund Budget Reserve Account (Rainy Day Fund) ended the fiscal year with a balance of \$235.6 million.

Personal income tax revenues in the governmental funds increased \$904.2 million or 11.0 percent, compared to \$434.4 million or 5.6 percent increase in the prior fiscal year. General fund tax revenues increased \$433.6 million or 2.9 percent.

The Enterprise funds reported net position of \$6.3 billion at year-end, an increase of \$770.1 million during the year, substantially all of which was invested in capital assets or restricted for specific purposes.

#### **Long-Term Debt**

Total long-term debt was \$62.7 billion for governmental activities at year-end, of which \$23.9 billion was bonded debt.

Total long-term debt was \$1.9 billion for business-type activities at year-end, of which \$1.5 billion was bonded debt.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is 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. The report also contains other supplementary information to provide additional support to the basic financial statements.

### **Government-wide Financial Statements – Reporting the State as a Whole**

The Statement of Net Position and the Statement of Activities beginning on page 31 together comprise the government-wide financial statements. These 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. All revenues and expenses are recognized regardless of when cash is received or spent, and all assets, deferred outflows of resources, liabilities and deferred inflows of resources, including capital assets and long-term debt, are reported at the entity level. The government-wide statements report the State's net position and changes in net position. Over time, increases and decreases in net position measure whether the State's overall financial condition is getting better or worse. Non-financial factors such as the State's economic outlook, changes in its demographics, and the condition of capital assets and infrastructure should also be considered when evaluating the State's overall condition.

The statement of net position presents information on all of the State's assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference between all reported as net position. Net position is displayed in three components – net investment in capital assets; restricted; and unrestricted.

The statement of activities presents information showing how the State's net position changed during fiscal year 2016. All changes in net position 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).

Both the Statement of Net Position and Statement of Activities report three separate activities. These activities are described as follows:

- **Governmental Activities** – The State's basic services fall under this activity including legislative, general government, regulation and protection, conservation and development, health and hospital, transportation, human services, education, corrections, and judicial. Taxes and intergovernmental revenues are major funding sources for these programs.
- **Business-type Activities** – The State operates certain activities much like private-sector companies by charging fees to cover all or most of the costs of providing goods and services. The major business-type activities of the State include the University of Connecticut and Health Center, Board of Regents (Connecticut State Universities & Community Colleges), Employment Security Fund, and Clean Water Fund.
- **Discretely Presented Component Units** – A number of entities are legally separate from the State, yet the State remains financially accountable for them. The major component units of the State are Connecticut Housing Finance Authority, Connecticut Lottery Corporation, and Connecticut Airport Authority.

**Fund Financial Statements – Report the State’s Most Significant Funds**

The fund financial statements beginning on page 36 provide detailed information about individual major funds, not the State as a whole. A fund is a group 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** – Most of the State’s basic services are accounted for in governmental funds and are essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental funds use the modified accrual basis of accounting, which measures the flow of current financial resources that can be converted to cash and the balances left at year-end that are available for future spending. This short-term view of the State’s financial position helps determine whether the State has sufficient resources to cover expenditures for its basic services in the near future.

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. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The State reports five individual governmental funds. Information is presented separately in the governmental fund statements for the General Fund, Debt Service Fund, Transportation Fund, Restricted Grants and Accounts Fund, and Grants and Loan Programs Fund, all of which are considered major funds. Data from the other eighteen governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the combining statements immediately following the required supplementary information.

- **Proprietary Funds** – Proprietary funds include enterprise funds and internal service funds and account for activities that operate more like private-sector businesses and use the full accrual basis of accounting. Enterprise funds charge fees for services provided to outside customers. Enterprise funds are reported as business-type activities on 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.

The State reports four individual proprietary funds. Information is presented separately in the proprietary fund statements for the University of Connecticut and Health Center, Board of Regents (Connecticut State Universities & Connecticut Community Colleges), Employment Security, and Clean Water all of which are considered major funds. Data from the other enterprise funds is combined into a single, aggregated presentation. Individual fund data for all nonmajor proprietary funds is provided in the combining statements immediately following the required supplementary information.

- **Fiduciary Funds** – Fiduciary funds 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. The State’s fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position.

- **Component Units** – The government-wide financial statements report information for all component units into a single, aggregated presentation. Information is provided separately in the component unit fund statements for the Connecticut Housing Finance Authority, Connecticut Lottery, and Connecticut Airport Authority. Data from the other component units is combined into a single, aggregated presentation. Individual fund data for all other nonmajor component units is provided in the combining statements immediately following the required supplementary information.

**Reconciliation between Government-wide and Fund Statements**

The financial statements include schedules on pages 37 and 39 which reconcile and explain the differences between the amounts reported for governmental activities on the government-wide statements (full accrual basis of accounting, long-term focus) with amounts reported on the governmental fund statements (modified accrual basis of accounting, short-term focus). The following are some of the major differences between the two statements.

- Capital assets and long-term debt are included on the government-wide statements, but are not reported on the governmental fund statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is expenditures on the governmental fund statements.
- Bond proceeds result in liabilities on the government-wide statements, but are other financing sources on the governmental fund statements.
- Net Pension Liability and Net OPEB Obligation are included on the government-wide statements, but are not reported on the governmental fund statements.
- Certain tax revenues that are earned but not yet available are reported as revenue on the government-wide statements, but are deferred inflows of resource on the governmental fund statements.

**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. The notes to the financial statements can be found immediately following the component unit fund financial statements.

**Required Supplementary Information (RSI)**

Following the basic financial statements are budgetary comparison schedules for major funds with legally adopted budgets. In addition, within the RSI there is a reconciliation schedule for budgetary vs. GAAP basis of accounting. The RSI also includes information regarding the State's funding progress and employer contributions for pension and other postemployment benefits, and change in employers' net pension liability.

**Supplementary Information**

The combining financial statements for the State's nonmajor governmental, nonmajor enterprise, nonmajor fiduciary funds, and nonmajor discretely presented component units.

**Statistical Section**

This section provides up to ten years of financial, economic, and demographic information.



**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

**Net Position**

The combined net position deficit of the State increased \$2.5 billion or 7.0 percent. In comparison, last year the combined net position deficit decreased \$2.7 billion or 6.6 percent. The net position deficit of the State's governmental activities increased \$3.2 billion (7.9 percent) to \$44.1 billion during the current fiscal year.

**State Of Connecticut's Net Position  
(Expressed in Millions)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2016	2015*	2016	2015	2016	2015*
<b>ASSETS</b>						
Current and Other Assets	\$ 4,674	\$ 4,566	\$ 4,166	\$ 4,104	\$ 8,840	\$ 8,670
Capital Assets	13,706	13,031	4,539	4,151	18,245	17,182
<b>Total Assets</b>	<b>18,380</b>	<b>17,597</b>	<b>8,705</b>	<b>8,255</b>	<b>27,085</b>	<b>25,852</b>
Deferred Outflows of Resources	2,656	2,357	12	16	2,668	2,373
<b>LIABILITIES</b>						
Current Liabilities	4,501	4,149	715	829	5,216	4,978
Long-term Liabilities	60,580	55,256	1,714	1,926	62,294	57,182
<b>Total Liabilities</b>	<b>65,081</b>	<b>59,405</b>	<b>2,429</b>	<b>2,755</b>	<b>67,510</b>	<b>62,160</b>
Deferred Inflows of Resources	83	1,429	19	17	102	1,446
<b>NET POSITION</b>						
Net Investment in Capital Assets	4,531	4,958	3,794	3,449	8,325	8,407
Restricted	1,977	1,885	1,090	1,154	3,067	3,039
Unrestricted	(50,636)	(47,723)	1,385	896	(49,251)	(46,827)
<b>Total Net Position (Deficit)</b>	<b>\$ (44,128)</b>	<b>\$ (40,880)</b>	<b>\$ 6,269</b>	<b>\$ 5,499</b>	<b>\$ (37,859)</b>	<b>\$ (35,381)</b>

\*Restated for comparative purposes

Total invested in capital assets net of related debt was \$4.5 billion (buildings, roads, bridges, etc.) and \$2.0 billion was restricted for specific purposes, resulting in an unrestricted net position deficit of \$50.6 billion for governmental activities. This deficit is the result of having long-term obligations that are greater than currently available resources. The State has recorded the following outstanding long-term obligations which contributed to the deficit; a) general obligation bonds issued in the amount of \$10.0 billion to finance various municipal grant programs (e.g., school construction) and \$2.2 billion issued to finance a contribution to a pension trust fund, and b) other long-term obligations in the amount of \$38.7 billion, which are partially funded or not funded by the State (e.g., net pension liability and OPEB obligations and compensated absences).

Net position of the State's business-type activities increased \$770.1 million (14.0 percent) to \$6.3 billion during the current fiscal year. Of this amount, \$3.8 billion was invested in capital assets and \$1.1 billion was restricted for specific purposes, resulting in unrestricted net positions of \$1.4 billion. These resources cannot be used to make up for the net position deficit of the State's governmental activities. The State can only use these net positions to finance the ongoing operations of its Enterprise funds (such as the University of Connecticut and Health Center and others).

**State of Connecticut**

Changes in net position for the years ended June 30, 2016 and 2015 were as follows:

**State of Connecticut's Changes in Net Position  
(Expressed in Millions)**

	Governmental Activities		Business-Type Activities		Total		% change 16-15
	2016	2015*	2016	2015	2016	2015*	
<b>REVENUES</b>							
Program Revenues							
Charges for Services	\$ 1,998	\$ 1,902	\$ 2,820	\$ 2,600	\$ 4,818	\$ 4,502	7.0%
Operating Grants and Contributions	7,179	7,096	594	676	7,773	7,772	0.0%
Capital Grants and Contributions	779	717	6	33	785	750	4.7%
General Revenues							
Taxes	16,204	15,707	-	-	16,204	15,707	3.2%
Casino Gaming Payments	266	268	-	-	266	268	-0.7%
Lottery Tickets	335	320	-	-	335	320	4.7%
Other	207	141	13	12	220	153	43.8%
<b>Total Revenues</b>	<b>26,968</b>	<b>26,151</b>	<b>3,433</b>	<b>3,321</b>	<b>30,401</b>	<b>29,472</b>	<b>3.2%</b>
<b>EXPENSES</b>							
Legislative	140	109	-	-	140	109	28.4%
General Government	2,545	1,717	-	-	2,545	1,717	48.2%
Regulation and Protection	968	1,032	-	-	968	1,032	-6.2%
Conservation and Development	1,104	924	-	-	1,104	924	19.5%
Health and Hospital	2,772	2,176	-	-	2,772	2,176	27.4%
Transportation	2,238	1,767	-	-	2,238	1,767	26.7%
Human Services	9,116	6,753	-	-	9,116	6,753	35.0%
Education, Libraries, and Museums	5,315	4,407	-	-	5,315	4,407	20.6%
Corrections	2,308	1,825	-	-	2,308	1,825	26.5%
Judicial	1,135	876	-	-	1,135	876	29.6%
Interest and Fiscal Charges	829	797	-	-	829	797	4.0%
University of Connecticut & Health Center	-	-	2,255	2,155	2,255	2,155	4.6%
Board of Regents	-	-	1,363	1,319	1,363	1,319	3.3%
Employment Security	-	-	686	751	686	751	-8.7%
Clean Water	-	-	38	35	38	35	8.6%
Other	-	-	67	69	67	69	-2.9%
<b>Total Expenses</b>	<b>28,470</b>	<b>22,383</b>	<b>4,409</b>	<b>4,329</b>	<b>32,879</b>	<b>26,712</b>	<b>23.1%</b>
Excess (Deficiency) Before Transfers	(1,502)	3,768	(976)	(1,008)	(2,478)	2,760	
Transfers	(1,746)	(1,726)	1,746	1,726	-	-	
<b>Increase (Decrease) in Net Position</b>	<b>(3,248)</b>	<b>2,042</b>	<b>770</b>	<b>718</b>	<b>(2,478)</b>	<b>2,760</b>	
Net Position (Deficit) - Beginning (as restated)	(40,880)	(42,922)	5,499	4,781	(35,381)	(38,141)	
<b>Net Position (Deficit) - Ending</b>	<b>(44,128)</b>	<b>(40,880)</b>	<b>6,269</b>	<b>5,499</b>	<b>(37,859)</b>	<b>(35,381)</b>	<b>7.0%</b>

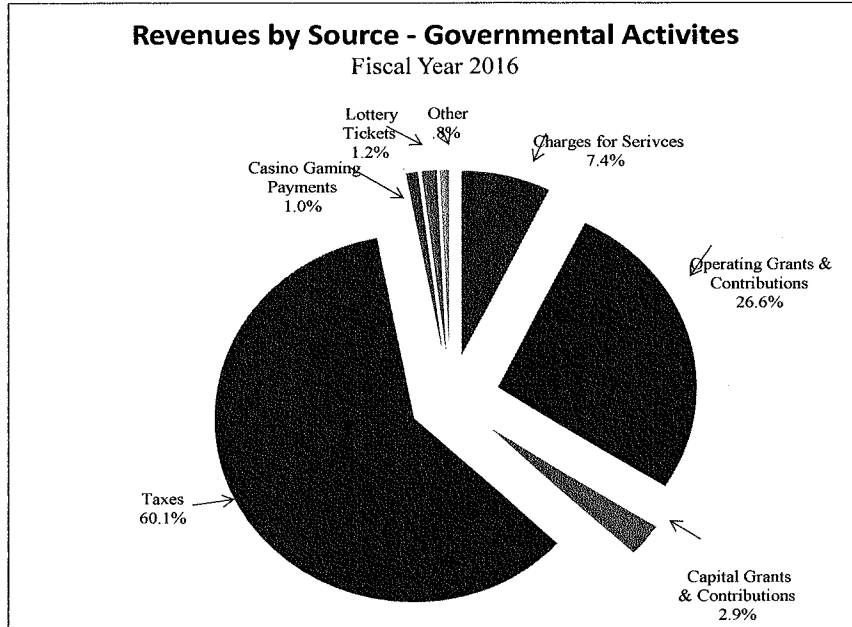
\*Restated for comparative purposes

**Changes in Net Position**

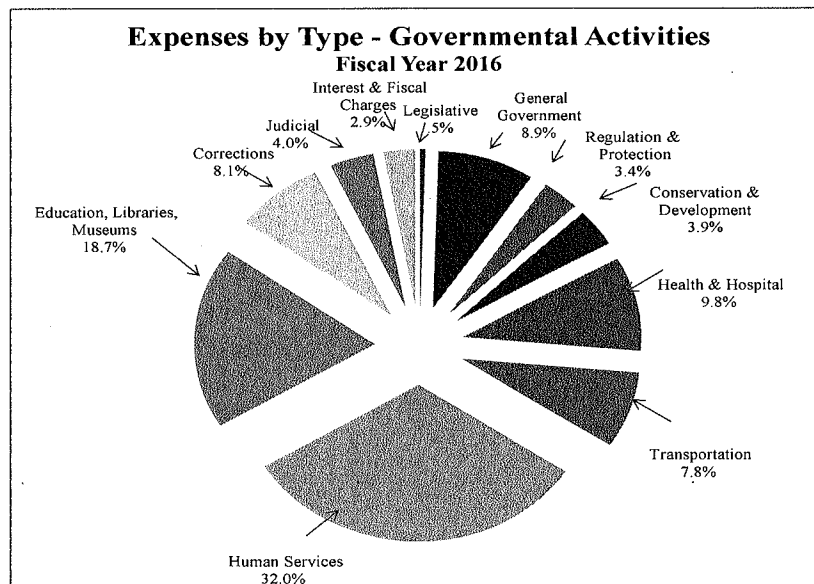
This year the State received 60.1 percent of its revenue from taxes and 29.5 percent of its revenues from grants and contributions. In the prior year, taxes accounted for 60.1 percent and grants and contributions were 27.1 percent of total revenues. Charges for services such as licenses, permits and fees, rents and fines, and other miscellaneous collections comprised 7.4 percent of total revenue in fiscal year 2016, compared to 7.3 percent in fiscal year 2015.

**Governmental Activities**

The following graph is a representation of the Statement of Activities revenues for governmental activities. Governmental activities revenues increased by \$817 million, or 3.1 percent. This increase is primarily due to an increase of \$497 million from taxes.

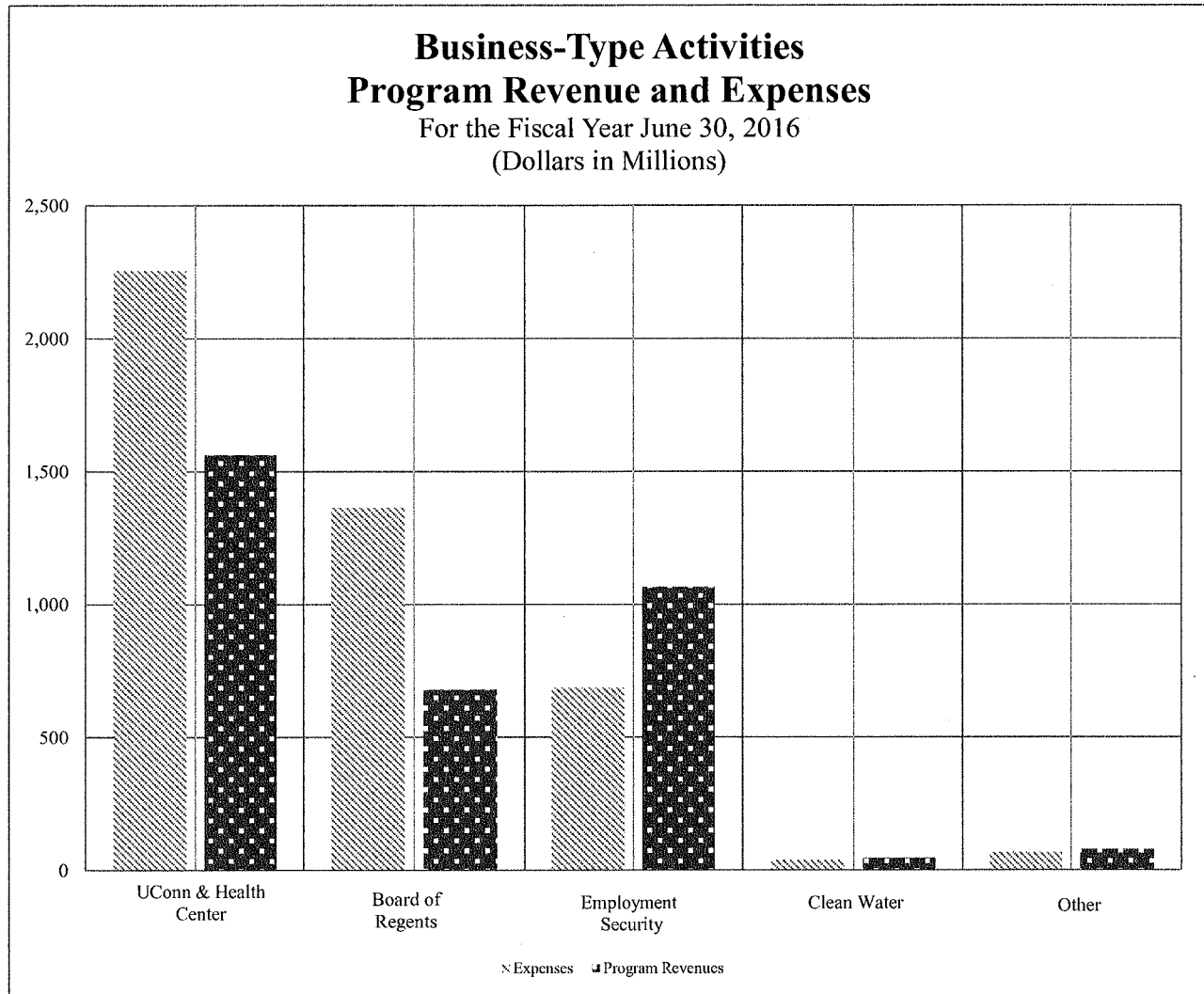


The following graph is a representation of the Statement of Activities expenses for governmental activities. Governmental activities expenses increased by \$6.1 million, or 2.7 percent. The increase is mainly attributable to increased spending in human services.



**Business-Type Activities**

Net position of business-type activities increased by \$770.1 million during the fiscal year. The following chart highlights the changes in net position for the major enterprise funds.



During the year, total revenues of business-type activities increased 3.0 percent to \$3.4 billion, while total expenses increased 1.3 percent to \$4.4 billion. In comparison, last year total revenues remained steady, while total expenses decreased 2.8 percent. The increase in total expenses of \$80.0 million was due mainly to an increase in University of Connecticut and Health Center expenses of \$100.0 million or 4.6 percent. Although, total expenses exceeded total revenues by \$976.2 million, this deficiency was reduced by transfers of \$1,746 million, resulting in an increase in net position of \$770.1 million.

**FINANCIAL ANALYSIS OF THE STATE'S GOVERNMENTAL FUNDS**

As of the end of the fiscal year, the State's governmental funds had fund balances of \$1.8 billion, a decrease of \$265.4 million over the prior year ending fund balances. Of the total governmental fund balances, \$2.3 billion represents fund balance that is considered restricted for specific purposes by external constrains or enabling legislation; \$191.6 million represents fund balance that is non-spendable; \$379.7 million represents fund balance that is committed or assigned for specific purposes. A negative \$1.01 billion unassigned fund balance offsets these amounts.

**General Fund**

The General Fund is the chief operating fund of the State. At the end of the fiscal year, the General Fund had a fund balance deficit of \$614.2 million, an increase of \$424.3 million in comparison with the prior year. Of this total fund balance, \$384.7 million represents non-spendable fund balance or committed for specific purposes, leaving a deficit of \$998.9 million in unassigned fund balance.

Specific changes to the General Fund balance included the following:

- Nonspendable fund balance increased by \$1.4 million or 2.8 percent.
- Committed fund balance decreased by \$220.0 million or 39.8 percent. There also was a statutory transfer from the Budget Reserve Fund (Rainy Day Fund) for \$170.4 million, after the transfer the fund ended the year with a balance of \$235.6 million.
- Unassigned fund balance deficit increased by \$205.7 million.

At the end of fiscal year 2016, General Fund revenues were 1.5 percent, or \$260.9 million, higher than fiscal year 2015 revenues. This change in revenue results from increases of \$538.3 million primarily attributable to taxes (\$433.6 million), licenses, permits, and fees (\$39.2 million), and other revenue (\$65.5 million). These increases were offset by decreases of \$277.4 million primarily attributable to federal grants and aid (\$275.2 million), and other revenue (\$2.2 million).

At the end of fiscal year 2016, General Fund expenditures were 3.0 percent, or \$508.0 million, higher than fiscal year 2015. This was primarily attributable to increases in legislative, general government, regulations, conservation and development, human services, corrections, and judicial of \$4.1 million, \$337.5 million, \$12.1 million, \$81.2 million, \$18.2 million, and \$30.7 million respectively. Net other financing sources and uses increased by \$29.6 million.

**Debt Service Fund**

At the end of fiscal year 2016, the Debt Service Fund had a fund balance of \$738.2 million, all of which was restricted, an increase of \$69.8 million in comparison with the prior year.

**Transportation Fund**

The State's Transportation Fund had a fund balance of \$211.9 million at the end of fiscal 2016. Of this amount, \$29.7 million was in nonspendable form and \$182.2 million was restricted or committed for specific purposes. Fund balance decreased by \$45.4 million during the current fiscal year.

At the end of fiscal year 2016, Transportation Fund revenues increased by \$21.8 million, or 1.6 percent, and expenditures increased by \$38.8 million, or 4.3 percent. The increased revenue is primarily due to an increase in taxes.

**Restricted Grants and Accounts Fund**

At the end of fiscal year 2016, the Restricted Grants and Accounts Fund had a fund balance of \$197.9 million, all of which was restricted for specific purposes, an increase of \$113.1 million in comparison with the prior year.

Total revenues were 5.5 percent, or \$352.0 million, higher than in fiscal year 2015. Overall, total expenditures were 4.1 percent, or \$267.9 million, higher than fiscal year 2015.

**Grant and Loan Programs**

As of June 30, 2016, the Grant and Loan Programs Fund had a fund balance of \$689.4 million, all of which was restricted for specific purposes, a decrease of \$63.6 million in comparison with the prior year.

**FINANCIAL ANALYSIS OF THE STATE'S PROPRIETARY FUNDS**

Proprietary funds report activities of the State that are similar to for-profit business. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. Accordingly, a discussion of the financial activities of the Proprietary funds is provided in that section.

**FINANCIAL ANALYSIS OF THE STATE'S 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. The net positions of the State's Fiduciary funds totaled \$30.9 billion, a decrease of \$234.2 million when compared to the prior year ending net position.

**Budget Highlights-General Fund**

The State budget is formulated during odd-numbered years; the General Assembly generates a two-year (biennial) budget. The process begins with the Executive Branch, when the governor asks the commissioner of each state agency to prepare draft budgets for the following biennium. Over several months the governor's budget office, the Office of Policy and Management (OPM), compiles this information, makes changes as it sees fit, and then works to match the agencies' spending projections with revenue estimates for the same period.

The result referred to as the 'governor's budget,' is delivered to the General Assembly in a formal address by the governor in early February. The annual budget address often includes policy, initiatives, spending proposals, and vehicles through which additional revenue may be generated. In the address, the governor identifies his priorities for the biennium.

Thereafter, the legislature goes through a similar process to determine spending priorities and corresponding revenue requirements. Later in the session, the Appropriations and Finance Committees approve a budget, which is often different from the governor's. Negotiations with the governor's office reconcile the two versions and determine the final budget language and the state's fiscal path for the following two years. Lastly, the budget must be voted on and passed by both the House and Senate and signed into law by the governor.

The General Fund ended Fiscal Year 2016 with a deficit of \$170,418,432. A transfer from the Budget Reserve Fund eliminated the shortfall returning the unappropriated balance of the fund to zero on the budgetary accounting basis. After the transfer to the General Fund, the Budget Reserve Fund had a balance of \$235,582,921. The reserves at the beginning of Fiscal Year 2016 were \$406,001,353.

In evaluating the Fiscal Year 2016 General Fund deficit, it is instructive to recall that as the fiscal year budget formulation process began, projections indicated that maintaining existing levels of programs and services would produce a deficit of \$1.1 billion.

In order to pass a balanced budget for Fiscal Year 2016, policy changes were implemented to reduce current service spending in the General Fund by \$519 million. The actual changes in spending between Fiscal Years 2015 and 2016 are discussed below. In addition to the spending changes, adjustments were enacted to generate an anticipated \$802.1 million more in gross General Fund revenue. The largest revenue changes were to the income

tax (\$169.3 million), the corporation tax (\$258.1 million), and the health provider tax (\$224.8 million). The gain in the health provider tax was to be partially offset by higher payments to hospitals. Since the hospital tax (Public Act 11-6) was implemented in Fiscal Year 2012 as a method of maximizing federal reimbursements, redistribution of the tax back to hospitals has steadily declined.

