

**NEW ISSUE**



**\$400,000,000**  
**State of Connecticut**  
**General Obligation Bonds**

**\$353,000,000 General Obligation Bonds (2014 Series A)**  
**\$ 47,000,000 General Obligation Bonds (2014 Series B) – SIFMA Index Bonds**

**RATINGS:**

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

Dated: **Date of Delivery**

Due: As shown on inside front cover

The \$400,000,000 State of Connecticut General Obligation Bonds consist of \$353,000,000 General Obligation Bonds (2014 Series A) (the "Series A Bonds") and \$47,000,000 General Obligation Bonds (2014 Series B) – SIFMA Index Bonds (the "Series B Bonds", and together with the Series A Bonds, the "Bonds").

The Bonds will be general obligations of the State of Connecticut (the "State") and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. See **THE BONDS - Nature of Connecticut's General Obligation** herein. Interest on the Series A Bonds will be payable on September 1, 2014 and semiannually thereafter on March 1 and September 1 in each year until maturity or earlier redemption, as applicable. Interest on the Series A Bonds will be calculated on the basis of a 360-day year of twelve 30-day months at the annual rates set forth on the inside front cover. Interest on the Series B Bonds will be payable on the first Business Day of each month, commencing May 1, 2014, until maturity (and upon maturity), calculated on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, at the Adjusted SIFMA Rate described on the inside front cover and **Pages I-1 and I-2**. **The Series A Bonds are subject to optional redemption prior to maturity as more fully described herein. The Series B Bonds are not subject to redemption prior to maturity.**

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

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

*In the opinion of Bond Counsel and Tax Counsel, rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and with respect to the 501(c)(3) Bonds (as defined herein), rendered in reliance upon certain additional opinions, representations and covenants as further described in **TAX EXEMPTION OF THE BONDS** herein, under existing law, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in computing the federal alternative minimum tax, as described under **TAX EXEMPTION OF THE BONDS** herein.*

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

The Bonds are offered when, as and if issued and received by the Underwriters, subject to approval as to legality by Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel. Certain legal matters will be passed upon for the State by its Tax Counsel. Certain legal matters will be passed upon for the Underwriters by Underwriters' Counsel. The Bonds are expected to be available for delivery through the facilities of DTC in New York, New York, on or about March 26, 2014.

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**Treasurer of the State of Connecticut**

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**BofA Merrill Lynch**

**Citigroup**

**Janney Montgomery Scott**

**TD Securities**

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

**Baird**

**Barclays**

**Edwards Jones**

**Jefferies**

**J.P. Morgan**

**KeyBanc Capital Markets Inc.**

**Lebenthal & Co., LLC**

**Loop Capital Markets LLC**

**Morgan Stanley**

**Prager & Co., LLC**

**Piper Jaffray & Co.**

**Rice Financial Products Company**

**Roosevelt & Cross, Inc.**

**Sterne, Agee & Leach, Inc.**

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

**William Blair & Company**

Dated: **March 14, 2014**

**State of Connecticut**  
**\$353,000,000 General Obligation Bonds (2014 Series A)**

<u>Maturity</u> <u>March 1,</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u> <sup>1</sup>
2015	\$20,000,000	1.50%	0.12%	101.283%	20772JRU8
2016	20,000,000	1.50	0.30	102.308	20772JRV6
2017	5,000,000	3.00	0.60	106.961	20772JRW4
2017	4,000,000	4.00	0.60	109.861	20772JSQ6
2018	7,500,000	2.00	0.95	104.041	20772JRX2
2018	12,500,000	4.00	0.95	111.739	20772JSR4
2019	6,000,000	4.00	1.30	112.853	20772JRY0
2020	2,000,000	3.00	1.74	107.069	20772JRZ7
2020	6,000,000	4.00	1.74	112.681	20772JSS2
2021	20,000,000	4.00	2.14	111.920	20772JSA1
2022	12,500,000	2.50	2.47	100.213	20772JSB9
2022	7,500,000	4.00	2.47	110.956	20772JST0
2023	5,000,000	3.00	2.69	102.445	20772JSC7
2023	5,000,000	4.00	2.69	110.336	20772JSU7
2024	7,500,000	4.00	2.85	109.883	20772JSD5
2024	12,500,000	5.00	2.85	118.479	20772JSW3
2025*	20,000,000	5.00	3.00	117.063	20772JSE3
2026*	20,000,000	5.00	3.12	115.946	20772JSF0
2027*	20,000,000	5.00	3.24	114.840	20772JSG8
2028*	20,000,000	5.00	3.34	113.929	20772JSH6
2029*	20,000,000	5.00	3.45	112.936	20772JSJ2
2030*	20,000,000	5.00	3.55	112.043	20772JSK9
2031*	20,000,000	5.00	3.65	111.158	20772JSL7
2032*	12,500,000	4.00	3.96	100.323	20772JSP8
2032*	7,500,000	5.00	3.71	110.631	20772JSV5
2033	20,000,000	4.00	4.04	99.471	20772JSM5
2034	20,000,000	4.00	4.08	98.913	20772JSN3

(plus accrued interest, if any)

\*Priced at the stated yield to the March 1, 2024 optional redemption date at a redemption price of 100%; however, any such redemption is at the optional election of the Treasurer. See **THE BONDS – Optional Redemption** herein.