Within the first two months of Fiscal Year 2016, it became clear that General Fund revenue would fall short of budget targets. A significant stock market correction in August of 2015 dampened hopes of meeting income tax estimates, especially with respect to the capital gains portion of the tax. By the time of the November 10, 2015 consensus revenue forecast, General Fund revenues were projected to be \$217.5 million short of budget expectations and a Fiscal Year 2016 General Fund deficit emerged. In December, a deficit mitigation target of \$350 million was negotiated and Public Act 15-1 was passed to rebalance the budget. Public Act 15-1 made line-item reductions to agency budgets and delayed revenue transfers to the Transportation Fund and to the Municipal Revenue Sharing Account, among other changes.

Revenue estimates continued to deteriorate throughout the fiscal year and on March 16, 2016, the Governor issued budget rescissions totaling \$78.7 million across all branches of government. At the end of Fiscal Year 2016, the General Fund deficit estimate was \$279.4 million, which was prior to accrual activity. Positive accrual results have reduced the General Fund deficit number for Fiscal Year 2016 to \$170.4 million as cited above.

General Fund spending of \$17,921.3 million in Fiscal Year 2016 grew by \$501.6 million or 2.9 percent over last fiscal year. Almost 80 percent of this spending increase was attributable to two appropriation line-items: Debt Service increased by \$265.5 million or 18.7 percent and the State Employees' Retirement System Contribution grew by \$125.9 million or 13 percent. The functional program areas with the largest dollar reductions in spending from last fiscal year were general government administration (down \$34 million or 5.1 percent), health and hospitals (down \$19.4 million or 1.1 percent) and conservation and development (down \$11 million or 5.3 percent). The largest functional program area increase was to education, which grew by \$96.6 million or 1.9 percent. Education is the largest single program area accounting for almost 30 percent of General Fund expenditures.

In Fiscal Year 2016, General Fund revenue expanded by \$498.8 million or 2.9 percent from the prior fiscal year. This gain was primarily due to the revenue policy changes discussed above, and it was well below initial budget expectations. The largest variance from the original budget estimates was in the income tax, which fell \$652.8 million short of the target. Compared with the previous fiscal year, the payroll driven withholding portion of the income tax grew by 3.4 percent in Fiscal Year 2016. However, the estimated and final payments portions of the income tax, which are related to capital gains and bonus payments, dropped by 4.4 percent despite an increase in the upper bracket tax rate.

The disappointing revenue results for Fiscal Year 2016 were largely produced by an economy that has yet to reach past recovery growth levels, as well as considerable stock market volatility.

**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, 2016 totaled \$18.2 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 \$1.01 billion.

Major capital asset events for governmental activities during the fiscal year include additions to buildings and land of \$523 million and depreciation expense of \$988.0 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		Business-Type		Total	
	Activities		Activities		Primary Government	
	2016	2015	2016	2015	2016	2015
Land	\$ 1,747	\$ 1,709	\$ 68	\$ 68	\$ 1,815	\$ 1,777
Buildings	2,605	2,505	3,253	2,868	5,858	5,373
Improvements Other Than Buildings	141	156	184	166	325	322
Equipment	-	62	348	332	348	394
Infrastructure	4,613	4,934	-	-	4,613	4,934
Construction in Progress	4,545	3,665	686	717	5,231	4,382
<b>Total</b>	<b>\$ 13,651</b>	<b>\$ 13,031</b>	<b>\$ 4,539</b>	<b>\$ 4,151</b>	<b>\$ 18,190</b>	<b>\$ 17,182</b>

Additional information on the State's capital assets can be found in Note 9 of this report.

**Long-Term Debt - Bonded Debt**

At the end of the current fiscal year, the State had total debt outstanding of \$25.3 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	
	2016	2015	2016	2015	2016	2015
General Obligation Bonds	\$ 17,395	\$ 16,403	\$ -	\$ -	\$ 17,395	\$ 16,403
Transportation Related bonds	4,520	4,090	-	-	4,520	4,090
Revenue Bonds	-	-	1,271	1,357	1,271	1,357
Long-Term Notes	353	520	-	-	353	520
Premiums and Deferred Amounts	1,672	1,417	102	111	1,774	1,528
<b>Total</b>	<b>\$ 23,940</b>	<b>\$ 22,430</b>	<b>\$ 1,373</b>	<b>\$ 1,468</b>	<b>\$ 25,313</b>	<b>\$ 23,898</b>

The State's total bonded debt increased by \$1.4 billion (5.9 percent) during the current fiscal year. This increase resulted mainly from an increase in general obligation bonds of \$992 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 July 2016, the State had a debt incurring margin of \$2.9 billion.

**Other Long-Term Debt  
State of Connecticut Other Long - Term Debt (in Millions)**

	Governmental		Business-Type		Total	
	Activities		Activities		Primary Government	
	2016	2015*	2016	2015	2016	2015*
Net Pension Liability	\$ 27,460	\$ 26,115	\$ -	\$ -	\$ 27,460	\$ 26,115
Net OPEB Obligation	9,928	8,983	-	-	9,928	8,983
Compensated Absences	511	499	192	186	703	685
Workers Compensation	684	651	-	-	684	651
Federal Loan Payable	-	-	-	103	-	103
Other	148	150	349	351	497	501
<b>Total</b>	<b>\$ 38,731</b>	<b>\$ 36,398</b>	<b>\$ 541</b>	<b>\$ 640</b>	<b>\$ 39,272</b>	<b>\$ 37,038</b>

\*Restated for comparative purposes

The State's other long-term obligations increased by \$2.2 billion (6.0 percent) during the fiscal year. This increase was due mainly to an increase in the net pension liability (Governmental activities) of \$1.3 billion or 5.1 percent. Additional information on the State's long-term debt can be found in Notes 16 and 17 of this report.

**Economic Outlook and Next Year's Budget**

Despite the deep recession of 2008 and the slow pace of recovery, Connecticut continues to be a wealthy State. According to current census data, in 2015 Connecticut had a per capita personal income (PCPI) of \$68,704. This PCPI was 143 percent of the national average of \$48,112. Connecticut had a median adjusted family income of \$91,388 in 2015 ranking it second among all States.

Connecticut's high income is partially explained by the educational achievement of its citizens. Almost 22 percent of the State's adult population has a bachelor's degree and nearly 17 percent possess a graduate degree or higher. This ranks Connecticut 7<sup>th</sup> and 3<sup>rd</sup> respectively among the States in the educational attainment of its adult population.

The State continues to be a leader in technology and innovation within its industries. Total spending within the state on research and development activities places Connecticut 5<sup>th</sup> among all states. In 2015, Connecticut ranked 8<sup>th</sup> nationally in patents granted per population. The state's principal industries today produce jet engines and parts, submarines, electronics and electrical machinery, computer equipment, and helicopters. Much of Connecticut's manufacturing is for the military. Finance, insurance and real estate (FIRE) are important sectors that in 2015 contributed the highest dollar amount to the state's Real Gross Domestic Product.

As in many other States, Connecticut's traditional core sectors are being reshaped by national trends and global competition. Manufacturing's contribution to the State economy as measured by GDP has been cut in half over the past four decades. The 2008 recession significantly reduced employment in the State's FIRE sector. Jobs in the financial sector remain approximately 13,000 below the 2008 pre-recession peak. These are some of the highest paying jobs within the State. Over the past ten years in Connecticut, the strongest job gains have been in

industries with below average wages. The largest gains have been posted in educational services, health care and social assistance, and accommodation and food services, but wages in these sectors are 20 percent below the statewide average.

Looking forward Connecticut has numerous competitive advantages and challenges in shaping its economy. As discussed in the introductory section above, Connecticut has been steadily adding jobs and those gains have now spread to all major employment sectors. There are also indications of pay gains in many sectors. The State's labor force has the 3<sup>rd</sup> highest productivity rate in the country, which should help sustain higher wages into the future. Connecticut can boast of a high quality of life in attracting and retaining businesses. Forbes magazine ranked Connecticut 3<sup>rd</sup> in quality of life measures. The State has the 2<sup>nd</sup> lowest violent crime rate among neighboring states and the 9<sup>th</sup> lowest in the nation. State residents also enjoy the 3<sup>rd</sup> highest life expectancy in the country. Connecticut surely has challenges ahead in stabilizing its state budget, improving its transportation system and revitalizing its urban centers to accommodate growing preferences for urban living. Our State is well positioned to create a strong economy moving into the future. The stability of future State budgets is dependent on this economic growth. Job growth, wage growth and capital gains have been dependable indicators of State revenue growth and the resulting budget balance.

#### **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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*State of Connecticut*

**Statement of Net Position**

June 30, 2016

(Expressed in Thousands)

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ 881,229	\$ 784,140	\$ 1,665,369	\$ 277,149
Deposits with U.S. Treasury	-	382,161	382,161	-
Investments	111,549	34,139	145,688	407,943
Receivables, (Net of Allowances)	2,383,816	630,912	3,014,728	93,996
Due from Primary Government	-	-	-	5,202
Inventories	48,282	12,667	60,949	5,954
Restricted Assets	-	149,081	149,081	1,076,729
Internal Balances	(362,055)	362,055	-	-
Other Current Assets	9,002	30,711	39,713	18,405
<b>Total Current Assets</b>	<b>3,071,823</b>	<b>2,385,866</b>	<b>5,457,689</b>	<b>1,885,378</b>
<b>Noncurrent Assets:</b>				
Cash and Cash Equivalents	-	482,781	482,781	-
Due From Component Units	35,623	-	35,623	-
Investments	-	55,710	55,710	205,609
Receivables, (Net of Allowances)	828,162	973,035	1,801,197	471,545
Restricted Assets	738,240	263,274	1,001,514	4,508,525
Capital Assets, (Net of Accumulated Depreciation)	13,705,901	4,538,697	18,244,598	793,094
Other Noncurrent Assets	107	6,055	6,162	54,138
<b>Total Noncurrent Assets</b>	<b>15,308,033</b>	<b>6,319,552</b>	<b>21,627,585</b>	<b>6,032,911</b>
<b>Total Assets</b>	<b>18,379,856</b>	<b>8,705,418</b>	<b>27,085,274</b>	<b>7,918,289</b>
<b>Deferred Outflows of Resources</b>				
Accumulated Decrease in Fair Value of Hedging Derivatives	1,857	-	1,857	98,541
Unamortized Losses on Bond Refundings	95,903	9,204	105,107	66,341
Related to Pensions	2,558,497	-	2,558,497	19,743
Other Deferred Outflows	-	2,921	2,921	72
<b>Total Deferred Outflows of Resources</b>	<b>2,656,257</b>	<b>12,125</b>	<b>2,668,382</b>	<b>184,697</b>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts Payable and Accrued Liabilities	910,608	403,759	1,314,367	124,135
Due to Component Units	5,202	-	5,202	-
Due to Primary Government	-	-	-	35,623
Due to Other Governments	362,842	239	363,081	-
Current Portion of Long-Term Obligations	2,089,680	165,597	2,255,277	369,796
Amount Held for Institutions	-	-	-	318,694
Unearned Revenue	25,681	43,467	69,148	-
Medicaid Liability	561,749	-	561,749	-
Liability for Escheated Property	465,177	-	465,177	-
Other Current Liabilities	79,255	101,893	181,148	48,410
<b>Total Current Liabilities</b>	<b>4,500,194</b>	<b>714,955</b>	<b>5,215,149</b>	<b>896,658</b>
<b>Noncurrent Liabilities:</b>				
Non-Current Portion of Long-Term Obligations	60,580,323	1,714,497	62,294,820	4,844,324
<b>Total Noncurrent Liabilities</b>	<b>60,580,323</b>	<b>1,714,497</b>	<b>62,294,820</b>	<b>4,844,324</b>
<b>Total Liabilities</b>	<b>65,080,517</b>	<b>2,429,452</b>	<b>67,509,969</b>	<b>5,740,982</b>
<b>Deferred Inflows of Resources</b>				
Related to Pensions	83,337	-	83,337	7,657
Other Deferred Inflows	-	19,004	19,004	1,886
<b>Total Deferred Inflows of Resources</b>	<b>83,337</b>	<b>19,004</b>	<b>102,341</b>	<b>9,543</b>
<b>Net Position</b>				
Net Investment in Capital Assets	4,530,912	3,794,464	8,325,376	521,716
<b>Restricted For:</b>				
Transportation	112,838	-	112,838	-
Debt Service	679,678	4,508	684,186	7,276
Federal Grants and Other Accounts	182,006	-	182,006	-
Capital Projects	90,048	166,916	256,964	110,309
Grant and Loan Programs	693,046	-	693,046	-
Clean Water and Drinking Water Projects	-	713,555	713,555	-
Bond Indenture Requirements	-	-	-	887,556
Loans	-	2,597	2,597	-
<b>Permanent Investments or Endowments:</b>				
Expendable	-	-	-	85,872
Nonexpendable	107,295	13,080	120,375	355,533
Other Purposes	112,285	189,036	301,321	80,899
Unrestricted (Deficit)	(50,635,847)	1,384,932	(49,250,915)	303,300
<b>Total Net Position (Deficit)</b>	<b>\$ (44,127,739)</b>	<b>\$ 6,269,088</b>	<b>\$ (37,858,651)</b>	<b>\$ 2,352,461</b>

*The accompanying notes are an integral part of the financial statements.*

## Statement of Activities

For The Fiscal Year Ended June 30, 2016

(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	\$ 139,916	\$ 3,415	\$ 79	\$ -
General Government	2,544,489	774,320	72,303	-
Regulation and Protection	968,289	690,976	157,163	-
Conservation and Development	1,103,531	82,789	190,602	-
Health and Hospitals	2,772,452	90,917	160,007	-
Transportation	2,237,773	51,245	-	778,909
Human Services	9,115,540	146,279	5,858,045	-
Education, Libraries, and Museums	5,315,342	11,996	606,087	-
Corrections	2,307,516	11,943	124,502	-
Judicial	1,135,055	133,691	10,524	-
Interest and Fiscal Charges	829,246	-	-	-
Total Governmental Activities	28,469,149	1,997,571	7,179,312	778,909
Business-Type Activities:				
University of Connecticut & Health Center	2,255,211	1,284,715	271,028	5,071
Board of Regents	1,362,522	504,398	172,481	955
Employment Security	686,494	932,800	132,431	-
Clean Water	38,369	27,605	10,475	-
Other	65,757	69,836	7,845	-
Total Business-Type Activities	4,408,353	2,819,354	594,260	6,026
Total Primary Government	\$ 32,877,502	\$ 4,816,925	\$ 7,773,572	\$ 784,935
<b>Component Units</b>				
Connecticut Housing Finance Authority (12/31/15)	\$ 198,050	\$ 170,035	\$ -	\$ -
Connecticut Lottery Corporation	1,228,424	1,230,836	-	-
Connecticut Airport Authority	91,497	95,811	-	6,021
Other Component Units	323,880	290,359	12,020	3,854
Total Component Units	\$ 1,841,851	\$ 1,787,041	\$ 12,020	\$ 9,875
General Revenues:				
Taxes:				
Personal Income				
Corporate Income				
Sales and Use				
Other				
Restricted for Transportation Purposes:				
Motor Fuel				
Other				
Casino Gaming Payments				
Tobacco Settlement				
Lottery Tickets				
Unrestricted Investment Earnings				
Transfers-Internal Activities				
Total General Revenues, Contributions, and Transfers				
Change in Net Position				
Net Position (Deficit)- Beginning (as restated)				
Net Position (Deficit)- Ending				

*The accompanying notes are an integral part of the financial statements.*

*State of Connecticut*

**Net (Expense) Revenue and Changes in Net Position**

		<b>Primary Government</b>					
<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	<b>Component Units</b>		
\$	(136,422)	\$	-	\$	(136,422)	\$	-
	(1,697,866)		-		(1,697,866)		-
	(120,150)		-		(120,150)		-
	(830,140)		-		(830,140)		-
	(2,521,528)		-		(2,521,528)		-
	(1,407,619)		-		(1,407,619)		-
	(3,111,216)		-		(3,111,216)		-
	(4,697,259)		-		(4,697,259)		-
	(2,171,071)		-		(2,171,071)		-
	(990,840)		-		(990,840)		-
	(829,246)		-		(829,246)		-
	<u>(18,513,357)</u>		<u>-</u>		<u>(18,513,357)</u>		<u>-</u>
	-		(694,397)		(694,397)		-
	-		(684,688)		(684,688)		-
	-		378,737		378,737		-
	-		(289)		(289)		-
	-		11,924		11,924		-
	-		<u>(988,713)</u>		<u>(988,713)</u>		<u>-</u>
	<u>(18,513,357)</u>		<u>(988,713)</u>		<u>(19,502,070)</u>		<u>-</u>
	-		-		-		(28,015)
	-		-		-		2,412
	-		-		-		10,335
	-		-		-		<u>(17,647)</u>
	-		-		-		<u>(32,915)</u>
	9,091,156		-		9,091,156		-
	778,917		-		778,917		-
	4,224,989		-		4,224,989		-
	1,231,783		-		1,231,783		-
	877,371		-		877,371		-
	69,752		-		69,752		-
	265,907		-		265,907		-
	120,448		-		120,448		-
	335,387		-		335,387		-
	16,535		12,500		29,035		8,491
	<u>(1,746,295)</u>		<u>1,746,295</u>		<u>-</u>		<u>-</u>
	<u>15,265,950</u>		<u>1,758,795</u>		<u>17,024,745</u>		<u>8,491</u>
	(3,247,407)		770,082		(2,477,325)		(24,424)
	(40,880,332)		5,499,006		(35,381,326)		2,376,885
\$	<u>(44,127,739)</u>	\$	<u>6,269,088</u>	\$	<u>(37,858,651)</u>	\$	<u>2,352,461</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:***

This fund is used 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.

#### ***Grant and Loan Programs Fund:***

This fund is used to account for resources that are restricted by state legislation for the purpose of providing grants and/or loans to municipalities and organizations located in the State.

### ***Nonmajor Funds:***

Nonmajor governmental funds are presented, by fund type beginning on page 108.

*State of Connecticut*

**Balance Sheet**  
**Governmental Funds**  
 June 30, 2016  
 (Expressed in Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Transportation</u>	<u>Restricted Grants &amp; Accounts</u>	<u>Grant &amp; Loan Programs</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>							
Cash and Cash Equivalents	\$ -	\$ -	\$ 62,822	\$ 339,841	\$ 138,140	\$ 327,924	\$ 868,727
Investments	-	-	-	-	-	111,549	111,549
Securities Lending Collateral	-	-	-	-	-	8,808	8,808
Receivables:							
Taxes, Net of Allowances	1,320,815	-	141,591	34,027	-	-	1,496,433
Accounts, Net of Allowances	387,060	-	14,238	38,515	3,875	26,814	470,502
Loans, Net of Allowances	3,419	-	-	42,267	559,735	222,741	828,162
From Other Governments	46,208	-	-	335,686	-	8,455	390,349
Interest	-	568	68	-	-	-	636
Other	-	-	-	-	-	4	4
Due from Other Funds	46,390	-	568	115	10	381,691	428,774
Due from Component Units	34,701	-	-	922	-	-	35,623
Inventories	14,421	-	29,650	-	-	-	44,071
Restricted Assets	-	738,240	-	-	-	-	738,240
<b>Total Assets</b>	<b>\$ 1,853,014</b>	<b>\$ 738,808</b>	<b>\$ 248,937</b>	<b>\$ 791,373</b>	<b>\$ 701,760</b>	<b>\$ 1,087,986</b>	<b>\$ 5,421,878</b>
<b>Liabilities, Deferred Inflows, and Fund Balances</b>							
<b>Liabilities</b>							
Accounts Payable and Accrued Liabilities	\$ 334,285	\$ -	\$ 28,493	\$ 226,630	\$ 8,456	\$ 99,669	\$ 697,533
Due to Other Funds	432,114	568	-	3,144	27	319,424	755,277
Due to Component Units	-	-	-	5,202	-	-	5,202
Due to Other Governments	360,839	-	-	2,003	-	-	362,842
Unearned Revenue	10,762	-	-	-	-	14,919	25,681
Medicaid Liability	223,335	-	-	338,414	-	-	561,749
Liability For Escheated Property	465,177	-	-	-	-	-	465,177
Securities Lending Obligation	-	-	-	-	-	8,808	8,808
Other Liabilities	62,507	-	-	7,939	-	-	70,446
<b>Total Liabilities</b>	<b>1,889,019</b>	<b>568</b>	<b>28,493</b>	<b>583,332</b>	<b>8,483</b>	<b>442,820</b>	<b>2,952,715</b>
<b>Deferred Inflows of Resources</b>							
Receivables to be Collected in Future Periods	578,184	-	8,554	10,157	3,830	24,418	625,143
<b>Fund Balances</b>							
<b>Nonspendable:</b>							
Inventories/Long-Term Receivables	52,541	-	29,650	-	-	-	82,191
Permanent Fund Principal	-	-	-	-	-	109,606	109,606
<b>Restricted For:</b>							
Debt Service	-	738,240	-	-	-	-	738,240
Transportation Programs	-	-	159,630	-	-	-	159,630
Federal Grant and State Programs	-	-	-	197,884	-	-	197,884
Grants and Loans	-	-	-	-	678,302	-	678,302
Other	-	-	-	-	-	506,049	506,049
<b>Committed For:</b>							
Continuing Appropriations	96,559	-	22,610	-	-	-	119,169
Budget Reserve Fund	235,583	-	-	-	-	-	235,583
<b>Assigned To:</b>							
Grants and Loans	-	-	-	-	11,145	-	11,145
Other	-	-	-	-	-	13,770	13,770
Unassigned	(998,872)	-	-	-	-	(8,677)	(1,007,549)
<b>Total Fund Balances</b>	<b>(614,189)</b>	<b>738,240</b>	<b>211,890</b>	<b>197,884</b>	<b>689,447</b>	<b>620,748</b>	<b>1,844,020</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 1,853,014</b>	<b>\$ 738,808</b>	<b>\$ 248,937</b>	<b>\$ 791,373</b>	<b>\$ 701,760</b>	<b>\$ 1,087,986</b>	<b>\$ 5,421,878</b>

*The accompanying notes are an integral part of the financial statements.*

## Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2016

(Expressed in Thousands)

Total Fund Balance - Governmental Funds \$ 1,844,020

Net assets reported for governmental activities in the Statement of Net Position  
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	4,321,143	
Equipment	2,473,723	
Infrastructure	14,673,328	
Other Capital Assets	6,758,131	
Accumulated Depreciation	<u>(14,575,793)</u>	13,650,532

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 inflows of resources in the governmental fund: 625,143

Deferred Inflows of resources are not reported in the governmental funds:  
Related to pensions (83,337)

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 Position. 53,954

Deferred outflows of resources are not reported in the governmental funds:  
Amount on refunding of bonded debt 95,903  
Related to pensions 2,558,497

Long-term liabilities are not due and payable in the current period and therefore  
are not reported in the funds (Note 16).

Net Pension Liability	(27,459,972)	
Net OPEB Obligation	(9,927,951)	
Worker's Compensation	(684,401)	
Capital Leases	(32,342)	
Compensated Absences	(509,859)	
Claims and Judgments	(62,849)	
Landfill Postclosure Care	<u>(49,433)</u>	(38,726,807)

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 Position. This is the net  
effect of these balances on the statement (Note 16).

Bonds and Notes Payable	(22,266,897)	
Unamortized Premiums	(1,672,204)	
Accrued Interest Payable	<u>(206,543)</u>	(24,145,644)

Net Position of Governmental Activities \$ (44,127,739)

*The accompanying notes are an integral part of the financial statements.*

*State of Connecticut*

**Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Governmental Funds  
For The Fiscal Year Ended June 30, 2016  
(Expressed in Thousands)**

	General	Debt Service	Transportation	Restricted Grants & Accounts	Grant & Loan Programs	Other Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$ 15,217,329	\$ -	\$ 947,123	\$ -	\$ -	\$ -	\$ 16,164,452
Licenses, Permits, and Fees	293,494	-	341,359	11,587	-	87,499	733,939
Tobacco Settlement	-	-	-	-	-	120,448	120,448
Federal Grants and Aid	1,857,171	-	12,181	6,016,992	-	71,654	7,957,998
State Grants and Aid	222	-	-	-	-	-	222
Lottery Tickets	335,387	-	-	-	-	-	335,387
Charges for Services	43,466	-	64,726	-	-	938	109,130
Fines, Forfeits, and Rents	14,183	-	20,461	-	-	847	35,491
Casino Gaming Payments	265,907	-	-	-	-	-	265,907
Investment Earnings (Loss)	828	11,621	2,376	1,258	5,748	2,653	24,484
Interest on Loans	-	-	-	-	-	35	35
Miscellaneous	186,727	-	5,607	725,829	11,856	138,299	1,068,318
<b>Total Revenues</b>	<u>18,214,714</u>	<u>11,621</u>	<u>1,393,833</u>	<u>6,755,666</u>	<u>17,604</u>	<u>422,373</u>	<u>26,815,811</u>
<b>Expenditures</b>							
<b>Current:</b>							
Legislative	121,301	-	-	3,192	-	304	124,797
General Government	1,139,008	-	4,994	276,936	777,714	108,610	2,307,262
Regulation and Protection	446,840	-	110,904	110,246	19,806	181,370	869,166
Conservation and Development	260,509	-	4,280	343,942	249,087	145,353	1,003,171
Health and Hospitals	2,229,113	-	-	246,212	16,196	44,284	2,535,805
Transportation	-	-	822,611	776,671	81,618	-	1,680,900
Human Services	4,023,630	-	2,177	4,299,483	12,255	8,170	8,345,715
Education, Libraries, and Museums	4,237,789	-	-	566,732	37,325	3,641	4,845,487
Corrections	2,059,744	-	-	22,441	915	3,530	2,086,630
Judicial	958,845	-	-	19,943	-	51,536	1,030,324
Capital Projects	-	-	-	-	-	1,202,184	1,202,184
<b>Debt Service:</b>							
Principal Retirement	1,379,667	256,845	-	-	-	-	1,636,512
Interest and Fiscal Charges	587,267	206,658	1,024	148,632	3,179	7,789	954,549
<b>Total Expenditures</b>	<u>17,443,713</u>	<u>463,503</u>	<u>945,990</u>	<u>6,814,430</u>	<u>1,198,095</u>	<u>1,756,771</u>	<u>28,622,502</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>771,001</u>	<u>(451,882)</u>	<u>447,843</u>	<u>(58,764)</u>	<u>(1,180,491)</u>	<u>(1,334,398)</u>	<u>(1,806,691)</u>
<b>Other Financing Sources (Uses)</b>							
Bonds Issued	-	-	-	-	1,113,711	1,847,799	2,961,510
Premiums on Bonds Issued	-	121,751	-	-	75,503	245,078	442,332
Transfers In	177,206	526,021	5,875	212,112	-	87,807	1,009,021
Transfers Out	(1,375,408)	(6,485)	(499,415)	(40,270)	(72,325)	(761,413)	(2,755,316)
Refunding Bonds Issued	-	721,635	-	-	-	-	721,635
Payment to Refunded Bond Escrow Agent	-	(841,226)	-	-	-	-	(841,226)
Capital Lease Obligations	3,034	-	-	-	-	-	3,034
<b>Total Other Financing Sources (Uses)</b>	<u>(1,195,168)</u>	<u>521,696</u>	<u>(493,540)</u>	<u>171,842</u>	<u>1,116,889</u>	<u>1,419,271</u>	<u>1,540,990</u>
<b>Net Change in Fund Balances</b>	<u>(424,167)</u>	<u>69,814</u>	<u>(45,697)</u>	<u>113,078</u>	<u>(63,602)</u>	<u>84,873</u>	<u>(265,701)</u>
<b>Fund Balances (Deficit) - Beginning</b>	<u>(189,849)</u>	<u>668,426</u>	<u>257,288</u>	<u>84,806</u>	<u>753,049</u>	<u>535,875</u>	<u>2,109,595</u>
<b>Change in Reserve for Inventories</b>	<u>(173)</u>	<u>-</u>	<u>299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126</u>
<b>Fund Balances (Deficit) - Ending</b>	<u>\$ (614,189)</u>	<u>\$ 738,240</u>	<u>\$ 211,890</u>	<u>\$ 197,884</u>	<u>\$ 689,447</u>	<u>\$ 620,748</u>	<u>\$ 1,844,020</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, 2016

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds \$ (265,575)

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 Position. Bond proceeds were received this year from:

Bonds Issued	(2,961,510)	
Refunding Bonds Issued	(721,635)	
Premium on Bonds Issued	(442,332)	(4,125,477)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Long-term debt repayments this year consisted of:

Principal Retirement	1,637,209	
Payments to Refunded Bond Escrow Agent	841,226	
Capital Lease Payments	6,060	2,484,495

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 (3,034)

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	1,660,305	
Depreciation Expense	(984,382)	
Retirements	(1,263)	674,660

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. 126

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	(13,748)	
Increase in Interest Accreted on Capital Appreciation Debt	(16,879)	
Amortization of Bond Premium	171,985	
Amortization of Loss on Debt Refundings	(18,340)	
Decrease in Compensated Absences Liability	(12,266)	
Increase in Workers Compensation Liability	(33,217)	
Increase in Claims and Judgments Liability	12,738	
Decrease in Landfill Liability	(14,248)	
Increase in Net Pension Liability	(1,344,509)	
Increase in total Pension related Inflows affecting operations	(440,635)	
Decrease in total Pension related Outflows affecting operations	488,431	
Increase in Net OPEB Obligation	(945,025)	(2,165,713)

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. Unearned revenues decreased by this amount this year. 152,226

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. 885

Change in Net Position of Governmental Activities \$ (3,247,407)

*The accompanying notes are an integral part of the financial statements.*

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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.

#### ***Board of Regents***

This fund is used to account for the operations of the State University System which consist of four universities: Central, Eastern, Southern, and Western, as well as the State community colleges system which consists of twelve regional community colleges.

#### ***Employment Security:***

This fund is used to account for the collection of 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 projects.

#### ***Nonmajor Funds:***

Nonmajor proprietary funds are presented, by fund type beginning on page 126.

**Statement of Net Position**  
**Proprietary Funds**  
 June 30, 2016  
 (Expressed in Thousands)

	<u>Business-Type Activities</u>		
	<u>Enterprise Funds</u>		
	<u>University of Connecticut &amp; Health Center</u>	<u>Board of Regents</u>	<u>Employment Security</u>
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 427,779	\$ 300,459	\$ 1,693
Deposits with U.S. Treasury	-	-	382,161
Investments	661	33,478	-
<b>Receivables:</b>			
Accounts, Net of Allowances	141,461	35,943	197,579
Loans, Net of Allowances	2,226	3,791	-
Interest	-	-	-
From Other Governments	-	2,167	8,188
Due from Other Funds	175,437	207,772	974
Inventories	12,667	-	-
Restricted Assets	149,081	-	-
Other Current Assets	24,212	6,488	-
<b>Total Current Assets</b>	<b>933,524</b>	<b>590,098</b>	<b>590,595</b>
<b>Noncurrent Assets:</b>			
Cash and Cash Equivalents	-	134,139	-
Investments	13,601	31,303	-
<b>Receivables:</b>			
Loans, Net of Allowances	10,727	8,099	-
Restricted Assets	416	-	-
Capital Assets, Net of Accumulated Depreciation	2,643,404	1,869,445	-
Other Noncurrent Assets	4,472	1,220	-
<b>Total Noncurrent Assets</b>	<b>2,672,620</b>	<b>2,044,206</b>	<b>-</b>
<b>Total Assets</b>	<b>3,606,144</b>	<b>2,634,304</b>	<b>590,595</b>
<b>Deferred Outflows of Resources</b>			
Unamortized Losses on Bond Refundings	4,815	-	-
Other Deferred Outflows	-	2,921	-
<b>Total Deferred Outflows of Resources</b>	<b>4,815</b>	<b>2,921</b>	<b>-</b>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
Accounts Payable and Accrued Liabilities	268,984	113,090	676
Due to Other Funds	18,158	3,528	442
Due to Other Governments	-	-	239
Current Portion of Long-Term Obligations	68,055	26,520	-
Unearned Revenue	-	43,467	-
Other Current Liabilities	93,170	8,723	-
<b>Total Current Liabilities</b>	<b>448,367</b>	<b>195,328</b>	<b>1,357</b>
<b>Noncurrent Liabilities:</b>			
Noncurrent Portion of Long-Term Obligations	450,649	387,954	-
<b>Total Noncurrent Liabilities</b>	<b>450,649</b>	<b>387,954</b>	<b>-</b>
<b>Total Liabilities</b>	<b>899,016</b>	<b>583,282</b>	<b>1,357</b>
<b>Deferred Inflows of Resources</b>			
Other Deferred Inflows	3,886	15,107	-
<b>Total Deferred Inflows of Resources</b>	<b>3,886</b>	<b>15,107</b>	<b>-</b>
<b>Net Position (Deficit)</b>			
Net Investment in Capital Assets	2,100,398	1,698,813	-
<b>Restricted For:</b>			
Debt Service	-	-	-
Clean and Drinking Water Projects	-	-	-
Capital Projects	166,916	-	-
Nonexpendable Purposes	12,593	487	-
Loans	2,597	-	-
Other Purposes	24,516	164,520	-
Unrestricted (Deficit)	401,037	175,017	589,238
<b>Total Net Position (Deficit)</b>	<b>\$ 2,708,057</b>	<b>\$ 2,038,837</b>	<b>\$ 589,238</b>

*The accompanying notes are an integral part of the financial statements.*



*State of Connecticut*

<u>Business-Type Activities</u>			<u>Governmental</u>
<u>Enterprise Funds</u>			<u>Activities</u>
<u>Clean</u>	<u>Other</u>	<u>Total</u>	<u>Internal</u>
<u>Water</u>	<u>Funds</u>		<u>Service</u>
			<u>Funds</u>
\$ 6,633	\$ 47,576	\$ 784,140	\$ 12,502
-	-	382,161	-
-	-	34,139	-
-	7,567	382,550	258
203,481	23,496	232,994	-
4,590	423	5,013	-
-	-	10,355	-
-	-	384,183	5,182
-	-	12,667	4,211
-	-	149,081	-
-	11	30,711	194
<u>214,704</u>	<u>79,073</u>	<u>2,407,994</u>	<u>22,347</u>
276,258	72,384	482,781	-
10,806	-	55,710	-
845,986	108,223	973,035	-
199,105	63,753	263,274	-
-	25,848	4,538,697	55,369
-	363	6,055	107
<u>1,332,155</u>	<u>270,571</u>	<u>6,319,552</u>	<u>55,476</u>
<u>1,546,859</u>	<u>349,644</u>	<u>8,727,546</u>	<u>77,823</u>
4,307	82	9,204	-
-	-	2,921	-
<u>4,307</u>	<u>82</u>	<u>12,125</u>	<u>-</u>
10,308	10,701	403,759	2,367
-	-	22,128	19,265
-	-	239	-
61,232	9,790	165,597	86
-	-	43,467	-
-	-	101,893	-
<u>71,540</u>	<u>20,491</u>	<u>737,083</u>	<u>21,718</u>
<u>738,825</u>	<u>137,069</u>	<u>1,714,497</u>	<u>2,151</u>
<u>738,825</u>	<u>137,069</u>	<u>1,714,497</u>	<u>2,151</u>
<u>810,365</u>	<u>157,560</u>	<u>2,451,580</u>	<u>23,869</u>
-	11	19,004	-
-	11	19,004	-
-	(4,747)	3,794,464	55,476
-	4,508	4,508	-
568,642	144,913	713,555	-
-	-	166,916	-
-	-	13,080	-
-	-	2,597	-
-	-	189,036	-
<u>172,159</u>	<u>47,481</u>	<u>1,384,932</u>	<u>(1,522)</u>
<u>\$ 740,801</u>	<u>\$ 192,155</u>	<u>\$ 6,269,088</u>	<u>\$ 53,954</u>

**Statement of Revenues, Expenses, and  
Changes in Fund Net Position  
Proprietary Funds**

For The Fiscal Year Ended June 30, 2016  
(Expressed in Thousands)

	<b>Business-Type Activities</b>		
	<b>Enterprise Funds</b>		
	<b>University of Connecticut &amp; Health Center</b>	<b>Board of Regents</b>	<b>Employment Security</b>
<b>Operating Revenues</b>			
Charges for Sales and Services (Net of allowances & discounts \$216,447)	\$ 1,121,441	\$ 473,054	\$ -
Assessments	-	-	810,211
Federal Grants, Contracts, and Other Aid	189,287	141,202	118,395
State Grants, Contracts, and Other Aid	35,135	23,616	14,036
Private Gifts and Grants	46,606	7,663	-
Interest on Loans	-	-	-
Other	100,735	24,564	122,589
Total Operating Revenues	<u>1,493,204</u>	<u>670,099</u>	<u>1,065,231</u>
<b>Operating Expenses</b>			
Salaries, Wages, and Administrative	2,010,765	1,189,972	-
Unemployment Compensation	-	-	686,494
Claims Paid	-	-	-
Depreciation and Amortization	109,151	93,906	-
Other	123,772	68,497	-
Total Operating Expenses	<u>2,243,688</u>	<u>1,352,375</u>	<u>686,494</u>
Operating Income (Loss)	<u>(750,484)</u>	<u>(682,276)</u>	<u>378,737</u>
<b>Nonoperating Revenue (Expenses)</b>			
Interest and Investment Income	1,598	1,968	-
Interest and Fiscal Charges	(11,523)	(10,147)	-
Other - Net	62,539	6,780	-
Total Nonoperating Revenues (Expenses)	<u>52,614</u>	<u>(1,399)</u>	<u>-</u>
Income (Loss) Before Capital Contributions, Grants, and Transfers	<u>(697,870)</u>	<u>(683,675)</u>	<u>378,737</u>
Capital Contributions	5,071	955	-
Federal Capitalization Grants	-	-	-
Transfers In	970,992	794,042	-
Transfers Out	-	(5,900)	(18,503)
Change in Net Position	278,193	105,422	360,234
Total Net Position (Deficit) - Beginning (as restated)	<u>2,429,864</u>	<u>1,933,415</u>	<u>229,004</u>
Total Net Position (Deficit) - Ending	<u>\$ 2,708,057</u>	<u>\$ 2,038,837</u>	<u>\$ 589,238</u>

*The accompanying notes are an integral part of the financial statements.*

<u>Business-Type Activities</u>			<u>Governmental</u>
<u>Enterprise Funds</u>			<u>Activities</u>
<u>Clean</u>	<u>Other</u>		<u>Internal</u>
<u>Water</u>	<u>Funds</u>	<u>Totals</u>	<u>Service</u>
			<u>Funds</u>
\$ -	\$ 26,667	\$ 1,621,162	\$ 55,821
-	39,799	850,010	-
-	-	448,884	-
-	-	72,787	-
-	-	54,269	-
20,979	2,721	23,700	-
-	649	248,537	153
<u>20,979</u>	<u>69,836</u>	<u>3,319,349</u>	<u>55,974</u>
925	18,669	3,220,331	35,124
-	-	686,494	-
-	26,546	26,546	-
-	1,140	204,197	17,754
-	1,701	193,970	-
<u>925</u>	<u>48,056</u>	<u>4,331,538</u>	<u>52,878</u>
<u>20,054</u>	<u>21,780</u>	<u>(1,012,189)</u>	<u>3,096</u>
8,055	879	12,500	437
(37,444)	(6,071)	(65,185)	-
6,626	(11,630)	64,315	(2,648)
<u>(22,763)</u>	<u>(16,822)</u>	<u>11,630</u>	<u>(2,211)</u>
<u>(2,709)</u>	<u>4,958</u>	<u>(1,000,559)</u>	<u>885</u>
-	-	6,026	-
10,475	7,845	18,320	-
1,589	4,075	1,770,698	-
-	-	(24,403)	-
9,355	16,878	770,082	885
<u>731,446</u>	<u>175,277</u>	<u>5,499,006</u>	<u>53,069</u>
<u>\$ 740,801</u>	<u>\$ 192,155</u>	<u>\$ 6,269,088</u>	<u>\$ 53,954</u>

**Statement of Cash Flows  
Proprietary Funds**

For the Fiscal Year Ended June 30, 2016  
(Expressed in Thousands)

	<u>Business-Type Activities</u>		
	<u>Enterprise Funds</u>		
	<u>University of Connecticut &amp; Health Center</u>	<u>Board of Regents</u>	<u>Employment Security</u>
<b>Cash Flows from Operating Activities</b>			
Receipts from Customers	\$ 1,123,452	\$ 462,200	\$ 801,500
Payments to Suppliers	(699,326)	(307,142)	-
Payments to Employees	(1,374,776)	(923,605)	-
Other Receipts (Payments)	394,153	177,139	(781,345)
Net Cash Provided by (Used in) Operating Activities	<u>(556,497)</u>	<u>(591,408)</u>	<u>20,155</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Retirement of Bonds and Annuities Payable	-	-	-
Interest on Bonds and Annuities Payable	-	-	-
Transfers In	528,519	592,727	-
Transfers Out	-	-	(18,503)
Other Receipts (Payments)	33,962	14,680	-
Net Cash Flows from Noncapital Financing Activities	<u>562,481</u>	<u>607,407</u>	<u>(18,503)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Additions to Property, Plant, and Equipment	(445,722)	(109,187)	-
Proceeds from Capital Debt	300,000	-	-
Principal Paid on Capital Debt	(105,525)	(20,247)	-
Interest Paid on Capital Debt	(68,696)	(12,158)	-
Transfer In	302,623	150,984	-
Federal Grant	-	-	-
Other Receipts (Payments)	40,874	(45,294)	-
Net Cash Flows from Capital and Related Financing Activities	<u>23,554</u>	<u>(35,902)</u>	<u>-</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds from Sales and Maturities of Investments	-	74,993	-
Purchase of Investment Securities	(1,514)	(35,963)	-
Interest on Investments	1,392	1,846	1,599
(Increase) Decrease in Restricted Assets	-	-	-
Other Receipts (Payments)	-	-	-
Net Cash Flows from Investing Activities	<u>(122)</u>	<u>40,876</u>	<u>1,599</u>
Net Increase (Decrease) in Cash and Cash Equivalents	29,416	20,973	3,251
Cash and Cash Equivalents - Beginning of Year	547,861	413,625	776
Cash and Cash Equivalents - End of Year	<u>\$ 577,277</u>	<u>\$ 434,598</u>	<u>\$ 4,027</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</b>			
Operating Income (Loss)	\$ (750,484)	\$ (682,276)	\$ 378,737
Adjustments not Affecting Cash:			
Depreciation and Amortization	97,913	93,905	-
Other	173,492	(9,587)	-
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables, Net	(13,169)	(32)	(252,024)
(Increase) Decrease in Due from Other Funds	-	-	(3,820)
(Increase) Decrease in Inventories and Other Assets	3,729	89	-
Increase (Decrease) in Accounts Payables & Accrued Liabilities	(67,978)	7,919	(102,423)
Increase (Decrease) in Due to Other Funds	-	(1,426)	(315)
Total Adjustments	193,987	90,868	(358,582)
Net Cash Provided by (Used In) Operating Activities	<u>\$ (556,497)</u>	<u>\$ (591,408)</u>	<u>\$ 20,155</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>			
Cash and Cash Equivalents - Current	\$ 427,780	\$ 300,459	
Cash and Cash Equivalents - Noncurrent	-	134,139	
Cash and Cash Equivalents - Restricted	149,497	-	
	<u>\$ 577,277</u>	<u>\$ 434,598</u>	
<b>Noncash Investing, Capital, and Financing Activities:</b>			
Mortgage Proceeds held by Trustee in Construction Escrow	8,559	-	
Fixed assets included in accounts payable	-	5,253	
State financed plant facilities	-	955	

For further information on Noncash transactions, see the University of Connecticut's financial statements

*The accompanying notes are an integral part of the financial statements.*

*State of Connecticut*

<u>Business-Type Activities</u>			<u>Governmental</u>
<u>Enterprise Funds</u>			<u>Activities</u>
<u>Clean</u>	<u>Other</u>	<u>Totals</u>	<u>Internal</u>
<u>Water</u>			<u>Service</u>
			<u>Funds</u>
\$ 104,057	\$ 79,463	\$ 2,570,672	\$ 57,733
-	(7,677)	(1,014,145)	(27,060)
(738)	(12,546)	(2,311,665)	(10,558)
<u>(128,314)</u>	<u>(48,777)</u>	<u>(387,144)</u>	<u>75</u>
(24,995)	10,463	(1,142,282)	20,190
(73,802)	(9,758)	(83,560)	-
(33,811)	(5,641)	(39,452)	-
2,001	-	1,123,247	-
-	4,075	(14,428)	-
-	(12,298)	36,344	(2,648)
<u>(105,612)</u>	<u>(23,622)</u>	<u>1,022,151</u>	<u>(2,648)</u>
-	-	(554,909)	(15,678)
-	-	300,000	-
-	-	(125,772)	-
-	-	(80,854)	-
-	-	453,607	-
10,475	8,350	18,825	-
-	-	(4,420)	-
<u>10,475</u>	<u>8,350</u>	<u>6,477</u>	<u>(15,678)</u>
-	-	74,993	-
-	-	(37,477)	-
8,477	892	14,206	437
136,966	-	136,966	-
<u>(22,784)</u>	<u>9,053</u>	<u>(13,731)</u>	<u>-</u>
<u>122,659</u>	<u>9,945</u>	<u>174,957</u>	<u>437</u>
2,527	5,136	61,303	2,301
4,105	42,441	1,008,808	10,201
<u>\$ 6,632</u>	<u>\$ 47,577</u>	<u>\$ 1,070,111</u>	<u>\$ 12,502</u>
\$ 20,054	\$ 21,780	\$ (1,012,189)	\$ 3,096
-	1,140	192,958	17,754
-	-	163,905	-
(45,049)	710	(309,564)	412
-	-	(3,820)	1,500
-	(11,018)	(7,200)	(77)
-	(2,149)	(164,631)	(2,495)
-	-	(1,741)	-
<u>(45,049)</u>	<u>(11,317)</u>	<u>(130,093)</u>	<u>17,094</u>
<u>(24,995)</u>	<u>10,463</u>	<u>(1,142,282)</u>	<u>20,190</u>

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## ***Fiduciary Fund Financial Statements***

### ***Investment Trust Fund***

#### ***External Investment Pool:***

This fund is used 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:***

This fund is used to account for securities that are held by the State Treasurer for individuals under escheat laws of the State.

Individual fund descriptions and financial statements begin on the following pages:

Pension (and Other Employee Benefit) Trust Funds, page 134

Agency Funds, page 140

**Statement of Fiduciary Net Position**

**Fiduciary Funds**

June 30, 2016

(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>					
Current:					
Cash and Cash Equivalents	\$ 87,867	\$ -	\$ -	\$ 233,916	\$ 321,783
Receivables:					
Accounts, Net of Allowances	40,231	-	-	1,627	41,858
From Other Governments	1,075	-	-	-	1,075
From Other Funds	1,974	-	-	4,149	6,123
Interest	1,538	2,009	-	52	3,599
Investments (See Note 3)	29,135,806	1,375,910	-	-	30,511,716
Securities Lending Collateral	2,587,749	-	-	-	2,587,749
Other Assets	-	50	3,766	352,731	356,547
Noncurrent:					
Due From Employers	279,178	-	-	-	279,178
<b>Total Assets</b>	<b>32,135,418</b>	<b>1,377,969</b>	<b>3,766</b>	<b>\$ 592,475</b>	<b>34,109,628</b>
<b>Liabilities</b>					
Accounts Payable and Accrued Liabilities	39,098	495	-	\$ 51,562	91,155
Securities Lending Obligation	2,587,749	-	-	-	2,587,749
Due to Other Funds	27,245	-	-	347	27,592
Funds Held for Others	-	-	-	540,566	540,566
<b>Total Liabilities</b>	<b>2,654,092</b>	<b>495</b>	<b>-</b>	<b>\$ 592,475</b>	<b>3,247,062</b>
<b>Net Position</b>					
Held in Trust For:					
Employees' Pension Benefits (Note 12)	29,035,205	-	-	-	29,035,205
Other Employee Benefits (Note 14)	446,121	-	-	-	446,121
Individuals, Organizations, and Other Governments	-	1,377,474	3,766	-	1,381,240
<b>Total Net Position</b>	<b>\$ 29,481,326</b>	<b>\$ 1,377,474</b>	<b>\$ 3,766</b>	<b>\$ 592,475</b>	<b>\$ 30,862,566</b>

The accompanying notes are an integral part of the financial statements.



## Statement of Changes in Fiduciary Net Position

### Fiduciary Funds

For the Fiscal Year Ended June 30, 2016

(Expressed in Thousands)

	<u>Pension &amp; Other Employee Benefit Trust Funds</u>	<u>Investment Trust Fund External Investment Pool</u>	<u>Private- Purpose Trust Fund Escheat Securities</u>	<u>Total</u>
<b>Additions</b>				
Contributions:				
Plan Members	\$ 672,853	\$ -	\$ -	\$ 672,853
State	3,124,195	-	-	3,124,195
Municipalities	136,572	-	-	136,572
Total Contributions	<u>3,933,620</u>	<u>-</u>	<u>-</u>	<u>3,933,620</u>
Investment Income	88,511	130,290	-	218,801
Less: Investment Expense	(79,303)	(14,654)	-	(93,957)
Net Investment Income	<u>9,208</u>	<u>115,636</u>	<u>-</u>	<u>124,844</u>
Escheat Securities Received	-	-	21,951	21,951
Pool's Share Transactions	-	371,579	-	371,579
Other	13,578	-	-	13,578
Total Additions	<u>3,956,406</u>	<u>487,215</u>	<u>21,951</u>	<u>4,465,572</u>
<b>Deductions</b>				
Administrative Expense	4,263	-	-	4,263
Benefit Payments and Refunds	4,405,775	-	-	4,405,775
Escheat Securities Returned or Sold	-	-	17,633	17,633
Distributions to Pool Participants	-	115,636	-	115,636
Other	155,337	-	1,145	156,482
Total Deductions	<u>4,565,375</u>	<u>115,636</u>	<u>18,778</u>	<u>4,699,789</u>
Change in Net Position Held In Trust For:				
Pension and Other Employee Benefits	(608,969)	-	-	(608,969)
Individuals, Organizations, and Other Governments	-	371,579	3,173	374,752
Net Position - Beginning (as restated)	<u>30,090,295</u>	<u>1,005,895</u>	<u>593</u>	<u>31,096,783</u>
Net Position - Ending	<u>\$ 29,481,326</u>	<u>\$ 1,377,474</u>	<u>\$ 3,766</u>	<u>\$ 30,862,566</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 Airport Authority:***

The Connecticut Airport Authority, a public instrumentality and political subdivision of the State of Connecticut was established on July 1, 2011, to operate Bradley International Airport as well as the other State-owned (general aviation) airports.

#### ***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.

#### ***Nonmajor:***

The nonmajor component units are presented beginning on page 144.

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*State of Connecticut*

**Statement of Net Position  
Component Units**

June 30, 2016

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-15)	Connecticut Lottery Corporation	Connecticut Airport Authority	Other Component Units	Total
<b>Current Assets:</b>					
Cash and Cash Equivalents	\$ -	\$ 19,277	\$ 83,045	\$ 174,827	\$ 277,149
Investments	-	8,071	-	399,872	407,943
Receivables:					
Accounts, Net of Allowances	-	27,063	6,242	47,243	80,548
Loans, Net of Allowances	-	-	-	6,311	6,311
Other	-	1,641	-	1,842	3,483
Due From Other Governments	-	-	3,654	-	3,654
Due From Primary Government	-	-	4,789	413	5,202
Restricted Assets	630,199	-	23,425	423,105	1,076,729
Inventories	-	-	-	5,954	5,954
Other Current Assets	-	4,223	63	14,119	18,405
<b>Total Current Assets</b>	<b>630,199</b>	<b>60,275</b>	<b>121,218</b>	<b>1,073,686</b>	<b>1,885,378</b>
<b>Noncurrent Assets:</b>					
Investments	-	122,263	-	83,346	205,609
Accounts, Net of Allowances	-	-	-	30,472	30,472
Loans, Net of Allowances	-	-	-	441,073	441,073
Restricted Assets	4,348,509	-	96,262	63,754	4,508,525
Capital Assets, Net of Accumulated Depreciation	3,599	871	322,613	466,011	793,094
Other Noncurrent Assets	-	4,834	-	49,304	54,138
<b>Total Noncurrent Assets</b>	<b>4,352,108</b>	<b>127,968</b>	<b>418,875</b>	<b>1,133,960</b>	<b>6,032,911</b>
<b>Total Assets</b>	<b>4,982,307</b>	<b>188,243</b>	<b>540,093</b>	<b>2,207,646</b>	<b>7,918,289</b>
<b>Deferred Outflows of Resources</b>					
Accumulated Decrease in Fair Value of Hedging Derivatives	74,671	-	23,870	-	98,541
Unamortized Losses on Bond Refundings	64,465	-	1,876	-	66,341
Related to Pensions	9,828	4,561	-	5,354	19,743
Other	-	-	-	72	72
<b>Total Deferred Outflows of Resources</b>	<b>148,964</b>	<b>4,561</b>	<b>25,746</b>	<b>5,426</b>	<b>184,697</b>
<b>Liabilities</b>					
<b>Current Liabilities:</b>					
Accounts Payable and Accrued Liabilities	20,909	10,140	14,195	78,891	124,135
Current Portion of Long-Term Obligations	339,314	8,741	6,690	15,051	369,796
Due To Primary Government	-	-	922	34,701	35,623
Amount Held for Institutions	-	-	-	318,694	318,694
Other Liabilities	-	31,704	5,804	10,902	48,410
<b>Total Current Liabilities</b>	<b>360,223</b>	<b>50,585</b>	<b>27,611</b>	<b>458,239</b>	<b>896,658</b>
<b>Noncurrent Liabilities:</b>					
Pension Liability	65,654	40,525	57,383	43,085	206,647
Noncurrent Portion of Long-Term Obligations	3,816,340	122,767	140,161	558,409	4,637,677
<b>Total Noncurrent Liabilities</b>	<b>3,881,994</b>	<b>163,292</b>	<b>197,544</b>	<b>601,494</b>	<b>4,844,324</b>
<b>Total Liabilities</b>	<b>4,242,217</b>	<b>213,877</b>	<b>225,155</b>	<b>1,059,733</b>	<b>5,740,982</b>
<b>Other Deferred Inflows</b>					
Unamortized Investment Earnings	-	-	-	(3)	(3)
Related to Pensions	-	4,573	1,492	1,592	7,657
Other Deferred Inflows	-	-	-	1,889	1,889
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>4,573</b>	<b>1,492</b>	<b>3,478</b>	<b>9,543</b>
<b>Net Position</b>					
Net Investment in Capital Assets	3,599	871	196,627	320,619	521,716
<b>Restricted:</b>					
Debt Service	-	-	7,276	-	7,276
Bond Indentures	885,455	-	2,101	-	887,556
Expendable Endowments	-	-	-	85,872	85,872
Nonexpendable Endowments	-	-	-	355,533	355,533
Capital Projects	-	-	110,309	-	110,309
Other Purposes	-	(9,009)	-	89,908	80,899
Unrestricted (Deficit)	-	(17,508)	22,879	297,929	303,300
<b>Total Net Position</b>	<b>\$ 889,054</b>	<b>\$ (25,646)</b>	<b>\$ 339,192</b>	<b>\$ 1,149,861</b>	<b>\$ 2,352,461</b>

*The accompanying notes are an integral part of the financial statements.*

**Statement of Activities**

**Component Units**

For The Fiscal Year Ended June 30, 2016

(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 (12/31/15)	\$ 198,050	\$ 170,035	\$ -	\$ -
Connecticut Lottery Corporation	1,228,424	1,230,836	-	-
Connecticut Airport Authority	91,497	95,811	-	6,021
Other Component Units	323,880	290,359	12,020	3,854
Total Component Units	<u>\$ 1,841,851</u>	<u>\$ 1,787,041</u>	<u>\$ 12,020</u>	<u>\$ 9,875</u>

General Revenues:  
 Investment Income  
 Special Item: Change in Net Position  
 Total General Revenues  
 and Contributions  
 Change in Net Position  
 Net Position - Beginning (as restated)  
 Net Position - Ending

*The accompanying notes are an integral part of the financial statements.*

*State of Connecticut*

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**Net (Expense) Revenue and  
Changes in Net Position**

<b>Connecticut Housing Finance Authority (12-31-15)</b>	<b>Connecticut Lottery Corporation</b>	<b>Connecticut Airport Authority</b>	<b>Other Component Units</b>	<b>Totals</b>
\$ (28,015)	\$ -	\$ -	\$ -	\$ (28,015)
-	2,412	-	-	2,412
-	-	10,335	-	10,335
-	-	-	(17,647)	(17,647)
<u>(28,015)</u>	<u>2,412</u>	<u>10,335</u>	<u>(17,647)</u>	<u>(32,915)</u>
7,592	6,597	255	(5,953)	8,491
-	-	-	-	-
<u>7,592</u>	<u>6,597</u>	<u>255</u>	<u>(5,953)</u>	<u>8,491</u>
(20,423)	9,009	10,590	(23,600)	(24,424)
909,477	(34,655)	328,602	1,173,461	2,376,885
<u>\$ 889,054</u>	<u>\$ (25,646)</u>	<u>\$ 339,192</u>	<u>\$ 1,149,861</u>	<u>\$ 2,352,461</u>

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## Notes to the Financial Statements June 30, 2016

### 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), and the Board of Regents. 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) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. The State reported as component units the following organizations that are public instrumentalities and political subdivisions of the State (public authorities).

#### *Connecticut Housing Finance Authority (CHFA)*

CHFA 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, 2015.

#### *Connecticut Airport Authority (CAA)*

The Connecticut Airport Authority was established in July 2011 to develop, improve and operate Bradley International Airport and the state's five general aviation airports (Danielson, Groton-New London, Hartford-Brainard, Waterbury-Oxford, and Windham airports).

#### *Materials, Innovation, and Recycling Authority (MIRA)*

MIRA is responsible for the planning, design, construction, financing, management, ownership, operations and maintenance of solid waste disposal, volume reduction, recycling, intermediate processing, resource recovery and related support facilities necessary to carry out the State's Solid Waste Management Plan.

#### *Connecticut Higher Education Supplemental Loan Authority (CHESLA)*

CHESLA was created to assist students, their parents, and institutions of higher education to finance the cost of higher education through its bond funds. Effective fiscal year 2013,

CHESLA was statutorily consolidated into CHEFA, making CHESLA a subsidiary of CHEFA.

#### *Connecticut Health and Educational Facilities Authority (CHEFA)*

CHEFA 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.

#### *Connecticut Student Loan Foundation (CSLF)*

CSLF was established as a Connecticut State chartered nonprofit corporation established pursuant to State of Connecticut Statute Chapter 187a for the purpose of improving educational opportunity. CSLF is empowered to achieve this by originating and acquiring student loans and providing appropriate service incident to the administration of programs, which are established to improve educational opportunities. CSLF no longer originates or acquires student loans.

In July 2014, CSLF was statutorily consolidated with CHEFA as a subsidiary and became a quasi-public agency of the State of Connecticut.

#### *Capital Region Development Authority (CRDA)*

CRDA was established July 1, 2012 to market the major sports, convention, and exhibition venues in the region. CRDA became the successor to the Capital City Economic Development Authority, which was established in 1998.

#### *Connecticut Innovations, Incorporated (CI)*

CI 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.

#### *Connecticut Green Bank (CGB)*

CGB was established on July 1, 2011 through Public Act 11-80 as a quasi-public agency that supersedes Connecticut Clean Energy Fund. CGB uses public and private funds to finance and support clean energy investment in residential, municipal, small business and larger commercial projects and stimulate demand for clean energy and the deployment of clean energy sources within the state.

#### *Connecticut Lottery Corporation (CLC)*

The corporation was created in 1996 for the purpose of generating revenues for the State through the operation of a lottery.

CHFA, MIRA, CHESLA, CHEFA, CSLF, and CRDA are reported as component units because the State appoints a voting majority of the organization's governing board and is contingently liable for the organization's bonded debt that is secured by a special capital reserve fund, or other contractual agreement.

CI and CGB are reported as component units because the State appoints a voting majority of the organization's governing

board and has the ability to access the resources of the organization.

The Connecticut Lottery Corporation is reported as a component unit because the State appoints a voting majority of the corporation's governing board and receives a significant amount of revenues from the operations of the lottery.

The Connecticut Airport Authority is reported as a component unit because the nature and significance of its relationship with the State are such that it would be misleading to exclude the authority from the State's reporting entity.

In addition, the State also includes the following non-governmental nonprofit corporation as a component unit.

***University of Connecticut Foundation, Incorporated***

The Foundation was 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. The Foundation is reported as a component unit because the nature and significance of its relationship with the State are such that it would be misleading to exclude the Foundation from the State's reporting entity.

Component units are reported in separate columns and rows in the government-wide financial statements (discrete presentation) to emphasize that they are legally separate from the primary government. 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.

**c. Government-wide and Fund Financial Statements**

***Government-wide Financial Statements***

The Statement of Net Position 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 Position presents the reporting entity's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Net position is reported in three components:

1. Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds issued to buy, construct, or improve those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the purchase, construction, or improvement of those assets or related debt should be included in this component of net position.

2. Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

3. Unrestricted – This component of net position is the remaining balance of net position, after the determination of the other two components of net position.

When both restricted and unrestricted resources are available for use, the State generally uses restricted resources first, then unrestricted resources as needed. There may be occasions when restricted funds may only be spent in proportion to unrestricted funds spent.

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.

**Grant and Loan Programs** - This fund is used to account for resources that are restricted by state legislation for the purpose of providing grants and/or loans to municipalities and organizations located in the State.

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.

**Board of Regents** - This fund is used to account for the operations of the State University System & the State Community Colleges which consists of four universities: Central, Eastern, Southern, and Western and twelve regional community colleges.

Colleges and universities do not have separate corporate powers and sue and are sued as part of the state with legal representation provided through the state Attorney General's Office. Since the colleges and universities are legally part of the state their financial operations are reported in the state's financial statements using the fund structure prescribed by GASB.

**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 Trust Funds** - These funds account for resources held in the custody of the state for the members and beneficiaries of the State's pension plans. These plans are discussed more fully in Notes 10, 11, and 12.

**Other Post-Employment Benefit (OPEB) Trust Funds** - These funds account for resources held in trust for the members and beneficiaries of the state's other post-

employment benefit plans which are described in notes 13 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.

**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 60 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 re-pass 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 "statutory" basis of accounting that utilizes the accounting standards that were applied in the budget act and related legislation. Commencing in Fiscal Year 2014, appropriations were made to legislatively budgeted funds to account for expense accruals. The actual expense accruals were posted using the same methodology described above for the governmental fund financial statements. Revenues were recognized when received except in the General Fund and Transportation Fund. In those two funds certain taxes and Indian gaming payments are recognized within a statutory accrual period as approved by the State Comptroller. The state's three major tax categories (the personal income tax, the sales and use tax, and the corporation tax), among other taxes, are subject to statutory accrual. 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 2016 fiscal year, the original adopted budget was adjusted by the General Assembly and the Finance Advisory Committee.

**Budget Reserve Fund ("Rainy Day Fund")**

In accordance with Section 4-30a of the Connecticut State Statutes, the State maintains a Budget Reserve ("Rainy Day") Fund. Per section 4-30a after the accounts for the General Fund have been closed for each fiscal year and the Comptroller has determined the amount of unappropriated surplus, and after any required transfers have been made, the surplus shall be transferred by the State Treasurer to the Budget Reserve Fund. Moneys shall be expended only when in any fiscal year the Comptroller has determined the amount of a deficit applicable with respect to the immediately preceding fiscal year, to the extent necessary.

Historically, resources from the Rainy Day Fund have only been expended during recessionary periods to cover overall budget shortfalls after other budgetary measures have been exhausted. During fiscal year 2017 a withdrawal of \$170.4 million will be made to cover the budgetary shortfall in fiscal year 2016.

After the transfer is made to cover the shortfall in fiscal year 2016 the Budget Reserve Fund will have a balance of \$235.6 million. Effective February 28, 2003, the amount on deposit cannot exceed 10 percent of the net General Fund appropriations for the current fiscal year.

**Changes to the Budget Reserve Fund in PA 15-244**

PA 15-244, the fiscal year 2016 and fiscal year 2017 budget bill, establishes, beginning in fiscal year 2021, requires revenue collected from the estimated and final payments portion of the personal income tax and the corporation business tax must be in excess of a calculated threshold to be deposited into the Budget Reserve Fund at the close of each

fiscal year. The act allows for the threshold to be adjusted for changes in tax policy that impact the corporation business tax or the personal income tax.

**f. Assets and Liabilities**

**Cash and Cash Equivalents (see Note 3)**

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 consist of investments in the Short-Term Investment Fund which 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 3)**

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 securities not publicly traded held by the 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 position.

**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 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 \$5,000 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 3)**

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.

**Escheat Property**

Escheat property is private property that has reverted to the State because it has been abandoned or has not been claimed by the rightful owners for a period of time. State law requires that all escheat property receipts be recorded as revenue in the General fund. Escheat revenue is reduced and a fund liability is reported to the extent that it is probable that escheat property will be refunded to claimants in the future. This liability is estimated based on the State’s historical relationship between escheat property receipts and amounts paid as refunds, taking into account current conditions and trends.

**Deferred Outflows of Resources**

Deferred outflows of resources are defined as the consumption of net assets in one period that are applicable to future periods. These amounts are reported in the Statement of Net Position

on the government-wide and fund financial statements in a separate section, after total assets.

***Unearned Revenues***

In the government-wide and fund financial statements, this liability represents resources that have been received, but not yet earned.

***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 position. 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 an expense in the year they are incurred. Other significant long-term obligations include the net pension liability, OPEB obligation, 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 position 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.

**g. *Derivative Instruments***

The State's derivative instruments consist of interest rate swap agreements, all of which have been determined by the State to be effective cash flow hedges. Accumulated decreases in the fair value of some of the swaps are reported as deferred outflows of resources in the Statement of Net Position. These agreements are discussed in more detail in Note No. 18.

**h. *Deferred Inflows of Resources***

Deferred inflows of resources are defined as the acquisition of net assets in one period that are applicable to future periods. These amounts are reported in the Statement of Net Position and Balance Sheet in a separate section, after total liabilities.

**i. *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.

**j. *Supplemental Nutrition Assistance Program (SNAP)***

Nutrition assistance distributed to recipients during the year is recognized as an expenditure and a revenue in the governmental fund financial statements.

**k. *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 3). Pool income is determined based on distributions made to the pool's participants.

**I. 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 Nonmajor Fund Deficits**

The following funds have deficit fund/net position balances at June 30, 2016, none of which constitutes a violation of statutory provisions (amounts in thousands).

**Capital Projects**

Transportation \$ 718

**Enterprise**

Bradley Parking Garage \$22,202

**Note 3 Cash Deposits and Investments**

According to GASB Statement No. 40, "Deposit and Investment Risk Disclosures", the State is required 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.

**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 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, and asset-backed securities. STIF's investments are reported at amortized cost (which approximates fair value) in the fund's statement of net position.

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.

For disclosure purposes, certificates of deposit held by STIF are reported in this note as bank deposits, not as investments.

As of June 30, 2016, 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
Federal Agency Securities	\$ 1,948,162	\$ 1,938,162	\$ 10,000
Bank Commercial Paper	399,747	399,747	-
US Government Guaranteed or Insured	29,000	29,000	-
Government Money Market Funds	190,532	190,532	-
Repurchase Agreements	450,000	450,000	-
Total Investments	\$ 3,017,441	\$ 3,007,441	\$ 10,000

***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, 2016, the weighted average maturity of the STIF was 40 days. Additionally, STIF is allowed by policy to invest in floating-rate securities. However, investment in these securities having maturities greater than two years is limited to no more than 25 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, 2016, the amount of STIF's investments in variable-rate securities was \$885 million.

**State of Connecticut**

**Credit Risk**

The STIF's policy for managing credit risk is to purchase short-term, high-quality fixed income securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations.

As of June 30, 2016, STIF's investments were rated by Standard and Poor's as follows (amounts in thousands):

Investment Type	Short-Term Investment Fund			
	Amortized Cost	Quality Ratings		
		AAAm	AA+/A-1+	A/A-1
Federal Agency Securities	\$ 1,948,162	\$ -	\$ 1,948,162	\$ -
Bank Commercial Paper	399,747	-	399,747	-
U.S. Government Guaranteed & Insured Securities	29,000	-	29,000	-
Government Money Market Funds	190,532	190,532	-	-
Repurchase Agreements	450,000	-	200,000	250,000
<b>Total Investments</b>	<b>\$ 3,017,441</b>	<b>\$ 190,532</b>	<b>\$ 2,576,909</b>	<b>\$ 250,000</b>

**Concentration of Credit Risk**

STIF reduces its exposure to this risk by insuring that at least 75 percent of fund assets will be invested in securities rated "A-1+" or equivalent. In addition exposure to any single non-governmental issuer will not exceed 5 percent (at the time a security is purchased), exposure to any single money market mutual fund (rated AAAM) will not exceed 5 percent of fund assets and exposure to money market mutual funds in total will not exceed 10 percent. As of June 30, 2016, STIF's investments in any one issuer that represents more than 5 percent of total investments were as follows (amounts in thousands):

Investment Issuer	Amortized Cost
Federal Home Loan Bank	\$ 670,144
Federal Farm Credit Bank	\$ 736,407
U.S. Bank	\$ 225,000
Commercial Paper	\$ 174,747
Freddie Mac	\$ 244,578
Merryl Lynch	\$ 250,000
Fannie Mae	\$ 297,034
Western Asset	\$ 190,532
RBC Capital Markets	\$ 200,000

**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", or backed by a letter of credit issued by a Federal Home Loan bank. As of June 30, 2016, \$1,779,500 of the bank balance of STIF's deposits of \$1,880,000 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 957,025
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	822,475
<b>Total</b>	<b>\$ 1,779,500</b>

**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 position.

For financial reporting purposes, the CIFS are considered to be external 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.

	Primary Government		
	Governmental Activities	Business-Type Activities	Fiduciary Funds
Equity in the CIFS	\$ 109,454	\$ 661	\$ 29,135,806
Other Investments	2,095	70,329	1,375,910
<b>Total Investments-Current</b>	<b>\$ 111,549</b>	<b>\$ 70,990</b>	<b>\$ 30,511,716</b>

The CIFS measures and records its investments using fair value measurement guidelines. These guidelines have a three tiered fair value hierarchy, as follows: Level 1: Quoted prices for identical investments in active market; Level 2: Observable inputs other than quoted market price; and, Level 3: Unobservable inputs.



**State of Connecticut**

As of June 30, 2016, the CIFS had the following recurring fair value measurements. (amounts in thousands):

Fair Value Measurements				
Investments by Fair Value Level	Total	Level 1	Level 2	Level 3
Cash Equivalents	\$ 77,377	\$ -	\$ 77,377	\$ -
Asset Backed Securities	153,162	-	153,162	-
Government Securities	3,057,456	1,162,573	1,894,883	-
Government Agency Securities	645,771	-	645,771	-
Mortgage Backed Securities	402,029	-	402,029	-
Corporate Debt	3,046,436	-	2,954,600	91,836
Convertible Securities	53,747	-	53,747	-
Common Stock	13,540,539	13,540,539	-	-
Preferred Stock	87,632	78,400	9,232	-
Real Estate Investment Trust	385,415	324,390	61,025	-
Mutual Fund	703,637	171,221	-	532,416
Limited Partnerships	2,199	2,199	-	-
<b>Total</b>	<b>\$ 22,155,400</b>	<b>\$ 15,279,322</b>	<b>\$ 6,251,826</b>	<b>\$ 624,252</b>

Investments Measured at the Net Asset Value (NAV)				
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Business Development Corporation	99,612	\$ 45,103	Illiquid	N/A
Limited Liability Corporation	1,156	-	Illiquid	N/A
Trusts	530	-	Illiquid	N/A
Limited Partnerships	6,949,357	1,394,251	Illiquid	N/A
<b>Total</b>	<b>7,050,655</b>	<b>\$ 1,439,354</b>		
<b>Total Investments in Securities at Fair Value</b>	<b>\$ 29,206,055</b>			

**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.

Following is a schedule which provides information about the interest rate risks associated with the CIF investments. The investments include short-term cash equivalents including certificate of deposits and collateral, long-term investments and restricted assets by maturity in years. (amounts in thousands):

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Cash Equivalents	\$ 77,377	\$ 77,377	\$ -	\$ -	\$ -
Asset Backed Securities	153,162	9,211	118,312	15,124	10,515
Government Securities	3,057,456	118,521	1,186,623	695,703	1,056,609
Government Agency Securities	645,771	61,643	82,929	5,727	495,472
Mortgage Backed Securities	402,028	603	66,980	86,396	248,049
Corporate Debt	3,046,436	776,156	1,090,122	892,978	287,180
Convertible Debt	53,747	4,886	17,417	610	30,834
<b>Total</b>	<b>\$ 7,435,977</b>	<b>\$ 1,048,397</b>	<b>\$ 2,562,383</b>	<b>\$ 1,696,538</b>	<b>\$ 2,128,659</b>

**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, 2016, CIFS' debt investments were rated by Moody's as follows (amounts in thousands):

	Combined Investment Funds							
	Fair Value	Cash Equivalents	Asset Backed Securities	Government Securities	Government Agency Securities	Mortgage Backed Securities	Corporate Debt	Convertible Debt
Aaa	\$ 2,484,426	\$ -	\$ 75,616	\$ 1,477,893	\$ 603,867	\$ 271,129	\$ 55,921	\$ -
Aa	573,991	3,000	2,677	393,378	-	11,075	163,861	-
A	672,191	-	1,737	327,573	-	13,273	329,608	-
Baa	691,470	-	-	352,658	-	7,046	330,976	790
Ba	631,841	-	-	182,505	-	-	441,749	7,587
B	805,211	-	-	50,949	-	-	742,406	11,856
Caa	296,878	-	-	29,969	-	-	260,061	6,848
Ca	11,476	-	-	-	-	-	11,476	-
C	1,592	-	-	-	-	-	1,592	-
Prime 1	374,671	-	2,786	-	-	-	371,885	-
Prime 2	10,394	-	-	-	-	-	10,394	-
Government fixed not rated	50,178	-	-	8,275	41,903	-	-	-
Non Government fixed not rated	234,256	-	-	234,256	-	-	-	-
Not Rated	597,402	74,377	70,346	-	-	99,506	326,507	26,666
<b>Total</b>	<b>\$ 7,435,977</b>	<b>\$ 77,377</b>	<b>\$ 153,162</b>	<b>\$ 3,057,456</b>	<b>\$ 645,770</b>	<b>\$ 402,029</b>	<b>\$ 3,046,436</b>	<b>\$ 53,747</b>

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**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 non-U.S. denominated securities; managers are required to limit that investment to a portion of their respective portfolios. As of June 30, 2016, CIFS' foreign deposits and investments were as follows (amounts in thousands):

Foreign Currency	Combined Investment Funds										
	Total	Fixed Income Securities						Equities			Real Estate Investment Trust Fund
		Cash	Cash Equivalent Collateral	Government Securities	Corporate Debt	Asset Backed	Mortgage Backed	Common Stock	Preferred stock		
Argentine Peso	\$ 49	\$ 49	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Australian Dollar	390,816	928	48	87,102	7,712	-	-	265,852	-	-	29,174
Brazilian Real	238,391	3,397	-	86,699	-	-	-	134,189	14,106	-	-
Canadian Dollar	113,770	527	-	25,029	-	-	-	85,815	-	-	2,399
Chilean Peso	4,367	43	-	152	-	-	-	4,172	-	-	-
Colombian Peso	34,735	5	-	32,147	2,387	-	-	196	-	-	-
Czech Koruna	793	1	-	-	-	-	-	792	-	-	-
Danish Krone	85,553	194	-	1,259	-	-	-	84,100	-	-	-
Egyptian Pound	3,813	294	-	-	-	-	-	3,519	-	-	-
Euro Currency	1,805,613	945	(5)	233,894	2,084	168	-	1,541,800	12,858	-	13,869
Hong Kong Dollar	558,798	1,385	-	-	-	-	-	551,404	-	-	6,009
Hungarian Forint	35,223	2	-	8,780	-	-	-	26,441	-	-	-
Iceland Krona	2	2	-	-	-	-	-	-	-	-	-
Indian Rupee	1,252	-	-	-	1,252	-	-	-	-	-	-
Indonesian Rupiah	110,265	77	-	50,760	2,587	-	-	56,841	-	-	-
Israeli Shekel	20,504	216	-	-	-	-	-	20,288	-	-	-
Japanese Yen	1,190,721	7,565	-	49,956	-	-	-	1,124,737	-	-	8,463
Malaysian Ringgit	83,394	30	-	65,236	-	-	-	18,128	-	-	-
Mexican Peso	194,423	2,018	-	142,149	3,598	-	-	43,813	-	-	2,845
New Turkish Lira	153,017	2	-	48,073	-	-	-	104,942	-	-	-
New Zealand Dollar	163,784	1,407	-	149,078	-	-	-	13,299	-	-	-
Nigerian Naira	181	11	-	-	-	-	-	170	-	-	-
Norwegian Krone	54,992	567	-	11,188	-	-	-	43,237	-	-	-
Peruvian Nouveau Sol	4,009	-	-	4,009	-	-	-	-	-	-	-
Philippine Peso	51,452	6	-	1,151	-	-	-	50,295	-	-	-
Polish Zloty	108,856	36	-	80,536	-	-	-	28,284	-	-	-
Pound Sterling	1,135,613	2,875	44	235,944	8,003	-	8,149	868,704	-	-	11,894
Romanian Leu	3,946	-	-	3,946	-	-	-	-	-	-	-
Russian Ruble	27,353	-	-	27,353	-	-	-	-	-	-	-
Singapore Dollar	85,880	534	-	8,241	-	-	-	71,780	-	-	5,325
South African Rand	180,585	914	-	81,865	-	-	-	97,195	-	-	611
South Korean Won	323,171	66	-	496	-	-	-	311,607	11,002	-	-
Sri Lanka Rupee	29	-	-	-	-	-	-	29	-	-	-
Swedish Krona	156,963	184	-	7,603	-	-	-	149,176	-	-	-
Swiss Franc	446,233	545	-	-	-	-	-	445,688	-	-	-
Thailand Baht	103,607	240	-	19,603	-	-	-	83,555	-	-	209
Uruguayan Peso	1,212	-	-	1,212	-	-	-	-	-	-	-
	<u>\$ 7,873,365</u>	<u>\$ 25,065</u>	<u>\$ 87</u>	<u>\$ 1,463,461</u>	<u>\$ 27,623</u>	<u>\$ 168</u>	<u>\$ 8,149</u>	<u>\$ 6,230,048</u>	<u>\$ 37,966</u>	<u>\$ 80,798</u>	

**Derivatives**

As of June 30, 2016, the CIFS held the following derivative investments (amounts in thousands):

Derivative Investments	Fair Value
Adjustable Rate Securities	\$ 581,229
Asset Backed Securities	153,799
Mortgage Backed Securities	303,820
Collateralized Mortgage Obligations	98,208
TBA's	41,236
Interest Only Securities	423
Options	1,281
Total	<u>\$ 1,179,996</u>

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, 2016, the fair value of contracts to buy and contracts to sell was \$11.9 billion and \$11.9 billion, respectively.

## State of Connecticut

### 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, 2016, the CIFS had deposits with a bank balance of \$40.1 million which was uninsured and uncollateralized.

Complete financial information about the STIF and the CIFS can be obtained from financial statements issued by the Office of the State Treasurer.

### Other Investments

The University of Connecticut measures and records its investments using fair value measurement guidelines. These guidelines have a three tiered fair value hierarchy, as follows: Level 1; Quoted prices for identical investments in active market; Level 2: Observable inputs other than quoted market price; and, Level 3: Unobservable inputs. As of June 30, 2016, UConn had the following recurring fair value measurements. (amounts in thousands):

Investments by Fair Value Level	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Cash Equivalents	\$ 1,926	\$ 1,926	\$ -	\$ -
Fixed Income Securities	913	913	-	-
Equity Securities	8,129	7,376	753	-
Partnerships	3	-	-	3
<b>Total</b>	<b>\$ 10,971</b>	<b>\$ 10,215</b>	<b>\$ 753</b>	<b>\$ 3</b>

Investments Measured at the Net Asset Value (NAV)		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Real Estate Partnerships	329	41	N/A	N/A
Natural Resource Partnerships	566	67	N/A	N/A
Long/Short Equities	1	-	N/A	N/A
Relative Value	832	-	N/A	N/A
<b>Total</b>	<b>3,383</b>	<b>\$ 323</b>		
Total Investments in Securities at Fair Value	\$ 14,354			

As of June 30, 2016, the State had other investments and maturities as follows (amounts in thousands):

Investment Type	Other Investments				
	Investment Maturities (in years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
State Bonds	\$ 17,629	\$ -	\$ 5,269	\$ 12,360	\$ -
U.S. Government and Agency Securities	112,662	55,352	6,450	50,366	494
Guaranteed Investment Contracts	130,472	-	40,712	34,882	54,878
Money Market Funds	31,261	31,261	-	-	-
<b>Total Debt Investments</b>	<b>292,024</b>	<b>\$ 86,613</b>	<b>\$ 52,431</b>	<b>\$ 97,608</b>	<b>\$ 55,372</b>
Endowment Pool	12,593				
Corporate Stock	1,758				
Limited Partnership	3				
<b>Total Investments</b>	<b>\$ 306,378</b>				

### Credit Risk

As of June 30, 2016, other debt investments were rated by Standard and Poor's as follows (amounts in thousands):

Investment Type	Fair Value	Other Investments Quality Ratings		
		AA	A	Unrated
State Bonds	\$ 17,629	\$ 17,629	\$ -	\$ -
U.S. Government and Agency Securities	62,447	62,447	-	-
Guaranteed Investment Contracts	130,472	34,882	95,590	-
Money Market Funds	31,261	-	-	31,261
<b>Total</b>	<b>\$ 241,809</b>	<b>\$ 114,958</b>	<b>\$ 95,590</b>	<b>\$ 31,261</b>

Connecticut State Universities reported \$50 million as U.S. Government Securities, these securities have no credit risk, therefore, these securities are not included in the above table.

### 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, 2016, \$438,282 of the bank balance of the Primary Government of \$441,570 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 38,456
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	<u>399,826</u>
<b>Total</b>	<b>\$ 438,282</b>

### Component Units

The Connecticut Housing Finance Authority (CHFA) and the Connecticut Lottery Corporation (CLC) reported the following investments and maturities as of December 31, 2015 and June 30, 2016, respectively (amounts in thousands):

Investment Type	Major Component Units Investment Maturities (in years)				
	Fair Value	Less			More Than 10
		Than 1	1-5	6-10	
Collateralized Mortgage Obligations	\$ 743	\$ -	\$ -	\$ 743	\$ -
GNMA & FNMA Program Assets	846,159	-	-	-	846,159
Mortgage Backed Securities	768	-	-	125	643
Money Market	15,624	15,624			
Municipal Bonds	42,750	213	1,258	1,655	39,624
STIF	448,707	448,707	-	-	-
Structured Securities	450	-	-	-	450
U.S. Government Agency Securities	892	-	-	-	892
<b>Total Debt Investments</b>	<b>1,356,093</b>	<b>\$ 464,544</b>	<b>\$ 1,258</b>	<b>\$ 2,523</b>	<b>\$ 887,768</b>
Annuity Contracts	130,333				
<b>Total Investments</b>	<b>\$ 1,486,426</b>				

The CHFA and the CLC own 91.2 percent and 8.8 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. Annuity contracts are the only investment held by the CLC, which are not subject to investment risks discussed next.

**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. This policy also requires the Authority to attempt to match its investments with anticipated cash flows requirements and to seek diversification by staggering maturities in such a way that avoids undue concentration of assets in a specific maturity sector.

**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 state's STIF, and other obligations which are legal investments for savings banks in the state. The 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.

CHFA's investments were rated as of December 31, 2015 as follows (amounts in thousands):

Investment Type	Component Units		Quality Ratings		
	Fair Value	AAA	CCC	D	Unrated
Collateralized Mortgage Obligations	\$ 743	\$ -	\$ 743	\$ -	\$ -
Municipal Bonds	42,750	-	-	-	42,750
Money Market	15,624	-	-	-	15,624
STIF	448,707	448,707	-	-	-
Structured Securities	450	-	-	450	-
<b>Total</b>	<b>\$ 508,274</b>	<b>\$ 448,707</b>	<b>\$ 743</b>	<b>\$ 450</b>	<b>\$ 58,374</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, 2015, 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

and FNMA Program Assets), and investments in the State's STIF.

**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' Agent is authorized to lend available securities to authorized broker-dealers and banks subject to a formal loan agreement.

During the year, the Agent lent certain securities and received cash or other collateral as indicated on the Securities Lending Authorization Agreement. The Agent 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 102 percent of the market value of the domestic loaned securities or 105 percent of the market value of foreign loaned securities.

According to the Agreement, the Agent 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 or 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 fair value of the collateral held and the fair value of securities on loan were \$2,590.9 million and \$2,512.6 million, respectively.

Under normal circumstances, the average duration of collateral investments is managed so that it will not exceed 60 days. At year end, the average duration of the collateral investments was 49.46 days and an average weighted maturity of 57.77 days.

**Note 4 Receivables-Current**

As of June 30, 2016, current receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	\$ 1,655,010	\$ -	\$ -
Accounts	1,192,158	492,044	84,093
Loans-Current Portion	-	232,994	6,311
Other Governments	393,493	10,355	3,654
Interest	636	2,591	105
Other (1)	25,638	2,422	3,378
<b>Total Receivables</b>	<b>3,266,935</b>	<b>740,406</b>	<b>97,541</b>
Allowance for			
Uncollectibles	(883,119)	(109,494)	(3,545)
<b>Receivables, Net</b>	<b>\$ 2,383,816</b>	<b>\$ 630,912</b>	<b>\$ 93,996</b>

(1) Includes a reconciling amount of \$25,634 million from fund financial statements to government-wide financial statements.

*State of Connecticut*

**Note 5 Taxes Receivable**

Taxes receivable consisted of the following as of June 30, 2016 (amounts in thousands):

	Governmental Activities		Total
	General Fund	Transportation Fund	
Sales and Use	\$ 637,072	\$ -	\$ 637,072
Income Taxes	462,231	-	462,231
Corporations	72,650	-	72,650
Gasoline and Special Fuel	-	141,760	141,760
Various Other	341,297	-	341,297
Total Taxes Receivable	1,513,250	141,760	1,655,010
Allowance for Uncollectibles	(158,408)	(169)	(158,577)
Taxes Receivable, Net	<u>\$ 1,354,842</u>	<u>\$ 141,591</u>	<u>\$ 1,496,433</u>

**Note 6 Receivables-Noncurrent**

Noncurrent receivables for the primary government and its component units, as of June 30, 2016, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Accounts	\$ -	\$ -	\$ 30,472
Loans	831,378	976,339	452,882
Total Receivables	831,378	976,339	483,354
Allowance for Uncollectibles	(3,216)	(3,304)	(11,809)
Receivables, Net	<u>\$ 828,162</u>	<u>\$ 973,035</u>	<u>\$ 471,545</u>

The Grants and Loans fund (governmental activities) makes loans through the Department of Economic and Community Development to provide financial support to businesses, municipalities, nonprofits, economic develop agencies and other partners for a wide range of activities that create and retain jobs; strengthen the competitiveness of the workforce; promote tourism, the arts and historic preservation; and help investigate and redevelop brownfields. The department's investments are helping build stronger neighborhoods and communities and improving the quality of life for state residents. These loans are payable over a ten year period with rates ranging from 2 percent to 4 percent.

**Note 8 Current Liabilities**

**a. Accounts Payable and Accrued Liabilities**

As of June 30, 2016, accounts payable and accrued liabilities consisted of the following (amounts in thousands):

	Vendors	Salaries and Benefits	Interest	Other	Total Payables & Accrued Liabilities
					Total Payables & Accrued Liabilities
<b>Governmental Activities:</b>					
General	\$ 115,881	\$ 205,185	\$ -	\$ 13,219	\$ 334,285
Transportation	16,020	12,473	-	-	28,493
Restricted Accounts	215,025	11,605	-	-	226,630
Grants and Loans	5,463	93	-	2,900	8,456
Other Governmental	91,977	7,645	-	47	99,669
Internal Service	1,072	1,295	-	-	2,367
Reconciling amount from fund financial statements to government-wide financial statements	-	-	206,543	4,165	210,708
Total-Governmental Activities	<u>\$ 445,438</u>	<u>\$ 238,296</u>	<u>\$ 206,543</u>	<u>\$ 20,331</u>	<u>\$ 910,608</u>
<b>Business-Type Activities:</b>					
UConn/Health Center	\$ 154,301	\$ 82,363	\$ -	\$ 32,320	\$ 268,984
Board of Regents	18,628	78,447	2,193	13,822	113,090
Other Proprietary	7,533	-	12,529	1,623	21,685
Total-Business-Type Activities	<u>\$ 180,462</u>	<u>\$ 160,810</u>	<u>\$ 14,722</u>	<u>\$ 47,765</u>	<u>\$ 403,759</u>
<b>Component Units:</b>					
CHFA	\$ -	\$ -	\$ 14,280	\$ 6,629	\$ 20,909
Connecticut Lottery Corporation	8,499	-	1,641	-	10,140
Connecticut Airport Authority	4,162	4,593	1,210	4,230	14,195
Other Component Units	2,679	-	890	75,322	78,891
Total-Component Units	<u>\$ 15,340</u>	<u>\$ 4,593</u>	<u>\$ 18,021</u>	<u>\$ 86,181</u>	<u>\$ 124,135</u>

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 \$846.0 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 9.2 percent. At year end, the noncurrent portion of loans receivable was \$95.6 million.

**Note 7 Restricted Assets**

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2016, restricted assets were comprised of the following (amounts in thousands):

	Cash & Cash		Loans, Net		Total Restricted Assets
	Equivalents	Investments	of Allowances	Other	
<b>Governmental Activities:</b>					
Debt Service	\$ 738,240	\$ -	\$ -	\$ -	\$ 738,240
Total-Governmental Activities	<u>\$ 738,240</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 738,240</u>
<b>Business-Type Activities:</b>					
UConn/Health Center	\$ 149,497	\$ -	\$ -	\$ -	\$ 149,497
Clean Water	55,619	143,486	-	-	199,105
Other Proprietary	53,132	10,621	-	-	63,753
Total-Business-Type Activities	<u>\$ 258,248</u>	<u>\$ 154,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,355</u>
<b>Component Units:</b>					
CHFA	\$ 466,127	\$ 891,549	\$ 3,520,597	\$ 100,435	\$ 4,978,708
CAA	117,380	-	-	2,307	119,687
Other Component Units	482,634	-	-	4,225	486,859
Total-Component Units	<u>\$ 1,066,141</u>	<u>\$ 891,549</u>	<u>\$ 3,520,597</u>	<u>\$ 106,967</u>	<u>\$ 5,585,254</u>

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**Note 9 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	\$ 1,709,017	\$ 39,882	\$ 1,263	\$ 1,747,636
Construction in Progress	3,664,840	1,554,823	675,348	4,544,315
Total Capital Assets not being Depreciated	5,373,857	1,594,705	676,611	6,291,951
Capital Assets being Depreciated:				
Buildings	4,296,701	207,890	183,291	4,321,300
Improvements Other than Buildings	463,026	8,088	4,409	466,705
Equipment	2,736,204	162,607	280,620	2,618,191
Infrastructure	14,307,362	365,966	-	14,673,328
Total Other Capital Assets at Historical Cost	21,803,293	744,551	468,320	22,079,524
Less: Accumulated Depreciation For:				
Buildings	1,792,161	108,031	183,291	1,716,901
Improvements Other than Buildings	306,610	23,148	4,409	325,349
Equipment	2,674,470	169,502	280,620	2,563,352
Infrastructure	9,372,668	687,304	-	10,059,972
Total Accumulated Depreciation	14,145,909	987,985	468,320	14,665,574
Other Capital Assets, Net	7,657,384	(243,434)	-	7,413,950
Governmental Activities, Capital Assets, Net	<u>\$ 13,031,241</u>	<u>\$ 1,351,271</u>	<u>\$ 676,611</u>	<u>\$ 13,705,901</u>

\* Depreciation expense was charged to functions as follows:

<b>Governmental Activities:</b>	
Legislative	\$ 5,082
General Government	34,580
Regulation and Protection	26,781
Conservation and Development	11,129
Health and Hospitals	10,101
Transportation	808,344
Human Services	1,093
Education, Libraries and Museums	30,755
Corrections	40,999
Judicial	15,518
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	3,603
<b>Total Depreciation Expense</b>	<u>\$ 987,985</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	\$ 68,072	\$ 559	\$ -	\$ 68,631
Construction in Progress	717,171	490,730	521,831	686,070
Total Capital Assets not being Depreciated	785,243	491,289	521,831	754,701
Capital Assets being Depreciated:				
Buildings	4,786,947	543,261	18,737	5,311,471
Improvements Other Than Buildings	373,287	32,322	2,358	403,251
Equipment	995,211	90,682	43,502	1,042,391
Total Other Capital Assets at Historical Cost	6,155,445	666,265	64,597	6,757,113
Less: Accumulated Depreciation For:				
Buildings	1,919,230	151,120	11,126	2,059,224
Improvements Other Than Buildings	207,087	14,116	2,246	218,957
Equipment	662,926	70,578	38,568	694,936
Total Accumulated Depreciation	2,789,243	235,814	51,940	2,973,117
Other Capital Assets, Net	3,366,202	430,451	12,657	3,783,996
Business-Type Activities, Capital Assets, Net	<u>\$ 4,151,445</u>	<u>\$ 921,740</u>	<u>\$ 534,488</u>	<u>\$ 4,538,697</u>

**Component Units**

Capital assets of the component units consisted of the following as of June 30, 2016 (amounts in thousands):

Land	\$ 61,115
Buildings	697,352
Improvements other than Building	319,058
Machinery and Equipment	576,802
Construction in Progress	7,450
Total Capital Assets	1,661,777
Accumulated Depreciation	868,683
Capital Assets, Net	<u>\$ 793,094</u>

**Note 10 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) Tier IIA (contributory) and Tier III (contributory), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS). The three plans in this note do not issue separate financial statements, nor are they reported as a part of other entities. The financial statements and other required information are presented in Note 12 and in the Required Supplementary Information (RSI) section of the CAFR.

The State Comptroller's Retirement Division under the direction of the Connecticut State Employees' Retirement Commission administers SERS and JRS. The sixteen members are: the State Treasurer or a designee who serves as a non-voting ex-officio member, six trustees representing employees are appointed by the bargaining agents in accordance with the provisions of applicable collective bargaining agreements, one "neutral" Chairman, two actuarial trustees and six management trustees appointed by the Governor. The Teachers' Retirement Board administers TRS. The fourteen members of the Teachers' Retirement Board include: the State Treasurer, the Secretary of the Office of Policy and Management, the Commissioner of Education or their designees, who serve as ex-officio voting members. Six members who are elected by teacher membership and five public members appointed by the Governor.

**Special Funding Situation**

The employer contributions for the Teachers' Retirement System (TRS) are funded by the State on behalf of the participating municipal employers. Therefore, these employers are considered to be in a special funding situation and the State is treated as a non-employer contributing entity as defined by GASB 68. As a result, the State reports a liability, deferred outflows of resources and deferred inflows of resources, and expenses. Additionally, the autonomous Component Units that benefit from the services provided by employees of the State are considered, as defined by GASB 68 as non-employer contributing entities. As such they report a liability, deferred outflows of resources and deferred inflows of resources, and expenses as a result of being statutorily required to contribute to SERS.

**Plan Descriptions and Funding Policy**

Membership of each plan consisted of the following at the date of the latest actuarial evaluation:

	SERS <u>6/30/2014</u>	TRS <u>6/30/2014</u>	JRS <u>6/30/2014</u>
Inactive Members or their			
Beneficiaries receiving benefits	45,803	36,065	250
Inactive Members Entitled to but			
not yet Receiving Benefits	1,457	1,480	4
Active Members	49,976	50,877	212

**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 allowances, 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 allowances 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 subject to the contractual rights established by collective bargaining. 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 and Tier III Plans regular and Hazardous Duty members are required to contribute 2 percent and 5 percent of their annual salary, respectively. Individuals hired on or after July 1, 2011 otherwise eligible for the Alternative Retirement Plan (ARP) are eligible to become members of the Hybrid Plan in addition to their other existing choices. The Hybrid Plan has defined benefits identical to Tier II/IIA and Tier III for individuals hired on or after July 1, 2011, but requires employee contributions 3 percent higher than the contribution required from the applicable Tier II/IIA/III plan. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

**Teachers' Retirement System**

**Plan Description**

TRS is a cost-sharing multiple-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 10-183ss of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living allowances 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. 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 allowances 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.

**Investments**

The State Treasurer employs several outside consulting firms as external money and investment managers, to assist

the Chief Investment Officer, as they manage the investment programs of the pension plans. Plan assets are managed primarily through asset allocation decisions with the main objective being to maximize investment returns over the long term at an acceptable level of risk. There is no concentration of investments in any one organization that represents 5.0 percent or more of plan net position available for benefits. The following is the asset allocation policy as of June 30, 2015.

Asset Class	SERS		TRB		JRS	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equities	21.0%	5.8%	25.0%	5.8%	21.0%	5.8%
Developed Non-U.S. Equities	18.0%	6.6%	20.0%	6.6%	18.0%	6.6%
Emerging Markets (Non-U.S.)	9.0%	8.3%	9.0%	8.3%	9.0%	8.3%
Real Estate	7.0%	5.1%	5.0%	5.1%	7.0%	5.1%
Private Equity	11.0%	7.6%	10.0%	7.6%	11.0%	7.6%
Alternative Investment	8.0%	4.1%	8.0%	4.1%	8.0%	4.1%
Fixed Income (Core)	8.0%	1.3%	13.0%	1.3%	8.0%	1.3%
High Yield Bonds	5.0%	3.9%	2.0%	3.9%	5.0%	3.9%
Emerging Market Bond	4.0%	3.7%	4.0%	3.7%	4.0%	3.7%
Inflation Linked Bonds	5.0%	1.0%	6.0%	1.0%	5.0%	1.0%
Cash	4.0%	0.4%	6.0%	0.4%	4.0%	0.4%

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Rate of Return:** For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan expense was .23, .17, and 1.11 percent for SERS, TRS, and JRS, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability**

The components of the net pension liability as of the measurement June 30, 2015 were as follows (amounts in millions):

	SERS	TRS	JRS
Total Pension Liability	\$ 27,192	\$ 27,092	\$ 365
Fiduciary Net Position	10,668	16,120	190
Net Pension Liability	\$ 16,524	\$ 10,972	\$ 175
Ratio of Fiduciary Net Position to Total Pension Liability	39.23%	59.50%	51.98%

**Deferred Retirement Option Program (DROP)**

Section 10-183v of the General Statute authorizes that a TRS member teacher receiving retirement benefits from the system may be reemployed for up to one full school year by a local board of education, the State Board of Education or by a constituent unit of the state system of higher education in a position (1) designated by the Commissioner of Education as a subject shortage area, or (2) at a school

located in a school district identified as a priority school district. Such reemployment may be extended for an additional school year, by written request for approval to the Teachers' Retirement Board.

As of June 30, 2016 the balance held for the DROP was not available from the Teachers' Retirement Board.

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0, 8.5, and 8.0 percent for SERS, TRS, and JRS respectively. The projection of cash flows used to determine the SERS, TRS, and JRS discount rate assumed employee contributions will be made at the current contribution rate and that contributions from the State will be made at actuarially determined rates in future years. Based on those assumptions, SERS, TRS, and JRS pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the net pension liability to changes in the discount rate**

The following presents the net pension liability of the State, calculated using the discount rates of 8.0, 8.5 and 8.0 percent for SERS, TRS, and JRS, as well as what the State's net pension liabilities would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (amounts in millions):

	1% Decrease in Rate	Current Discount Rate	1% Increase in Rate
SERS Net Pension Liability	\$ 19,656	\$ 16,524	\$ 13,886
TRS Net Pension Liability	\$ 13,837	\$ 10,972	\$ 8,537
JRS Net Pension Liability	\$ 210	\$ 175	\$ 144



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**GASB Statement 68 Employer Reporting Employer Contributions**

The following table presents the primary governments and component units' contributions recognized by the pension plans at the measurement date June 30, 2015 (amounts in thousands):

	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>	<u>Total</u>
Primary Government	\$ 1,354,117	\$ 984,110	\$ 17,731	\$ 2,355,958
Component Units	17,534	-	-	17,534
Total Employer Contributions	\$ 1,371,651	\$ 984,110	\$ 17,731	\$ 2,373,492

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

As of the reporting date June 30, 2016, the primary government and component units reported net pension liabilities for the following plans administered by the State as follows (amounts in thousands):

	<u>Primary Government</u>	<u>Component Units</u>
Proportionate Share of the Net Pension Liability		
State Employees' Retirement System	\$ 16,312,856	\$ 211,231
Net Pension Liability		
Teachers' Retirement System	10,972,043	-
Judicial Retirement System	175,073	-
Total Net Pension Liability	<u>\$ 27,459,972</u>	<u>\$ 211,231</u>

The primary government's and component units' proportions of the collective net pension liability for the State Employees' Retirement System as of the measurement date June 30, 2015 as follows (amounts in thousands):

	<u>Primary Government</u>	<u>Component Units</u>
State Employees' Retirement System		
Proportion-June 30, 2015	98.72%	1.28%

For the reporting year ended June 30, 2016, the primary government and component units' recognized pension expense for the following pension plans administered by the State as follows (amounts in thousands):

	<u>Primary Government</u>	<u>Component Units</u>
Pension Expense		
State Employees' Retirement System	\$ 1,290,123	\$ 16,705
Teachers' Retirement System	879,137	-
Judicial Retirement System	18,747	-
	<u>\$ 2,188,007</u>	<u>\$ 16,705</u>

**Deferred Outflows and Inflows of Resources**

As of the reporting date June 30, 2016, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Primary Government</u>	<u>Component Units</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>State Employees' Retirement System</b>			
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ 2,571	\$ 32	\$ -
Changes in Proportion & Differences Between Employer Contributions & Proportionate Share of Contributions	-	7,970	7,657
Employer Contributions Subsequent to Measurement Date	1,481,323	20,482	-
Total	<u>\$ 1,483,894</u>	<u>\$ 28,484</u>	<u>\$ 7,657</u>
<b>Teachers' Retirement System</b>			
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ 78,887		
Employer Contributions Subsequent to Measurement Date	975,578		
Total	<u>\$ 1,054,465</u>		
<b>Judicial Retirement System</b>			
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ 2,193		
Employer Contributions Subsequent to Measurement Date	18,259		
Total	<u>\$ 20,452</u>		

The amount reported as deferred outflows of resources related to pensions resulting from the State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability reported in the following fiscal year. The amount reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in thousands):

	<u>Primary Government</u>	<u>Component Units</u>
<b>State Employees' Retirement System</b>		
<u>Year Ending June 30</u>		
2016	\$ (34,712)	\$ (383)
2017	(34,712)	(383)
2018	(34,714)	(383)
2019	106,444	1,445
2020	-	-
	<u>\$ 2,306</u>	<u>\$ 296</u>

	<u>Primary Government</u>
<b>Teachers' Retirement System</b>	
<u>Year Ending June 30</u>	
2016	\$ (33,821)
2017	(33,821)
2018	(33,819)
2019	180,348
2020	-
	<u>\$ 78,887</u>

	<u>Primary Government</u>
<b>Judges' Retirement System</b>	
<u>Year Ending June 30</u>	
2016	\$ 57
2017	57
2018	55
2019	2,024
2020	-
	<u>\$ 2,193</u>

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>
Valuation Date	6/30/2014	6/30/2014	6/30/2014
Inflation	2.75%	3.00%	2.75%
Salary Increases	4.00%-20.00%	3.75%-7.00%	4.75%
Investment Rate of Return	8.00%	8.5%	8.00%

The actuarial assumptions used in the June 30, 2016 SERS and JRS reported mortality rates based on the RP-2000 Mortality Table projected with the scale AA using 15 years for males and 25 years for females, set back 2 and 1 years respectively, for periods after service retirement and 55% (men) and 80% (women) for periods after disability retirement thus providing approximately a 13% margin in the assumed rates.

The actuarial assumptions used in the June 30, 2016 TRS actuarial report were based on RP-2000 Combined Mortality Table RP-2000 projected 19 years using scale AA, using a two year setback for males and females for the period after retirement and for dependent beneficiaries.

**Changes in Net Pension Liability**

The following schedule presents changes in the State's pension liability and fiduciary net position for each plan for the measurement date June 30, 2015 (amounts in thousands):

Total Pension Liability	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>
Service Cost	\$ 310,472	\$ 404,449	\$ 8,142
Interest	2,052,651	2,162,174	27,240
Benefit payments	(1,657,589)	(1,823,737)	(22,541)
Net change in total pension liability	705,534	742,886	12,841
Total pension liability - beginning (a)	26,486,933	26,349,209	351,773
Total pension liability - ending (c)	<u>\$ 27,192,467</u>	<u>\$ 27,092,095</u>	<u>\$ 364,614</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 1,371,651	\$ 984,110	\$ 17,731
Contributions - member	187,339	228,100	1,791
Net investment income	294,412	452,942	4,781
Benefit payments	(1,657,589)	(1,823,737)	(22,541)
Other	-	57,749	-
Net change in plan fiduciary net position	195,813	(100,836)	1,762
Plan net position - beginning (b)	10,472,567	16,220,889	187,780
Plan net position - ending (d)	<u>\$ 10,668,380</u>	<u>\$ 16,120,053</u>	<u>\$ 189,542</u>
Net pension liability - beginning (a)-(b)	<u>\$ 16,014,366</u>	<u>\$ 10,128,320</u>	<u>\$ 163,993</u>
Net pension liability - ending (c)-(d)	<u>\$ 16,524,087</u>	<u>\$ 10,972,042</u>	<u>\$ 175,072</u>

**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 \$35.1 million and \$56.0 million, respectively.

**Note 11 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 (MERS) 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 MERS and CPJERS are presented in Note No. 12.

**Plan Descriptions and Funding Policy**

Membership of each plan consisted of the following at the date of the latest actuarial valuation:

	<u>MERS</u>	<u>CPJERS</u>
	<u>6/30/2014</u>	<u>12/31/2015</u>
Retirees and beneficiaries receiving benefits	6,511	336
Terminated plan members entitled to but not receiving benefits	1,258	149
Active plan members	<u>8,477</u>	<u>371</u>
Total	<u>16,246</u>	<u>856</u>
Number of participating employers	187	1

**Connecticut Municipal Employees' Retirement System Plan Description**

MERS 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. Pension plan assets are pooled and the plan assets can be used to pay the pensions of the retirees of any participating employer. 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.

**Funding Policy**

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.

**Investment Policy**

The State Treasurer employs several outside consulting firms as external money and investment managers, to assist the Chief Investment Officer as they manage the investment programs of the pension plans. Plan assets are managed primarily through asset allocation decisions with the main objective being to maximize investment returns over the long term at an acceptable level of risk. There is no concentration of investments in any one organization that

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represents 5.0 percent or more of plan net position available for benefits.

Asset Class	MERS	
	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equities	16.0%	5.8%
Developed Non-U.S. Equities	14.0%	6.6%
Emerging Markets (Non-U.S.)	7.0%	8.3%
Real Estate	7.0%	5.1%
Private Equity	10.0%	7.6%
Alternative Investment	8.0%	4.1%
Fixed Income (Core)	8.0%	1.3%
High Yield Bonds	14.0%	3.9%
Emerging Market Bond	8.0%	3.7%
Inflation Linked Bonds	5.0%	1.0%
Cash	3.0%	0.4%

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**Net Pension Liability of Participating Employers**

The components of the net pension liability for MERS at June 30, 2015 were as follows (amounts in millions):

	MERS	
Employers' Total Pension Liability	\$	2,648
Fiduciary Net Position		<u>2,455</u>
Employers' Net Pension Liability	\$	193
Ratio of Fiduciary Net Position to Total Pension Liability		92.72%

**Discount Rate**

The discount rate used to measure the total pension liability was 8 percent for MERS. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

**Sensitivity of the net pension liability to changes in the discount rate**

The following presents the net pension liability of MERS, calculated using the discount rate of 8 percent as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (amounts in millions):

	1% Decrease in Rate	Current Discount Rate	1% Increase in Rate
Net Pension Liability	\$ 491	\$ 193	\$ (96)

**Deferred outflows and deferred inflows of resources**

As of the reporting date June 30, 2016, MERS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>Municipal Employees Retirement System</b>		
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	\$ 94,403	\$ 64,307
Total	<u>\$ 94,403</u>	<u>\$ 64,307</u>

The cumulative net amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future pension expense as follows (amounts in thousands):

	Collective Deferred Outflows of Resources
Net difference between projected and actual earnings on plan investments	<u>\$ 30,096</u>

Amounts recognized in subsequent fiscal years:

Year Ending June 30	MERS
2016	\$ 2,165
2017	2,165
2018	2,165
2019	23,601

The above amounts do not include the deferred outflows/inflows of resources for employer contributions made subsequent to the measurement date. These amounts should be calculated and recorded by each participating employer.

**Collective Pension Expense**

Collective pension expense includes certain current period changes in the collective net pension liability, projected earnings on pension plan investments and the amortization of deferred outflows of resources and deferred inflows of resources for the current period. The collective pension expense for the period ended June 30, 2015 is as follows (amounts in thousands):

Service Cost	\$ 64,545
Interest on the total pension liability	194,760
Member Contributions	(16,726)
Projected earnings on plan investments	(173,371)
Expensed portion of current period differences between projected and actual earnings on plan investments	23,601
Other	(6,508)
Recognition of beginning deferred inflows of resources as pension expense	<u>(21,436)</u>
Collective Pension Expense	<u>\$ 64,865</u>

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement date:

Inflation	3.25%
Salary increase	4.25-11.0%, including inflation
Investment rate of return	8.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for annuitants and non-annuitants (set forward one year for males and set back one year for females).

**Connecticut Probate Judges and Employees' Retirement System**

**Plan Description**

CPJERS is an agent multi-employer defined benefit pension plan that covers judges and employees of probate courts. 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 General Statutes. The plan provides retirement,

disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual court so that each court's share of the pooled assets is legally available to pay the benefits of only its employees. The plan is administered by the State Employee's Retirement Commission.

**Funding**

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.

**Pension Liability**

Information concerning the CPJERS total pension liability and significant assumptions used to measure the plans total pension liability, such as inflation, salary changes, discount rates and mortality are available by contacting the State Comptroller's Retirement Division.

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**Note 12 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. As of June 30, 2016 the Fiduciary Fund financial statements were as follows (amounts in thousands):

<b>Statement of Fiduciary Net Position (000's)</b>							
	<b>State Employees'</b>	<b>State Teachers'</b>	<b>Judicial</b>	<b>Connecticut Municipal Employees'</b>	<b>Probate Judges'</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>							
Current:							
Cash and Cash Equivalents	\$ 607	\$ 5,306	\$ -	\$ 3,566	\$ -	\$ 332	\$ 9,811
Receivables:							
Accounts, Net of Allowances	15,990	11,360	73	12,804	4	-	40,231
From Other Governments	-	1,075	-	-	-	-	1,075
From Other Funds	42	(2)	-	1	-	-	41
Interest	487	956	7	84	3	-	1,537
Investments	10,636,703	15,584,564	189,678	2,212,023	87,268	1,546	28,711,782
Securities Lending Collateral	959,799	1,370,928	17,016	198,596	8,113	175	2,554,627
Noncurrent:							
Due From Employers	-	-	-	279,178	-	-	279,178
<b>Total Assets</b>	<b>\$ 11,613,628</b>	<b>\$ 16,974,187</b>	<b>\$ 206,774</b>	<b>\$ 2,706,252</b>	<b>\$ 95,388</b>	<b>\$ 2,053</b>	<b>\$ 31,598,282</b>
<b>Liabilities</b>							
Accounts Payable and Accrued Liabilities	\$ 37	\$ 6,429	\$ -	\$ -	\$ 14	\$ -	\$ 6,480
Securities Lending Obligation	959,799	1,370,928	17,016	198,596	8,113	175	2,554,627
Due to Other Funds	-	1,958	-	-	12	-	1,970
<b>Total Liabilities</b>	<b>959,836</b>	<b>1,379,315</b>	<b>17,016</b>	<b>198,596</b>	<b>8,139</b>	<b>175</b>	<b>2,563,077</b>
<b>Net Position</b>							
Held in Trust For Employee							
Pension Benefits	10,653,792	15,594,872	189,758	2,507,656	87,249	1,878	29,035,205
<b>Total Net Assets</b>	<b>\$ 10,653,792</b>	<b>\$ 15,594,872</b>	<b>\$ 189,758</b>	<b>\$ 2,507,656</b>	<b>\$ 87,249</b>	<b>\$ 1,878</b>	<b>\$ 29,035,205</b>

<b>Statement of Changes in Fiduciary Net Position (000's)</b>							
	<b>State Employees'</b>	<b>State Teachers'</b>	<b>Judicial</b>	<b>Connecticut Municipal Employees'</b>	<b>Probate Judges'</b>	<b>Other</b>	<b>Total</b>
<b>Additions</b>							
Contributions:							
Plan Members	\$ 135,029	\$ 293,493	\$ 1,831	\$ 24,019	\$ 241	\$ 43	\$ 454,656
State	1,501,805	975,578	18,259	-	-	-	2,495,642
Municipalities	-	142	-	135,754	-	-	135,896
<b>Total Contributions</b>	<b>1,636,834</b>	<b>1,269,213</b>	<b>20,090</b>	<b>159,773</b>	<b>241</b>	<b>43</b>	<b>3,086,194</b>
Investment Income	(983)	(181,425)	14,148	174,331	7,023	(29)	13,065
Less: Investment Expenses	883	162,952	(12,708)	(156,581)	(6,308)	26	(11,736)
Net Investment Income	(100)	(18,473)	1,440	17,750	715	(3)	1,329
Other	10,058	-	66	505	1,444	1	12,074
<b>Total Additions</b>	<b>1,646,792</b>	<b>1,250,740</b>	<b>21,596</b>	<b>178,028</b>	<b>2,400</b>	<b>41</b>	<b>3,099,597</b>
<b>Deductions</b>							
Administrative Expense	651	-	-	-	-	-	651
Benefit Payments and Refunds	1,736,279	1,738,131	22,994	144,230	5,029	-	3,646,663
Other	-	153,763	-	-	-	-	153,763
<b>Total Deductions</b>	<b>1,736,930</b>	<b>1,891,894</b>	<b>22,994</b>	<b>144,230</b>	<b>5,029</b>	<b>-</b>	<b>3,801,077</b>
Changes in Net Assets	(90,138)	(641,154)	(1,398)	33,798	(2,629)	41	(701,480)
<b>Net Position Held in Trust For Employee Pension Benefits:</b>							
Beginning of Year (as restated)	10,743,930	16,236,026	191,156	2,473,858	89,878	1,837	29,736,685
<b>End of Year</b>	<b>\$ 10,653,792</b>	<b>\$ 15,594,872</b>	<b>\$ 189,758</b>	<b>\$ 2,507,656</b>	<b>\$ 87,249</b>	<b>\$ 1,878</b>	<b>\$ 29,035,205</b>

**Note 13 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. 14.

**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 participants and the State, and other plan provisions are described in Sections 5-257 and 5-259 of the General Statutes. As of June 30, 2015 (date of the latest actuarial valuation), the plan had 70,776 retirees and beneficiaries receiving benefits.

**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.

**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, 2016 (date of the latest actuarial valuation), the plan had 40,160 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):

	<u>SEOPEBP</u>	<u>RTHP</u>
Annual Required Contribution	\$ 1,443,716	\$ 130,331
Interest on Net OPEB Obligation	456,117	44,139
Adjustment to Annual Required Contribution	(464,237)	(36,487)
Annual OPEB Cost	1,435,596	137,983
Contributions Made	546,284	19,960
Increase in net OPEB Obligation	889,312	118,023
Net OPEB Obligation - Beginning of Year	8,002,059	980,868
Net OPEB Obligation - End of Year	<u>\$ 8,891,371</u>	<u>\$ 1,098,891</u>

In addition, other related information for each plan for the past three fiscal years was as follows (amounts in thousands):

	<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
SEOPEBP	2016	\$ 1,435,596	38.1%	\$ 8,891,371
	2015	\$ 1,541,667	35.4%	\$ 8,002,059
	2014	\$ 1,560,006	33.0%	\$ 7,006,676
RTHP	2016	\$ 137,983	14.5%	\$ 1,098,891
	2015	\$ 118,175	21.3%	\$ 980,868
	2014	\$ 192,851	13.5%	\$ 887,838

**Funded Status and Funding Progress**

The following is funded status information for the SEOPEBP and the RTHP as of June 30, 2015 and 2016, respectively, date of the latest actuarial valuations (amounts in million):

	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>((b-a)/c)</u>
SEOPEBP	\$ 229.6	\$ 19,119.6	\$ 18,890.0	1.2%	\$ 3,895.1	485.0%
RTHP	\$ -	\$ 2,997.5	\$ 2,997.5	0.0%	\$ 3,949.9	75.9%

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:

	<u>SEOPEBP</u>	<u>RTHP</u>
Actuarial Valuation Date	6/30/2015	6/30/2016
Actuarial Cost Method	Projected Unit Credit	Entry Age
Amortization Method	Level Percent of Pay, Closed, 30 Years	Level Percent of Pay, Open
Remaining Amortization Period	22 Years	30 Years
Asset Valuation Method	Market Value of Assets	Market Value of Assets
Actuarial Assumptions:		
Investment Rate of Return	5.70%	4.25% (includes inflation)
Projected Salary Increases	3.75%	3.25%-6.50% (includes inflation)
Healthcare Inflation Rate	10.00% graded to 5.00% over 5 years	2.75%

**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. 14.

**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 June 30, 2014 there were 9 municipalities participating in the plan with a total membership of 591 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 14 OPEB Trust Funds 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 Position (000's)				
	State Employees' OPEB Plan	Retired Teachers' Healthcare Plan	Policemen, Firemen, and Survivors' Benefits	Total
<b>Assets</b>				
Cash and Cash Equivalents	\$ -	\$ 78,022	\$ 34	\$ 78,056
Receivables:				
Accounts, Net of Allowances	-	-	-	-
From Other Funds	(35)	1,968	-	1,933
Interest	-	-	1	1
Investments	395,436	-	28,588	424,024
Securities Lending Collateral	30,672	-	2,450	33,122
Total Assets	426,073	79,990	31,073	537,136
<b>Liabilities</b>				
Accounts Payable and Accrued Liabilities	29,508	3,110	-	32,618
Securities Lending Obligation	30,672	-	2,450	33,122
Due To Other Funds	25,275	-	-	25,275
Total Liabilities	85,455	3,110	2,450	91,015
<b>Net Position</b>				
Held in Trust For Other	-	-	-	-
Postemployment Benefits	340,618	76,880	28,623	446,121
Total Net Assets	\$ 340,618	\$ 76,880	\$ 28,623	\$ 446,121

Statement of Changes in Fiduciary Net Position (000's)				
	State Employees' OPEB Plan	Retired Teachers' Healthcare Plan	Policemen, Firemen, and Survivors' Benefit	Total
<b>Additions</b>				
Contributions:				
Plan Members	\$ 125,192	\$ 92,437	\$ 568	\$ 218,197
State	608,593	19,960	-	628,553
Municipalities	-	-	676	676
Total Contributions	733,785	112,397	1,244	847,426
Investment Income	73,519	220	1,707	75,446
Less: Investment Expenses	(66,034)	-	(1,533)	(67,567)
Net Investment Income	7,485	220	174	7,879
Other	-	1,504	-	1,504
Total Additions	741,270	114,121	1,418	856,809
<b>Deductions</b>				
Administrative Expense	-	3,612	-	3,612
Benefit Payments and Refunds	632,498	125,415	1,199	759,112
Other	79	1,495	-	1,574
Total Deductions	632,577	130,522	1,199	764,298
Changes in Net Assets	108,693	(16,401)	219	92,511
<b>Net Position Held in Trust For</b>				
Other Postemployment Benefits:				
Beginning of Year (as restated)	231,925	93,281	28,404	353,610
End of Year	\$ 340,618	\$ 76,880	\$ 28,623	\$ 446,121

**Note 15 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):

2017	\$ 40,742
2018	33,777
2019	33,083
2020	33,033
2021	20,789
Thereafter	84,448
Total	<u>\$ 245,872</u>

Contingent revenues for the year ended June 30, 2016, were \$444 thousand.

**State of Connecticut**

**State as Lessee**

Obligations under capital and operating leases as of June 30, 2016 were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2017	\$ 30,190	\$ 7,306
2018	21,627	6,911
2019	27,926	6,443
2020	15,315	5,469
2021	9,679	1,563
2022-2026	17,267	6,133
2027-2031	-	6,090
Total minimum lease payments	<u>\$ 122,004</u>	<u>39,915</u>
Less: Amount representing interest costs		<u>7,572</u>
Present value of minimum lease payments		<u>\$ 32,343</u>

Minimum capital lease payments were discounted using interest rates changing from 3.66 percent to 6.00 percent.

Rental payments on noncancelable operating leases charged to expenses during the year ended June 30, 2016, were \$30.2 million.

**Note 16 Long-Term Debt**

The following is a summary of changes in long-term debt of the primary government for the year ended June 30, 2016, (amounts in thousands):

Governmental Activities	Balance	Additions	Reductions	Ending Balance	Amounts due within one year
<b>Bonds:</b>					
General Obligation	\$ 16,402,537	\$ 2,843,375	\$ 1,851,290	\$ 17,394,622	\$ 1,291,350
Transportation	4,089,540	839,770	409,620	4,519,690	270,550
	<u>20,492,077</u>	<u>3,683,145</u>	<u>2,260,910</u>	<u>21,914,312</u>	<u>1,561,900</u>
Plus/(Less) Premiums	1,417,172	442,335	187,303	1,672,204	175,465
<b>Total Bonds</b>	<u>21,909,249</u>	<u>4,125,480</u>	<u>2,448,213</u>	<u>23,586,516</u>	<u>1,737,365</u>
<b>Long-Term Notes</b>	<u>520,275</u>	<u>-</u>	<u>167,690</u>	<u>352,585</u>	<u>167,690</u>
<b>Other L/T Liabilities:</b> <sup>1</sup>					
Net Pension Liability (Note 10) <sup>2</sup>	26,115,463	6,747,299	5,402,790	27,459,972	-
Net OPEB Obligation	8,982,926	1,573,578	628,553	9,927,951	-
Compensated Absences	499,004	47,822	35,435	511,391	42,095
Workers' Compensation	651,184	136,682	103,465	684,401	104,442
Capital Leases	35,368	3,034	6,060	32,342	5,815
Claims and Judgments	75,587	3,211	15,949	62,849	31,344
Landfill Post Closure Care	35,185	15,177	929	49,433	929
Liability on Interest Rate Swaps	3,361	-	1,504	1,857	-
Contracts Payable & Other	705	-	-	705	-
<b>Total Other Liabilities</b>	<u>36,398,783</u>	<u>8,526,803</u>	<u>6,194,685</u>	<u>38,730,901</u>	<u>184,625</u>
<b>Governmental Activities Long-Term Liabilities</b> <sup>2</sup>	<u>\$ 58,828,307</u>	<u>\$ 12,652,283</u>	<u>\$ 8,810,588</u>	<u>\$ 62,670,002</u>	<u>\$ 2,089,680</u>
<sup>1</sup> In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
<sup>2</sup> The beginning total is restated by the effect of CHEFA's reporting the net pension liability on their financial statements as of the December, 2015					
<b>Business-Type Activities</b>					
Revenue Bonds	\$ 1,356,779	\$ -	\$ 110,097	\$ 1,246,682	\$ 95,757
Plus/(Less) Premiums and Discounts	110,737	-	8,693	102,044	1,486
<b>Total Revenue Bonds</b>	<u>1,467,516</u>	<u>-</u>	<u>118,790</u>	<u>1,348,726</u>	<u>97,243</u>
Compensated Absences	186,090	42,464	36,374	192,180	56,977
Federal Loans Payable	103,054	5,563	108,617	-	-
Other	350,631	15,130	26,573	339,188	11,377
<b>Total Other Liabilities</b>	<u>639,775</u>	<u>63,157</u>	<u>171,564</u>	<u>531,368</u>	<u>68,354</u>
<b>Business-Type Long-Term Liabilities</b>	<u>\$ 2,107,291</u>	<u>\$ 63,157</u>	<u>\$ 290,354</u>	<u>\$ 1,880,094</u>	<u>\$ 165,597</u>

The liability for claims and judgments (Governmental Activities) includes a pollution remediation liability of approximately \$31.9 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 and could change over time due to changes in costs of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort. In addition, there are other polluted sites in the state that require remedial action by the State that will result in additional cleanup costs. The State did not recognize a liability for these costs at year end because it could not be reasonably estimated.



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As of June 30, 2016, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2016	Amounts due within year
Bonds Payable	\$ 4,491,234	\$ 315,643
Escrow Deposits	175,401	44,636
Annuities Payable	131,003	8,741
Rate Swap Liability	178,018	-
Net Pension Liability	211,230	-
Other	31,818	776
Total	<u>\$ 5,218,704</u>	<u>\$ 369,796</u>

Not all component units report net pension liabilities; therefore the net pension liability in the notes is \$4,584 higher than in the financial statements.

**Landfill Closure and Postclosure Care**

Public Act 13-247 and section 99 of Public Act 13-184 required the Materials Innovation and Recycling Authority to transfer all legally required reserves and obligations resulting from the closure of the authority's landfills located in Hartford, Ellington, Waterbury, Wallingford and Shelton to the State Department of Energy and Environmental Protection (DEEP). During the year ended June 30, 2014, the legal transfer of \$35.8 million in post closure care obligations and the concurrent transfer of \$31.0 million of Authority reserve funds to the State resulting from the closure of landfills was addressed by a memorandum of understanding ("MOU") between the Authority and DEEP.

By the end of the year ended June 30, 2015, all work associated with the closure of the five landfills was completed. Going forward DEEP is required to reimburse the authority for all postclosure care obligations as the five landfills are now certified as closed. All landfill expense reimbursements paid by DEEP totaled \$928,683 in FY2016.

GASB Statement No.18 *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost* applies to closure and postclosure care costs that are paid near or after the date a landfill stops accepting waste. The State recognizes landfill expenditures and related General Fund liabilities using the modified accrual basis of accounting. DEEP estimates the State's landfill liability for closure and postclosure costs based on landfill capacity. Increases or decreases in such estimates are reported as additions or reductions in this line item of the State's long-term liabilities. The liability for these estimated costs is reduced when the costs are actually paid. Actual costs may be higher than estimated due to inflation or changes in permitted capacity, technology or regulation. As of June 30, 2013, all five of the landfills had no capacity available since 100 percent of their capacity had been used.

**Note 17 Long-Term Notes and Bonded Debt**

**a. Economic Recovery Notes**

In December 2009, Public Act 09-2 authorized the issuance \$915.8 million of General Obligation Economic Recovery Notes which were used to fund a major portion of the State's General Fund deficit at that time. In October 2013, a portion of these notes were refunded when the State issued \$314.3 million of General Obligation Refunding Notes which were issued in four series as variable-rate remarketed obligations

(VRO) that ultimately mature on January 1, 2018. Any series of these notes may be converted by the State at any time from the VRO rate, which is determined by the remarketing agent on a daily basis, to another interest rate mode – such as an adjusted SIFMA rate mode.

If the State decides to convert the interest rate mode, each holder is required to tender their notes for conversion while the State has agreed to make available supplementary information describing the notes following the conversion. If any tendered VRO's of a series are not successfully remarketed they may continue to be owned by their respective holders until the VRO Special Mandatory Redemption Date. That series of notes in that case would bear interest at a higher stepped-up rate. The liquidity available to purchase tendered notes is only provided by remarketing resources and the State's general fund. In the opinion of management, the higher cost precludes the likelihood of conversion by the State. The original VRO interest rate modes remain in effect at the end of the fiscal year.

Total Economic Recovery and VRO Notes outstanding at June 30, 2016 were \$352.6 million. The notes mature on various dates through 2018 and bear interest rates from 3.0 to 3.2 percent. Future amounts needed to pay principal and interest on these notes outstanding at June 30, 2016 were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2017	\$ 175,465	\$ 9,360	\$ 184,825
2018	177,120	3,958	181,078
Total	<u>\$ 352,585</u>	<u>\$ 13,318</u>	<u>\$ 365,903</u>

**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, 2016, were as follows (amounts in thousands):

Purpose of Bonds	Final Final Dates	Original Original Rates	Outstanding	Authorized But Unissued
Capital Improvements	2016-2036	2.00-5.632%	\$ 3,454,977	\$ 850,880
School Construction	2016-2035	2.00-5.750%	4,528,256	203,000
Municipal & Other				
Grants & Loans	2016-2036	1.00-5.632%	2,033,367	1,021,736
Housing Assistance	2016-2035	0.65-5.460%	424,915	185,228
Elimination of Water Pollution	2016-2035	2.00-5.09%	261,509	406,208
General Obligation				
Refunding	2016-2038	1.75-5.50%	3,782,363	-
GAAP Conversion	2016-2027	1.00-5.00%	527,975	151,500
Pension Obligation	2016-2032	4.65-6.27%	2,217,693	-
Miscellaneous	2016-2034	3.50-5.100%	51,750	38,461
			<u>17,282,805</u>	<u>\$ 2,857,013</u>
Accretion-Variou Capital Appreciation Bonds			111,817	
		Total	<u>\$ 17,394,622</u>	

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Future amounts needed to pay principal and interest on as General Obligation bonds outstanding at June 30, 2016, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,291,350	\$ 774,230	\$ 2,065,580
2018	1,276,865	729,943	2,006,808
2019	1,227,316	674,216	1,901,532
2020	1,171,271	623,055	1,794,326
2021	1,150,151	572,524	1,722,675
2022-2026	5,272,787	2,409,921	7,682,708
2027-2031	4,212,730	982,470	5,195,200
2032-2036	1,676,110	146,823	1,822,933
2037-2041	4,225	212	4,437
<b>Total</b>	<b>\$ 17,282,805</b>	<b>\$ 6,913,394</b>	<b>\$ 24,196,199</b>

**Transportation Related Bonds**

Transportation Related bonds include special tax 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, 2016, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Infrastructure				
Improvements	2016-2035	2.00-5.740%	\$ 4,519,690	\$ 3,225,919
			4,519,690	\$ 3,225,919
Accretion-Variou Capital Appreciation Bonds			-	
			<b>Total</b>	<b>\$ 4,519,690</b>

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2016, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2017	\$ 270,550	\$ 217,138	\$ 487,688
2018	276,950	204,862	481,812
2019	269,800	192,108	461,908
2020	269,785	178,972	448,757
2021	277,285	166,159	443,444
2022-2026	1,318,490	633,678	1,952,168
2027-2031	1,212,015	306,156	1,518,171
2032-2036	624,815	62,100	686,915
	<b>\$ 4,519,690</b>	<b>\$ 1,961,173</b>	<b>\$ 6,480,863</b>

**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, 2016, were as follows (amounts in thousands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
UConn	2016-2030	1.5-5.5%	\$ 112,685
State Universities	2016-2036	2.0-6.0%	302,381
Clean Water	2016-2035	2.0-5.0%	726,129
Drinking Water	2016-2035	2.0-5.0%	74,891
Bradley Parking Garage	2016-2024	6.5-6.6%	30,595
Total Revenue Bonds			1,246,681
Plus/(Less) premiums and discounts:			
UConn			19,340
Clean Water			73,928
Other			8,776
Revenue Bonds, net			<b>\$ 1,348,725</b>

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.

In 2000, Bradley Parking Garage bonds were issued in the amount of \$53.8 million to build a parking garage at the airport. As of June 30, 2016, \$30.6 million of these bonds are outstanding.

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.

Future amounts needed to pay principal and interest on revenue bonds outstanding at June 30, 2016, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2016	\$ 97,442	\$ 56,680	\$ 154,122
2017	87,539	52,662	140,201
2018	87,325	48,908	136,233
2019	93,299	44,889	138,188
2020	82,220	40,586	122,806
2021-2025	383,175	146,330	529,505
2026-2030	301,595	63,347	364,942
2031-2035	133,270	11,395	144,665
2036-2040	1,065	21	1,086
<b>Total</b>	<b>\$ 1,266,930</b>	<b>\$ 464,818</b>	<b>\$ 1,731,748</b>

**d. Component Units**

Component Units' revenue bonds outstanding at June 30, 2016, were as follows (amounts in thousands):

<u>Component Unit</u>	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Amount Outstanding (000's)</u>
CT Housing Finance Authority	2016-2055	0.15-6.625%	\$ 3,808,922
CT Student Loan Foundation	2034-2046	0.00-1.934%	274,800
CT Higher Education Supplemental Loan Authority	2017-2036	0.40-5.25%	152,785
CT Airport Authority	2017-2032	%/1 mth libor	122,980
CT Regional Development Authority	2016-2034	1.00-7.00%	85,920
UConn Foundation	2016-2029	1.90-5.00%	22,740
CT Innovations Inc.	2016-2020	2.37-5.25%	<u>2,260</u>
Total Revenue Bonds			4,470,407
Plus/(Less) premiums and discounts:			
CHFA			20,105
CSLF			(710)
CHESLA			2,195
Uconn Foundation			(441)
CRDA			<u>(322)</u>
Revenue Bonds, net			<u>\$ 4,491,234</u>

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.

Following the merger of the operations of the Connecticut Development Authority, Connecticut Innovations, Incorporated (CII) assumed responsibility for the former authority's Special Obligation Industrial revenue bonds. The bonds were issued to finance such projects as the acquisition of land, the construction of buildings, the purchase and installation of machinery, equipment, and pollution control facilities. These activities are financed under its Self-Sustaining Bond Program which is described in the no-commitment debt section of this note. In addition, CII has \$2.3 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; a special needs indenture dated 9/25/95, and other bond resolutions dated October 2009. As of December 31, 2015, bonds outstanding under the bond resolution, the indenture, and other bond resolutions were \$3,401.4 million, \$58.6 million, and \$369.1 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 resolution and indenture Capital Reserve funds are 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 any succeeding calendar year on all outstanding bonds. The required reserves are \$247.7 million per the resolution and \$4.6 million per the indenture at

12/31/15. As of December 31, 2015, the Authority has entered into interest rate swap agreements for \$830.1 million of its outstanding variable rate bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the Authority.

Materials, Innovation, and Recycling 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.

**Capital Reserves**

Each Authority has established Special Capital Reserve funds that secure all the outstanding bonds of the Authority at year-end. 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.

The Capital Region 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 Component Unit revenue bonds outstanding at June 30, 2016, were as follows (amounts in thousands):

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 142,063	\$ 100,443	\$ 242,506
2018	146,533	101,173	247,706
2019	153,492	97,434	250,926
2020	157,850	94,096	251,946
2021	160,949	90,622	251,571
2022-2026	840,357	392,311	1,232,668
2027-2031	895,903	283,782	1,179,685
2032-2036	847,271	183,232	1,030,503
2037-2041	618,543	98,208	716,751
2042-2046	246,600	84,547	331,147
2047-2051	231,002	15,942	246,944
2052-2056	29,844	6,804	36,648
	<u>\$ 4,470,407</u>	<u>\$ 1,548,594</u>	<u>\$ 6,019,001</u>

**No-commitment debt**

Under the Self-Sustaining Bond program, acquired from its combination with the Connecticut Development Authority, Connecticut Innovations, Inc., 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, 2016 were \$441.4 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 Obligation bonds outstanding at June 30, 2016, were \$8,314.8 million, of which \$302.8 million was secured by Special Capital Reserve funds.

The Materials, Innovation, and Recycling Authority has served as a conduit issuer for debt to fund the construction of waste processing facilities by independent contractor-operators. The outstanding debt is secured by loan agreements, between the authority and independent contractor-operators, which have been assigned to the trustee for the debt, and through additional corporate guarantee agreements between the trustee and third party guarantors. The payment of the debt is not guaranteed by the Authority or the State. Thus the assets and liabilities related to the debt are not included in the Authority's financial statements. The amount of the debt outstanding at June 30, 2016 is \$30.0 million.

**e. Debt Refundings**

During the fiscal year the State issued General Obligation and Special Tax Obligation bonds of \$721.6 million at an

*Objective and Terms of Hedging Derivative Instruments*

The following table displays the objective and the terms of the States' governmental activities hedging derivative instruments outstanding at June 30, 2016, along with the credit rating of the associated counterparty (amounts in thousands).

<u>Type</u>	<u>Objective</u>	<u>Notional Amounts (000's)</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>	<u>Counterparty Credit Rating</u>
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%	A3/A-
Pay-fixed interest rate	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%	A3/BBB+
	Total Notional Amount	<u>\$ 40,000</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 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.

average coupon interest rate of 4.86 percent to advance refund \$808.3 million of General Obligation and Special Tax Obligation bonds with an average coupon interest rate of 4.66 percent. Although the advance refunding resulted in a \$17.6 million accounting loss, the State in effect reduced its aggregate fund level debt service payments by \$102.4 million over the next 8 years. The present value of these savings represents an economic gain (difference between the present values of the debt service payments of the old and the new bonds) of \$95.6 million.

The proceeds of the refunding bonds were used to purchase U.S. Government securities which were deposited into irrevocable trust accounts with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds were removed from the State's financial statements as they are considered defeased.

In prior years, the State placed the proceeds of refunding bonds in irrevocable trust accounts to provide for all future debt service payments on defeased bonds. The assets of the trust accounts and the liability for defeased bonds are not included in the State's financial statements. As of June 30, 2016, the outstanding balance of bonds defeased in prior years was approximately \$980.7 million.

**Note 18 - Derivative Financial Instruments**

The fair value balances and notional amounts of the State's derivative instruments outstanding at June 30, 2016, 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)):

	<u>Changes in Fair Value</u>		<u>Fair Value at Year End</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
<b>Governmental activities</b>					
Cash flow hedges:	Deferred		Non-current		
Pay-fixed interest rate swap	outflow of Resources	\$ (1,504)	portion of LT Obligation	\$ (1,857)	\$ 40,000

**Credit Risk**

As of June 30, 2016, 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.

**Basis Risk**

The State's variable-rate bond interest payments are based on the CPI floating rate. As of June 30, 2016 the State receives variable-rate payments from the counterparty based on the same CPI floating rate.

**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, 2016, debt service requirements of the State's outstanding variable-rate bonds and net swap payments are as follows (amounts in thousands):

Fiscal Year Ending June 30,	Variable-Rate Bonds		Interest Rate		Total
	Principal	Interest	SWAP, Net		
2018	\$ 20,000	\$ 689	\$ 1,365	\$	22,054
2019	-	351	689		1,040
2020	-	351	689		1,040
2021	20,000	352	688		21,040
	<u>\$ 40,000</u>	<u>\$ 1,743</u>	<u>\$ 3,431</u>	<u>\$</u>	<u>45,174</u>

**Note 19 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 position (government-wide and proprietary fund 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.

**State of Connecticut**

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 6-30-14	\$ 619,578	\$ 21,875
Incurred claims	137,770	9,884
Paid claims	<u>(106,164)</u>	<u>(5,009)</u>
Balance 6-30-15	651,184	26,750
Incurred claims	136,682	9,210
Paid claims	<u>(103,465)</u>	<u>(4,368)</u>
Balance 6-30-16	<u>\$ 684,401</u>	<u>\$ 31,592</u>

**Note 20 Interfund Receivables and Payables**

Interfund receivable and payable balances at June 30, 2016, were as follows (amounts in thousands):

	Balance due to fund(s)											
	General	Transportation	Restricted Grants & Accounts	Grant & Loan Programs	Other Governmental	UConn	Board of Regents	Employment Security	Internal Services	Fiduciary	Component Units	Total
<b>Balance due from fund(s)</b>												
General	\$ -	\$ -	\$ 115	\$ 10	\$ 339,215	\$ 44,961	\$ 37,492	\$ 974	\$ 5,182	\$ 4,165	\$ -	\$ 432,114
Debt Service	-	568	-	-	-	-	-	-	-	-	-	568
Restricted Grants & Accounts	3,144	-	-	-	-	-	-	-	-	-	5,202	8,346
Grant & Loan Programs	27	-	-	-	-	-	-	-	-	-	-	27
Other Governmental	2,268	-	-	-	16,400	130,476	170,280	-	-	-	-	319,424
UConn	18,158	-	-	-	-	-	-	-	-	-	-	18,158
Board of Regents	3,528	-	-	-	-	-	-	-	-	-	-	3,528
Employment Security	-	-	-	-	442	-	-	-	-	-	-	442
Internal Services	19,265	-	-	-	-	-	-	-	-	-	-	19,265
Fiduciary	-	-	-	-	25,634	-	-	-	-	1,958	-	27,592
Component Units	34,701	-	922	-	-	-	-	-	-	-	-	35,623
Total	<u>\$ 81,091</u>	<u>\$ 568</u>	<u>\$ 1,037</u>	<u>\$ 10</u>	<u>\$ 381,691</u>	<u>\$ 175,437</u>	<u>\$ 207,772</u>	<u>\$ 974</u>	<u>\$ 5,182</u>	<u>\$ 6,123</u>	<u>\$ 5,202</u>	<u>\$ 865,087</u>

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end.

**Note 21 Interfund Transfers**

Interfund transfers for the fiscal year ended June 30, 2016, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)								
	General	Debt Service	Transportation	Restricted Grants & Accounts	Other Governmental	UConn	Board of Regents	Clean Water & Drinking Water	Total
<b>Amount transferred from fund(s)</b>									
General	\$ -	\$ -	\$ -	\$ 44,175	\$ 62,036	671,127	\$ 598,070	\$ -	\$ 1,375,408
Debt Service	-	-	-	6,485	-	-	-	-	6,485
Transportation	-	492,915	-	-	6,500	-	-	-	499,415
Restricted Grants & Accounts	24,237	-	-	16,033	-	-	-	-	40,270
Grants & Loan Programs	-	-	-	72,325	-	-	-	-	72,325
Other Governmental	147,069	33,106	5,875	73,094	768	299,865	195,972	5,664	761,413
Board of Regents	5,900	-	-	-	-	-	-	-	5,900
Employment Security	-	-	-	-	18,503	-	-	-	18,503
Total	<u>\$ 177,206</u>	<u>\$ 526,021</u>	<u>\$ 5,875</u>	<u>\$ 212,112</u>	<u>\$ 87,807</u>	<u>\$ 970,992</u>	<u>\$ 794,042</u>	<u>\$ 5,664</u>	<u>\$ 2,779,719</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 22 Restatement of Net Position, Fund Balance Classifications, and Restricted Net Position**

**Restatement of Net Position**

During the fiscal year 2016, the State implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB).

GASB Statement 72, *Fair Value Measurement and Application*

**GASB Statement 72** – This Statement establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value.

Beginning net position of governmental activities was increased by \$182 thousand on the Statement of Activities as a result of implementing this Statement. This increase is reported on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Permanent Funds as well.

Beginning net position of Fiduciary Funds was restated by \$214.8 million as a result of implementing GASB 72 as well. This reduction is reported on the Combining Statement of Changes in Fiduciary Net Position (and Other Employee Benefit) Trust Funds as well as on Statement of Changes in Fiduciary Net Position – Fiduciary Funds.

As of December 31, 2015, Connecticut Housing Finance Authority implemented GASB Statements 68 and 71. As a result of implementing these statements, the beginning net position for the Component Units was reduced \$54.6 million on the Statement of Activities resulting in a restated beginning net position. This reduction is reported on the Combining Statement of Activities – Component Units as well. As a result of this implementation the beginning net position of governmental activities was decreased by \$55.4 million in the Statement of Activities. This resulted because in Fiscal Year 2015 the State included CHFA as part of the primary government for the calculation of the Net Pension Liability.

During Fiscal Year 2016, Connecticut Airport Authority discovered that a certain capital asset was double counted in error. The Authority made a prior period adjustment to correct this error. The beginning net position for the Component Units was reduced \$10.9 million on the Statement of Activities resulting in a restated beginning net position. This reduction is also reported on the Combining Statement of Activities – Component Units.

**Fund Balance – Restricted and Assigned**

As of June 30, 2016 restricted and assigned fund balances of nonmajor governmental funds were comprised as follows (amounts in thousands):

	<b>Restricted Purposes</b>	<b>Assigned Purposes</b>
Capital Projects	\$ 92,056	\$ -
Environmental Programs	39,008	-
Housing Programs	289,883	-
Employment Security Administration	15,816	-
Banking	9,010	-
Other	60,276	13,770
Total	<u>\$ 506,049</u>	<u>\$ 13,770</u>

**Restricted Net Position**

As of June 30, 2016, the government-wide statement of net position reported \$3,067 million of restricted net position, of which \$177.8 million was restricted by enabling legislation.

**Note 23 Related Organizations**

The Community Economic Development Fund and Connecticut Health Insurance Exchange 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 24 New Accounting Pronouncements**

In 2016, The State implemented the following statements issued by the Governmental Accounting Standards Board (“GASB”).

*Fair Value Measurement and Application* (Statement No. 72) - This Statement establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value.

See Note 22 for restatement information relating to the implementation of this statement.

**Note 25 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, 2016, the Departments of Transportation and Construction Services had contractual commitments of approximately \$3,235 million for infrastructure and other construction projects. Additionally, other commitments were approximately as follows:

School construction and alteration grant program \$2,966 million.

Clean and drinking water loan programs \$272 million.  
Various programs and services \$7,197 million.

All commitments are expected to be funded by federal grants, bond proceeds, and other resources.

**Component Units**

As of December 31, 2015, the Connecticut Housing Finance Authority had mortgage loan commitments of approximately \$229.8 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.

As of June 30, 2016, the State reported an escheat liability of \$465.2 million in the General fund. This liability represents an estimate of the amount of escheat property likely to be refunded to claimants in the future. However, there is a reasonable possibility that the State could be liable for an additional amount of escheat refunds of \$285.6 million in the future.

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 nor revenue sources of the State.

### **D. 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 \$30 million at June 30, 2016.

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 26 Subsequent Events**

In preparing these financial statements, the State has evaluated events and transactions for potential recognition or disclosure in the footnotes. The effect of this evaluation led the State to report the following events which took place after the State's fiscal year end date through to the date these financial statements were issued.

In August 2016, the State issued \$500 million of General Obligation bonds. The bonds were issued for Community Conservation Development as well as for other State purposes. The official offering includes \$250.0 million 2016 series D nontaxable bonds maturing 2036 bearing interest rates ranging from 3.0 to 5.0 percent and \$250.0 million series A taxable bonds maturing in 2026 bearing interest rates ranging from 1.0 to 2.6 percent.

In September 2016, the State issued \$868.3 million of Special Tax Obligation Transportation Infrastructure bonds. The offering includes \$800 million of series A which will mature in 2036 bearing interest rates ranging from 3.0 percent to 5.0 percent and \$68.3 million of series B refunding bonds maturing in 2028 bearing interest rates ranging from 2.0 percent to 5.0 percent that defeased \$75.6 million of other bonds issued at a higher cost.

In October 2016, the State issued \$650.0 million of general Obligation bonds. The offering includes \$585.0 million of series E, for school construction and other State purposes, which mature in 2036 bearing interest rates ranging from 2.0 percent to 5.0 percent, and \$65.0 million series F "Green Bonds", for water pollution control purposes, which mature in 2031 bearing interest rates ranging from 4.0 percent to 5.0 percent.

In December 2016, the State issued \$327.4 million of general obligation refunding bonds to defease \$348.7 million of other bond by their redemption dates. The bonds mature in 2023 bearing interest rates ranging from 2.0 to 5.0 percent.



In July 2016 and November 2016, the Connecticut Health and Educational Facilities Authority (CHEFA) issued revenue bonds consisting of \$35.0 million of series A, \$110.0 million of series F, \$5.8 million of series G and \$47.6 million of series K bonds respectively, to finance various Connecticut based facility improvements. Additionally, in September 2016, CHEFA issued \$40.7 million series L-1 tax-exempt and \$12.9 million of series L-2 federally taxable revenue bonds on behalf of Connecticut Community Colleges. In September CHEFA issued \$55.0 million of series P-1 revenue bonds on behalf of the State University System. Finally, in September 2016 CHEFA issued \$19.5 million series P-2 Revenue refunding bonds together with \$11.0 of other available funds, to refund \$30.7 million of bonds series G and F on the call date.

In the months of July, August, May, November and December of calendar 2016, the Connecticut Housing Finance authority (CHFA) issued Housing Mortgage Finance Program bonds consisting of \$86.0 million of series C; \$185.0 million of series E; \$149.0 million of series B; \$220.9 million of series F; and \$37.4 series 18, 19, 20 and 21; respectively to finance home mortgage loans. Additionally, in March of 2016, CHFA issued \$185.0 million of series A and A-3 demand bonds whereupon the authority entered into Stand-By Bond Purchase and Remarketing Agreements with the Royal Bank of Canada. More information concerning these transactions can be obtained from separately issued financial statements published by CHFA having a fiscal year end of December 31, 2015.

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***Required  
Supplementary  
Information***

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**Budgetary Comparison Schedule  
Required Supplemental Information  
General and Transportation Funds**

For the Fiscal Year Ended June 30, 2016

(Expressed in Thousands)

	General Fund			Variance with Final Budget positive (negative)
	Budget		Actual	
	Original	Final		
<b>Revenues</b>				
Budgeted:				
Taxes, Net of Refunds	\$ 15,711,600	\$ 15,078,800	\$ 15,155,166	\$ 76,366
Casino Gaming Payments	258,800	265,900	265,907	7
Licenses, Permits, and Fees	308,500	296,600	296,502	(98)
Other	337,800	364,400	365,926	1,526
Federal Grants	1,265,200	1,301,600	1,301,532	(68)
Refunds of Payments	(74,200)	(60,300)	(60,336)	(36)
Operating Transfers In	450,000	451,600	450,561	(1,039)
Operating Transfers Out	(61,800)	(61,800)	(61,688)	112
Transfer to/from the Resources of the General Fund	(33,500)	72,300	67,253	(5,047)
Total Revenues	<u>18,162,400</u>	<u>17,709,100</u>	<u>17,780,823</u>	<u>71,723</u>
<b>Expenditures</b>				
Budgeted:				
Legislative	84,830	82,830	74,089	8,741
General Government	680,152	680,008	627,035	52,973
Regulation and Protection	317,680	317,726	288,554	29,172
Conservation and Development	213,731	213,730	194,878	18,852
Health and Hospitals	1,817,935	1,801,386	1,765,944	35,442
Transportation	-	-	-	-
Human Services	3,200,663	3,200,663	3,102,021	98,642
Education, Libraries, and Museums	5,192,742	5,192,542	5,122,029	70,513
Corrections	1,517,199	1,517,264	1,463,065	54,199
Judicial	625,815	630,414	597,584	32,830
Non Functional	4,784,087	4,792,265	4,686,059	106,206
Total Expenditures	<u>18,434,834</u>	<u>18,428,828</u>	<u>17,921,258</u>	<u>507,570</u>
Appropriations Lapsed	<u>303,366</u>	<u>373,714</u>	<u>-</u>	<u>(373,714)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>30,932</u>	<u>(346,014)</u>	<u>(140,435)</u>	<u>205,579</u>
<b>Other Financing Sources (Uses)</b>				
Prior Year Appropriations Carried Forward	64,964	64,964	64,964	-
Appropriations Continued to Fiscal Year 2017	-	-	(96,559)	(96,559)
Miscellaneous Adjustments	-	1,573	1,612	39
Total Other Financing Sources (Uses)	<u>64,964</u>	<u>66,537</u>	<u>(29,983)</u>	<u>(96,520)</u>
Net Change in Fund Balance	<u>\$ 95,896</u>	<u>\$ (279,477)</u>	<u>(170,418)</u>	<u>\$ 109,059</u>
Budgetary Fund Balances - July 1			37,245	
Changes in Reserves			179,632	
Budgetary Fund Balances - June 30			<u>\$ 46,459</u>	

The information about budgetary reporting is an integral part of this schedule.

*State of Connecticut*

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**Transportation Fund**

<u>Budget</u>		<u>Actual</u>	<u>Variance with Final Budget positive (negative)</u>
<u>Original</u>	<u>Final</u>		
\$ 1,073,400	\$ 955,800	\$ 946,984	\$ (8,816)
-	-	-	-
385,100	391,700	395,373	3,673
7,700	7,800	8,159	359
12,100	12,200	12,180	(20)
(3,700)	(3,400)	(3,384)	16
-	-	-	-
(6,500)	(6,500)	(6,500)	-
-	-	-	-
<u>1,468,100</u>	<u>1,357,600</u>	<u>1,352,812</u>	<u>(4,788)</u>
-	-	-	-
8,728	8,728	6,390	2,338
77,884	77,884	65,400	12,484
2,743	2,743	2,550	193
-	-	-	-
660,533	660,533	630,227	30,306
2,244	2,244	2,177	67
-	-	-	-
-	-	-	-
-	-	-	-
709,252	709,252	693,975	15,277
1,461,384	1,461,384	1,400,719	60,665
12,000	44,557	-	(44,557)
-	-	-	-
<u>18,716</u>	<u>(59,227)</u>	<u>(47,907)</u>	<u>11,320</u>
33,311	33,311	33,311	-
-	-	(22,610)	(22,610)
-	-	-	-
<u>33,311</u>	<u>33,311</u>	<u>10,701</u>	<u>(22,610)</u>
<u>\$ 52,027</u>	<u>\$ (25,916)</u>	<u>(37,206)</u>	<u>\$ (11,290)</u>
		213,357	
		(10,700)	
		<u>\$ 165,451</u>	

**Budgetary vs. GAAP Basis of Accounting  
Required Supplemental Information**

For the Fiscal Year Ended June 30, 2016  
(Expressed in Thousands)

	<b>General Fund</b>	<b>Transportation Fund</b>
Net change in fund balances (budgetary basis)	\$ (170,418)	\$ (37,206)
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	8,413	7,089
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(310,394)	(3,054)
Salaries and Fringe Benefits Payable	16,637	1,353
Increase (Decrease) in Continuing Appropriations	31,595	(10,701)
Fund Reclassification-Bus Operations	-	(3,178)
Net change in fund balances (GAAP basis)	\$ (424,167)	\$ (45,697)

The major differences between the statutory and the GAAP (generally accepted accounting principles) financial basis of accounting as reconciled above are as follows:

1. Revenues are recorded when received in cash except for certain year-end accruals (statutory basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis).
2. Certain expenditures are not subject to accrual for budgeting purposes and are recorded when paid in cash (statutory 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.

*The information about budgetary reporting is an integral part of this schedule.*

**Pension Plans  
Required Supplementary Information  
Schedule of Changes in the Net Pension Liability  
and Plan Net Position**

(Expressed in Thousands)

	2015		2014		2014	
	SERS	TRS	JRS	SERS	TRS	JRS
<b>Total Pension Liability</b>						
Service Cost	\$ 310,472	\$ 404,449	\$ 8,142	\$ 287,473	\$ 347,198	\$ 7,539
Interest	2,052,651	2,162,174	27,240	1,998,736	2,090,483	26,301
Benefit payments	(1,650,465)	(1,773,408)	(22,541)	(1,563,029)	(1,737,144)	(21,668)
Refunds of contributions	(7,124)	(50,329)	-	(3,935)	-	-
Net change in total pension liability	705,534	742,886	12,841	719,245	700,537	12,172
Total pension liability - beginning	26,486,933	26,349,209	351,773	25,767,688	25,648,672	339,601
<b>Total pension liability - ending (a)</b>	<b>\$ 27,192,467</b>	<b>\$ 27,092,095</b>	<b>\$ 364,614</b>	<b>\$ 26,486,933</b>	<b>\$ 26,349,209</b>	<b>\$ 351,773</b>
<b>Plan net position</b>						
Contributions - employer	\$ 1,371,651	\$ 984,110	\$ 17,731	\$ 1,268,890	\$ 948,540	\$ 16,298
Contributions - member	187,339	228,100	1,791	144,807	261,213	1,641
Net investment income	294,412	452,942	4,781	1,443,391	2,277,550	23,156
Benefit payments	(1,650,465)	(1,773,408)	(22,541)	(1,563,029)	(1,737,144)	(21,668)
Refunds of contributions	(7,124)	(50,329)	-	(3,935)	-	-
Other Changes	-	57,749	-	-	(5,307)	-
Net change in plan net position	195,813	(100,836)	1,762	1,290,124	1,744,852	19,427
Plan net position - beginning	10,472,567	16,220,889	187,780	9,182,443	14,462,903	168,353
<b>Plan net position - ending (b)</b>	<b>\$ 10,668,380</b>	<b>\$ 16,120,053</b>	<b>\$ 189,542</b>	<b>\$ 10,472,567</b>	<b>\$ 16,207,755</b>	<b>\$ 187,780</b>
Ratio of plan net position to total pension liability	39.23%	59.50%	51.98%	39.54%	61.51%	53.38%
<b>Net pension liability - ending (a) - (b)</b>	<b>\$ 16,524,087</b>	<b>\$ 10,972,042</b>	<b>\$ 175,072</b>	<b>\$ 16,014,366</b>	<b>\$ 10,141,454</b>	<b>\$ 163,993</b>
Covered-employee payroll	\$ 3,618,361	\$ 4,078,367	\$ 34,972	\$ 3,487,577	\$ 3,831,624	\$ 33,386
Net pension liability as a percentage of covered-employee payroll	456.67%	269.03%	500.61%	459.18%	264.68%	491.20%

**Pension Plans**  
**Required Supplementary Information**  
**Schedule of Employer Contributions**  
(Expressed in Thousands)

<u>SERS</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined employer contribution	\$ 1,379,189	\$ 1,268,935	\$ 1,059,652	\$ 926,372	\$ 944,077
Actual employer contributions	<u>1,371,651</u>	<u>1,268,890</u>	<u>1,058,113</u>	<u>926,343</u>	<u>825,801</u>
Annual contributions deficiency excess	<u>\$ 7,538</u>	<u>\$ 45</u>	<u>\$ 1,539</u>	<u>\$ 29</u>	<u>\$ 118,276</u>
Covered Payroll	\$ 3,618,361	\$ 3,355,077	\$ 3,304,538	\$ 3,209,782	\$ 3,308,498
Actual contributions as a percentage of covered-employee payroll	37.91%	37.82%	32.02%	28.86%	24.96%
 <u>TRS</u>					
Actuarially determined employer contribution	\$ 984,110	\$ 948,540	\$ 787,536	\$ 757,246	\$ 581,593
Actual employer contributions	<u>984,110</u>	<u>948,540</u>	<u>787,536</u>	<u>757,246</u>	<u>581,593</u>
Annual contributions deficiency excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 4,078,367	\$ 3,930,957	\$ 4,101,750	\$ 3,943,990	\$ 3,823,754
Actual contributions as a percentage of covered-employee payroll	24.13%	24.13%	19.20%	19.20%	15.21%
 <u>JRS</u>					
Actuarially determined employer contribution	\$ 17,731	\$ 16,298	\$ 16,006	\$ 15,095	\$ 16,208
Actual employer contributions	<u>17,731</u>	<u>16,298</u>	<u>16,006</u>	<u>15,095</u>	<u>-</u>
Annual contributions deficiency excess	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,208</u>
Covered Payroll	\$ 34,972	\$ 33,386	\$ 31,748	\$ 30,308	\$ 33,102
Actual contributions as a percentage of covered-employee payroll	50.70%	48.82%	50.42%	49.81%	0.00%



*State of Connecticut*

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<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 897,428	\$ 753,698	\$ 716,944	\$ 663,926	\$ 623,063
<u>720,527</u>	<u>699,770</u>	<u>711,555</u>	<u>663,931</u>	<u>623,063</u>
<u>\$ 176,901</u>	<u>\$ 53,928</u>	<u>\$ 5,389</u>	<u>\$ (5)</u>	<u>\$ -</u>
\$ 2,920,661	\$ 3,497,400	\$ 3,497,400	\$ 3,310,400	\$ 3,107,900
24.67%	20.01%	20.35%	20.06%	20.05%
\$ 559,224	\$ 539,303	\$ 518,560	\$ 412,099	\$ 396,249
<u>559,224</u>	<u>539,303</u>	<u>518,560</u>	<u>412,099</u>	<u>396,249</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 3,676,686	\$ 3,529,470	\$ 3,393,717	\$ 3,296,792	\$ 3,169,992
15.21%	15.28%	15.28%	12.50%	12.50%
\$ 15,399	\$ 14,172	\$ 13,434	\$ 12,375	\$ 11,730
<u>-</u>	<u>14,173</u>	<u>13,434</u>	<u>12,375</u>	<u>11,730</u>
<u>\$ 15,399</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 31,602	\$ 34,000	\$ 33,982	\$ 33,757	\$ 31,803
0.00%	41.69%	39.53%	36.66%	36.88%

**Pension Plans  
Required Supplementary Information  
Schedule of Investment Returns  
Annual Money-Weighted Rates of Return Net of Investment Expenses**

	<b>6/30/2016</b>	<b>6/30/2015</b>	<b>6/30/2014</b>
State Employees' Retirement Fund	0.23%	2.83%	15.62%
Teachers' Retirement Fund	0.17%	2.82%	15.67%
State Judges Retirement Fund	1.11%	2.57%	13.66%
OPEB Fund	2.44%	3.44%	11.80%

Note: This schedule is to be built prospectively until it contains ten years of data

**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>RTHP</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%
6/30/2012	\$-	\$3,048.3	\$3,048.3	0.0%	\$3,652.5	83.5%
6/30/2013 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2014	\$-	\$2,433.0	\$2,433.0	0.0%	\$3,831.6	63.5%
6/30/2015 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2016	\$-	\$2,997.5	\$2,997.5	0.0%	\$3,949.9	75.9%

Actuarial valuations for other postemployment benefit plans are required to be disclosed starting with fiscal year 2008.

<b>SEOPEBP</b>						
6/30/2011	\$49.6	\$17,954.3	\$17,904.7	0.3%	\$3,902.2	458.8%
6/30/2012 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2013	\$143.8	\$19,676.3	\$19,532.5	0.7%	\$3,539.7	551.8%
6/30/2014 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2015	\$229.6	\$19,119.6	\$18,889.9	1.2%	\$3,895.1	485.0%
6/30/2016 *	\$-	\$-	\$-	0.0%	\$-	0.0%

\*No actuarial valuation was performed.

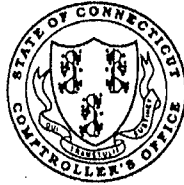
June 30, 2011 was the first year an actuarial valuation for State Employees Other Postemployment Benefit Plan was performed.

**Other Postemployment Benefit Plans  
Required Supplementary Information  
Schedule of Employer Contributions**  
(Expressed in Thousands)

<b>Fiscal Year</b>	<b><u>RTHP</u></b>		<b><u>SEOPEBP</u></b>	
	<b><u>Annual Required Contributions</u></b>	<b><u>Percentage Contributed</u></b>	<b><u>Annual Required Contributions</u></b>	<b><u>Percentage Contributed</u></b>
2008	\$116.1	21.5%	\$0.0	0%
2009	\$116.7	25.3%	\$0.0	0%
2010	\$121.3	10.0%	\$0.0	0%
2011	\$177.1	3.0%	\$0.0	0%
2012	\$184.1	26.9%	\$1,354.7	40.0%
2013	\$180.4	15.0%	\$1,271.3	42.7%
2014	\$187.2	13.9%	\$1,525.4	33.7%
2015	\$125.6	20.0%	\$1,513.0	36.1%
2016	\$130.3	15.3%	\$1,443.7	42.2%

Actuarial valuations for other postemployment benefit plans are required to be disclosed starting with fiscal year 2008. June 30, 2011 was the first year an actuarial valuation for State Employees Other Postemployment Benefit Plan was performed.

**APPENDIX II-D**



STATE OF CONNECTICUT  
OFFICE OF THE STATE COMPTROLLER  
55 ELM STREET  
HARTFORD, CONNECTICUT  
06106-1775

Kevin Lembo  
State Comptroller

Martha Carlson  
Deputy Comptroller

December 30, 2016

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, 2012-2016. 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, 2012-2016.

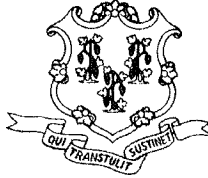
The statements have been prepared on a statutory basis of accounting for appropriated funds and on a cash basis of accounting for all other funds. These methods of accounting have been applied in accordance with the governing statutory requirements for all periods shown. In Fiscal Year 2016, statutory provisions provided appropriations of projected expenditure accrual within the budgeted funds.

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

**INDEPENDENT AUDITORS' REPORT  
CERTIFICATE OF AUDIT**

**Report on the Financial Statements**

We have audited the accompanying balance sheet of the General Fund of the State of Connecticut as of June 30, 2012, 2013, 2014, 2015 and 2016 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.

***Managements Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As discussed in Note (a) to Appendix III-D-4, the State of Connecticut prepared its financial statements for the fiscal years ended June 30, 2012 and 2013 on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note (a) to Appendix III-D-4, the State of Connecticut prepared its financial statements for the fiscal year ended June 30, 2014, 2015 and 2016, using accounting practices that follow the financial reporting provisions of Sections 3-115, 3-115b and Sections 3-114b through 3-114r of the Connecticut General Statutes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between this statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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, 2012, 2013, 2014, 2015 and 2016, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the State of Connecticut, as of June 30, 2012, 2013, 2014, 2015 and 2016.

***Opinion on Modified Cash basis of Accounting***

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, 2012 and 2013, 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.

***Opinion on Statutory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – statutory basis of the General Fund of the State of Connecticut as of June 30, 2014, 2015 and 2016, and the results of its operations – statutory basis for the years then ended, in conformity with the basis of accounting described in Note (a) to Appendix III-D-4.



John C. Geragosian  
Auditor of Public Accounts

December 30, 2016  
State Capitol  
Hartford, Connecticut



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

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Assets</b>					
Cash and Short-Term Investments	\$ --	\$ --	\$ --	\$ --	\$ --
Accrued Taxes Receivable	1,336,954	1,412,940	1,389,703	1,371,458	1,348,096
Accrued Accounts Receivable	27,839	24,116	108,907	21,852	20,348
Loans Receivable	<u>3,419</u>	<u>3,419</u>	<u>3,419</u>	<u>3,419</u>	<u>3,419</u>
Total Assets	<u>\$ 1,368,212</u>	<u>\$ 1,440,475</u>	<u>\$ 1,502,029</u>	<u>\$ 1,396,729</u>	<u>\$ 1,371,863</u>
<b>Liabilities, Reserves and Surplus</b>					
<b>Liabilities</b>					
Deficiency in Cash and Short-Term Investments	\$ 1,233,336	\$ 925,552	\$ 550,180	\$ 797,930	\$ 765,570
Accounts Payable Nonfunctional Change to Accruals	--	--	(16,152)	561,217	558,835
Due to Other Funds	<u>301</u>	<u>263</u>	<u>367</u>	<u>336</u>	<u>999</u>
Total Liabilities	<u>\$ 1,233,637</u>	<u>\$ 925,815</u>	<u>\$ 534,395</u>	<u>\$ 1,359,483</u>	<u>\$ 1,325,404</u>
<b>Reserves</b>					
Petty Cash Funds	\$ 806	\$ 804	\$ 815	\$ 810	\$ 798
Statutory Surplus Reserves	--	398,035	248,480	(31,947)	(54,316)
Reserve for GAAP Conversion Bonds	--	--	598,500	--	--
Reserve for Future Fiscal Years	--	--	30,500	--	--
Appropriations Continued to Following Year	130,351	112,402	85,920	64,964	96,559
Reserve for Receivables	<u>3,418</u>	<u>3,419</u>	<u>3,419</u>	<u>3,419</u>	<u>3,418</u>
Total Reserves	<u>\$ 134,575</u>	<u>\$ 514,660</u>	<u>\$ 967,634</u>	<u>\$ 37,246</u>	<u>\$ 46,459</u>
<b>Unappropriated Surplus (Deficit)</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Liabilities, Reserves and Surplus	<u>\$ 1,368,212</u>	<u>\$ 1,440,475</u>	<u>\$ 1,502,029</u>	<u>\$ 1,396,729</u>	<u>\$ 1,371,863</u>

(a) For Fiscal Years 2012-2013, 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. For Fiscal Years 2014-2016, the financial statements are prepared on a statutory basis using accounting practices that follow the financial reporting provisions of Sections 3-115, 3-115b and Sections 3-114b through 3-114r of the Connecticut General Statutes.

**GENERAL FUND**

**Statement of Revenues, Expenditures and Changes in Unappropriated Surplus  
Fiscal Year Ended June 30  
(In Thousands)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Unappropriated Surplus (Deficit), July 1	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Total Revenues (per Appendix II-D-6)	18,561,633	19,405,031	17,608,056	17,282,038	17,780,822
Total Expenditures (per Appendix II-D-7)	18,781,634 <sup>(a)</sup>	19,025,667 <sup>(b)</sup>	16,980,044 <sup>(c)</sup>	17,419,689 <sup>(d)(e)</sup>	17,921,258
Operating Balance	(220,001)	379,364	628,012	(137,651)	(140,436)
Reserved for Prior Year Appropriations					
Less Appropriations Carried Forward	70,634	18,671	26,482	20,956	-0-
Transferred (Out) or Reserved for:					
Budget Reserve Fund	-0-	(177,235)	(248,480)	-0-	-0-
Reserve for Debt Retirement/Avoidance or Reserve for Future Fiscal Year	-0-	(220,800)	(599,000) <sup>(d)</sup>	-0-	-0-
Other Adjustments	5,850	-0-	2,186	3,527	(29,983)
Reserved from Prior Year	-0-	-0-	190,800	-0-	-0-
Subtotal	\$ (143,517)	\$ -0-	\$ -0-	\$ (113,168)	\$ (170,419)
Transferred from Budget Reserve Fund	143,517	--	--	113,168	(170,419)
Unappropriated Surplus (Deficit), June 30	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

- (a) Total Expenditures include prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$70.634 million.
- (b) Total Expenditures include prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$18.671 million.
- (c) Total Expenditures include prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$26.482 million.
- (d) In Fiscal Year 2014 this amount includes GAAP Conversion Bonds totaling \$598.5 million.
- (e) Total Expenditures include prior year appropriations less appropriations carried forward to the next year in the amount of \$20.956 million.

**GENERAL FUND**  
**Statement of Revenues**  
**Fiscal Year Ended June 30**  
**(In Thousands)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Taxes:</b>					
Personal Income	\$ 8,310,820	\$ 8,719,245	\$ 8,718,659	\$ 9,151,037	\$ 9,181,649
Sales and Use	3,830,117	3,896,998	4,100,564	4,205,051	4,181,852
Corporations	716,522	742,515	782,239	814,805	880,449
Insurance Companies	237,609	260,858	240,666	220,629	238,843
Inheritance and Estate	191,699	439,519	168,075	176,750	221,821
Alcoholic Beverages	60,595	60,406	60,644	61,651	63,113
Cigarettes	421,005	399,822	376,835	358,703	373,518
Admissions, Dues, Cabaret	34,399	36,544	39,935	38,436	39,331
Oil Companies	146,067	175,526	35,580	0	170
Electric Generation	69,533	66,824	15,315	7	0
Public Service Corporations	250,396	266,647	293,303	276,833	289,894
Real Estate Conveyance	107,531	113,830	180,511	185,955	196,498
Miscellaneous	536,810	523,028	498,260	474,009	718,850
Refunds of Taxes	(1,105,171)	(1,144,993)	(1,182,397)	(1,163,639)	(1,223,198)
R&D Credit Exchange	(3,563)	(4,086)	(5,055)	(7,878)	(7,623)
<b>Other Revenue:</b>					
Licenses, Permits, Fees	283,414	262,068	314,721	257,444	296,502
Sales of Commodities and Services	35,007	36,298	40,523	35,813	43,454
Transfer – Special Revenue	313,757	315,452	323,219	323,315	339,961
Investment Income	964	(792)	(335)	943	909
Transfers — To Other Funds <sup>(a)</sup>	(61,800)	(61,800)	(61,800)	(61,780)	(61,688)
Fines, Escheats and Rents	123,424	144,141	130,875	168,679	141,741
Miscellaneous	191,965	163,818	206,782	185,014	179,820
Refunds of Payments	(85,377)	(74,016)	(66,625)	(64,281)	(60,336)
Federal Grants	3,607,164	3,733,910	1,243,861	1,241,243	1,301,532
Indian Gaming Payments	344,645	296,396	279,873	267,986	265,906
Statutory Transfer to Resources of the General Fund	(91,999)	(66,228)	0	0	0
Statutory Transfers From Other Funds	96,100	103,100	873,828	135,313	177,854
<b>Total Revenues<sup>(b)</sup></b>	<u>\$ 18,561,633</u>	<u>\$ 19,405,031</u>	<u>\$ 17,608,056<sup>(c)</sup></u>	<u>\$ 17,282,038</u>	<u>\$ 17,780,822</u>

(a) Transfer to Pequot/Mohegan Fund.

(b) See Operating Balance on Appendix II-D-5 for surplus or deficit for each fiscal year.

(c) Fiscal Year 2014 revenues include \$598.5 million in GAAP Conversion Bonds as a Transfer from Other Funds. Federal Grants reflect the transfer of the federal portion of Medicaid from the General Fund to the Restricted Grants Fund.

**GENERAL FUND**

**Statement of Expenditures  
Fiscal Year Ended June 30  
(In Thousands)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Legislative	\$ 67,344	\$ 66,533	\$ 70,813	\$ 73,563	\$ 74,089
General Government					
Executive	10,741	10,211	12,223	12,701	12,731
Financial Administration	521,013	506,598	513,051	563,830	530,539
Legal	<u>77,485</u>	<u>76,558</u>	<u>80,402</u>	<u>84,469</u>	<u>83,765</u>
Total General Government	<u>609,239</u>	<u>593,367</u>	<u>605,676</u>	<u>661,000</u>	<u>627,035</u>
Regulation and Protection of Persons and Property					
Public Safety	177,121	175,772	191,075	193,996	191,125
Regulative	<u>85,777</u>	<u>86,015</u>	<u>86,798</u>	<u>93,256</u>	<u>97,429</u>
Total Regulation and Protection	<u>262,898</u>	<u>261,787</u>	<u>277,873</u>	<u>287,252</u>	<u>288,554</u>
Conservation and Development					
Agriculture	11,551	11,250	12,024	12,723	12,306
Environment	71,437	66,457	71,365	71,018	67,900
Historical Sites, Commerce and Industry	<u>54,306</u>	<u>55,376</u>	<u>137,532</u>	<u>122,070</u>	<u>114,672</u>
Total Conservation and Development	<u>137,294</u>	<u>133,083</u>	<u>220,921</u>	<u>205,811</u>	<u>194,878</u>
Health and Hospitals					
Public Health	86,144	98,999	114,086	83,853	69,875
Developmental Services	1,013,182	1,005,732	1,054,597	1,097,586	1,059,216
Mental Health	<u>693,109</u>	<u>697,220</u>	<u>658,625</u>	<u>603,897</u>	<u>636,852</u>
Total Health and Hospitals	<u>1,792,435</u>	<u>1,801,951</u>	<u>1,827,308</u>	<u>1,785,336</u>	<u>1,765,943</u>
Human Services	<u>5,817,369</u>	<u>5,931,567</u>	<u>3,215,827</u>	<u>3,095,928</u>	<u>3,102,021</u>
Education, Libraries and Museums					
Department of Education	2,769,385	2,880,342	3,039,608	3,277,044	3,331,589
University of Connecticut	205,586	195,847	329,889	354,433	383,538
Higher Education and the Arts	169,084	158,271	43,580	46,103	47,113
Libraries	10,618	12,294	12,419	12,205	11,519
Teachers Retirement	794,205	805,193	966,983	1,004,973	997,604
Community—Technical Colleges	144,505	141,288	151,973	177,968	164,626
State University	<u>142,045</u>	<u>135,659</u>	<u>151,193</u>	<u>152,665</u>	<u>186,039</u>
Total Education, Libraries and Museums	<u>4,235,428</u>	<u>4,328,894</u>	<u>4,695,645</u>	<u>5,025,391</u>	<u>5,122,028</u>
Corrections	<u>1,472,685</u>	<u>1,408,761</u>	<u>1,454,442</u>	<u>1,476,753</u>	<u>1,463,065</u>
Judicial	<u>545,650</u>	<u>534,512</u>	<u>569,056</u>	<u>593,314</u>	<u>597,584</u>
Non-Functional					
Debt Service	1,809,201	1,799,937	1,646,149	1,691,526	1,967,729
Miscellaneous	<u>2,032,091</u>	<u>2,165,275</u>	<u>2,396,332</u>	<u>2,523,815</u>	<u>2,718,331</u>
Total Non-Functional	<u>3,841,292</u>	<u>3,965,212</u>	<u>4,042,481</u>	<u>4,215,341</u>	<u>4,686,060</u>
Totals	<u>18,781,634</u>	<u>19,025,667</u>	<u>16,980,042</u>	<u>17,419,689</u>	<u>17,921,257</u>
<b>Total Expenditures<sup>(a)</sup></b>	<u>\$18,781,634</u>	<u>\$19,025,667</u>	<u>\$16,980,042</u>	<u>\$17,419,689</u>	<u>\$17,921,257</u>

(a) See Operating Balance on **Appendix II-D-5** for surplus or deficit for each fiscal year.

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APPENDIX II-E

GENERAL FUND REVENUES AND EXPENDITURES  
 ADOPTED BUDGET AND FINAL FINANCIAL RESULTS FOR FISCAL YEAR 2016  
 ADOPTED AND ESTIMATED BUDGET FOR FISCAL YEAR 2017  
 PROPOSED BIENNIAL BUDGET FOR FISCAL YEARS 2018 AND 2019  
 (In Millions)

	Adopted Budget Fiscal Year 2016 <sup>(c)</sup>	Financial Results Fiscal Year 2016 <sup>(e)</sup>	Revised Adopted Budget Fiscal Year 2017 <sup>(f)</sup>	Estimated Budget Fiscal Year 2017 <sup>(e)</sup>	Governor's Proposed Budget Fiscal Year 2018 <sup>(h)</sup>	Governor's Proposed Budget Fiscal Year 2019 <sup>(h)</sup>
<b>Revenues</b>						
<u>Taxes</u>						
Personal Income Tax	\$9,834.4	\$ 9,181.6	\$ 9,519.0	\$ 9,437.5	\$ 9,859.2	\$10,182.3
Sales & Use	4,121.1	4,181.9	4,328.7	4,249.4	4,253.2	4,368.4
Corporation	902.2	880.4	839.3	919.3	885.0	907.3
Public Service	308.0	289.9	283.9	283.9	292.3	301.2
Inheritance & Estate	173.4	221.8	174.6	174.6	180.1	166.0
Insurance Companies	243.8	238.8	245.4	245.4	237.4	228.1
Cigarettes	361.2	373.5	371.1	371.1	413.9	389.7
Real Estate Conveyance	194.7	196.5	201.8	206.8	213.5	220.2
Oil Companies <sup>(a)</sup>	--	0.2	--	--	--	--
Alcoholic Beverages	61.7	63.1	62.2	62.2	64.5	65.5
Admissions and Dues	38.3	39.3	39.0	39.0	39.5	39.8
Health Provider Tax	676.9	701.7	683.4	701.5	700.1	699.2
Miscellaneous	20.8	17.0	20.1	20.1	25.5	21.0
Total Taxes	\$16,936.5	\$16,386.0	\$16,768.5	\$16,710.8	\$17,164.2	\$17,588.7
Less Refunds of Taxes	(1,090.4)	(1,120.2)	(1,106.5)	(1,106.5)	(1,146.8)	(1,201.0)
Less Earned Income Tax	(127.4)	(103.0)	(133.6)	(133.6)	(125.0)	(129.6)
Less R&D Credit Exchange	(7.1)	(7.6)	(8.5)	(8.5)	(8.8)	(9.2)
Net Taxes	\$15,711.6	\$15,155.2	\$15,519.9	\$15,462.2	\$15,883.6	\$16,248.9
<u>Other Revenues</u>						
Transfers- Special Revenues	\$ 343.4	\$ 340.0	\$ 355.5	\$ 345.5	\$ 363.6	\$ 370.9
Indian Gaming Payments	258.8	265.9	267.0	267.0	267.3	199.0
Licenses, Permits, Fees	308.5	296.5	269.2	269.2	317.0	316.4
Sales of Commodities & Services	38.0	43.5	42.6	42.6	43.8	44.9
Rents, Fines & Escheats	126.0	141.7	128.0	128.0	130.4	144.4
Investment Income	2.5	0.9	3.8	3.8	5.9	7.0
Miscellaneous	171.3	179.8	219.0	330.5	590.6	607.6
Less Refunds of Payments	(74.2)	(60.3)	(66.1)	(66.1)	(67.5)	(68.9)
Total Other Revenue	\$ 1,174.3	\$ 1,208.0	\$ 1,219.0	\$ 1,320.5	\$ 1,651.1	\$ 1,621.3
<u>Other Sources</u>						
Federal Grants	\$ 1,265.2	\$ 1,301.5	\$ 1,257.6	\$ 1,224.6	\$ 1,234.9	\$ 1,242.6
Transfers from Tobacco Settlement Funds	106.6	110.6	108.5	108.5	93.7	95.2
Transfers to Other Funds <sup>(a)</sup>	(95.4)	5.6	(218.3)	(218.3)	(860.4)	(882.6)
GAAP Conversion Bond proceeds	--	--	--	--	--	--
Total Other Sources	\$ 1,276.5	\$ 1,417.7	\$ 1,147.8	\$ 1,114.8	\$ 468.2	\$ 455.2
Total Budgeted Revenue <sup>(b)</sup>	\$18,162.4	\$17,780.8	\$17,886.7	\$17,897.5	\$18,002.9	\$18,325.4

	Adopted Budget Fiscal Year 2016 <sup>(c)</sup>	Financial Results Fiscal Year 2016 <sup>(e)</sup>	Revised Adopted Budget Fiscal Year 2017 <sup>(d)</sup>	Estimated Budget Fiscal Year 2017 <sup>(e)</sup>	Governor's Proposed Budget Fiscal Year 2018 <sup>(h)</sup>	Governor's Proposed Budget Fiscal Year 2019 <sup>(h)</sup>
<b>Appropriations/ Expenditures</b>						
Legislative	\$ 83.9	\$ 73.3	\$ 74.1	\$ 62.6	\$ 68.4	\$ 68.9
General Government	670.0	623.5	602.2	587.2	525.3	525.4
Regulation & Protection	301.0	288.0	278.8	270.7	280.4	282.5
Conservation & Development	211.3	192.4	194.8	184.9	194.1	198.3
Health & Hospitals	1,817.4	1,765.8	1,217.0	1,194.6	1,175.6	1,178.8
Human Services	3,196.2	3,133.0	3,708.8	3,702.9	3,980.6	4,083.5
Education, Libraries & Museums	5,166.4	5,116.5	5,067.8	5,038.7	4,832.2	4,866.8
Corrections	1,514.8	1,462.8	1,417.9	1,410.1	1,407.4	1,409.7
Judicial	625.4	597.2	593.9	550.3	557.6	557.6
Non- Functional						
Debt Service	1,937.6 <sup>(d)</sup>	1,967.7 <sup>(d)</sup>	2,063.1 <sup>(d)</sup>	2,073.1 <sup>(d)</sup>	2,316.3 <sup>(d)</sup>	2,251.1
Miscellaneous	2,838.1	2,732.6	2,857.4	2,823.4	3,406.3	3,809.6
Subtotal	\$18,362.1	\$17,952.9	\$ 18,075.8	\$17,898.5	\$18,744.3	\$19,232.0
Other Reductions and Lapses	(200.6)	--	(189.3)	(24.3)	(743.5)	(911.1)
Net Appropriations/ Expenditures	\$18,161.6	\$17,952.9	\$ 17,886.4	\$17,874.2	\$18,000.8	\$18,320.9
Surplus (or Deficit) from Operations	0.8	(172.0)	0.2	--	2.1	4.5
Miscellaneous Adjustments	--	1.6	--	--	--	--
<b>Balance<sup>(e)</sup></b>	\$ 0.8	\$ (170.4)	\$ 0.2	\$ 23.3	\$ 2.1	\$ 4.5

**NOTE: Columns may not add due to rounding.**

- (a) Includes transfers to the Mashantucket Pequot Fund for grants to towns. The amount for Fiscal Year 2016 includes a transfer of \$61.8 million to the Mashantucket Pequot Fund for grants to towns. In Fiscal Year 2017 this amount was reduced to \$58.1 million.
- (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.
- (c) Per Public Act No. 14-47, Public Act No. 14-217 and Public Act No. 15-244.
- (d) Sections 90 and 91 of Public Act No. 13-184 extend the maturity of the 2009 Economic Recovery Notes from Fiscal Year 2016 to Fiscal Year 2018.
- (e) Per the Comptroller's audited financial results for Fiscal Year 2016 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.
- (f) Per Public Act No. 15-244, as amended by various implementer legislation and as amended by Public Act No. 15-05 of the June Special Session, Public Act No. 16-2 of the May Special Session and Public Act No. 16-3 of the May Special Session.
- (g) Per Public Act No. 16-2 (May Special Session) and Public Act No. 16-2 (May Special Session) estimates reflect the January 20, 2017 Office of Policy and Management's letter to the State Comptroller as of the period ending December 31, 2016.
- (h) Per the Governor's Budget Proposal for the Fiscal Year 2018-2019 biennium as presented on February 8, 2017.

NOTE: The information in **Appendix II-E** of this **Information Statement** 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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