**State of Connecticut**  
**\$47,000,000 General Obligation Bonds (2014 Series B) – SIFMA Index Bonds**

<u>Maturity</u> <u>March 1,</u>	<u>Amount</u>	<u>Interest Rate</u> <u>(variable)</u>	<u>Price</u>	<u>CUSIP</u> <sup>1</sup>
2017	\$11,000,000	SIFMA Rate plus 0.31% (31 basis points)	100%	20772JSX1
2019	14,000,000	SIFMA Rate plus 0.49% (49 basis points)	100	20772JSY9
2020	12,000,000	SIFMA Rate plus 0.63% (63 basis points)	100	20772JSZ6
2023	10,000,000	SIFMA Rate plus 1.05% (105 basis points)	100	20772JTA0

(plus accrued interest, if any)

See **THE BONDS – Description of the Bonds** herein for a description of the SIFMA Rate, the Adjusted SIFMA Rate and the determination thereof.

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

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

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

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## SUMMARY

*This Summary does not constitute a part of the Official Statement for the issuance and sale by the State of Connecticut of its \$400,000,000 General Obligation Bonds consisting of \$353,000,000 General Obligation Bonds (2014 Series A) (the "Series A Bonds") and \$47,000,000 General Obligation Bonds (2014 Series B) – SIFMA Index Bonds (the "Series B Bonds", and together with the Series A Bonds, being herein called the "Bonds"). This Summary is for informational purposes only and is subject in all respects to a more complete discussion contained in the Official Statement*

Security	The Bonds will be general obligation bonds of the State of Connecticut, and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due.
Tax Exemption	<p>In the opinion of Bond Counsel and Tax Counsel, rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and with respect to the 501(c)(3) Bonds (as defined herein), rendered in reliance upon certain additional opinions, representations and covenants as further described in <b>TAX EXEMPTION OF THE BONDS</b> herein, under existing law, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in computing the federal alternative minimum tax, as described under <b>TAX EXEMPTION OF THE BONDS</b> herein.</p> <p>In the opinion of Bond Counsel and Tax Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax. See <b>TAX EXEMPTION OF THE BONDS</b> herein.</p>
Interest Payment Dates	Interest on the Series A Bonds will be payable on September 1, 2014 and semiannually thereafter on March 1 and September 1 in each year until maturity or earlier redemption, as applicable. Interest is calculated on the basis of a 360-day year of twelve 30-day months at the annual rates set forth on the inside front cover. Interest on the Series B Bonds will be payable on the first Business Day of each month, commencing May 1, 2014, until maturity (and upon maturity), and is calculated on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, at the Adjusted SIFMA Rate described on the inside front cover and <b>Pages I-1 and I-2</b> .
Principal Payment Dates	Principal of the Bonds is payable on March 1 in the years and in the amounts shown on the inside front cover.
Denominations	The Bonds will be issued only in registered book-entry form, without coupons, in denominations of \$5,000 or any integral multiple thereof.
Redemption	The Series A Bonds are subject to optional redemption prior to maturity at the election of the Treasurer as specified in the final Official Statement. The Series B Bonds are not subject to redemption prior to maturity. See <b>THE BONDS – Optional Redemption</b> herein.
Delivery and Clearance	The Bonds are expected to be available for delivery through the facilities of DTC in New York, New York, on or about March 26, 2014.
Paying Agent and Calculation Agent	U.S. Bank National Association, 225 Asylum Street, Hartford, Connecticut 06103, is the State's Paying Agent and Calculation Agent.
Legal Counsel	Day Pitney LLP of Hartford, Connecticut is Lead Bond Counsel; Lewis & Munday, A Professional Corporation of New York New York; Pullman & Comley, LLC of Bridgeport, Connecticut, Robinson & Cole LLP of Hartford, Connecticut, and Squire Sanders (US) LLP of New York, New York, are Bond Counsel with respect to certain series of the Bonds. Updike, Kelly & Spellacy, P.C. of Hartford, Connecticut and Hinckley, Allen & Snyder LLP of Hartford, Connecticut, are Co-Underwriters' Counsel with respect to the Bonds. Day Pitney LLP is Lead Disclosure Counsel and Finn Dixon & Herling LLP of Stamford, Connecticut and Soeder & Associates LLC of Hartford, Connecticut, are Co-Disclosure Counsel. Robinson & Cole LLP is Lead Tax Counsel and Finn Dixon & Herling LLP and Soeder & Associates LLC are Co-Tax Counsel.
Additional Information	Additional information may be obtained upon request to the Office of the State Treasurer, Attn: Sarah K. Sanders, Assistant Treasurer for Debt Management, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3288.

**OFFICIAL STATEMENT**  
**\$400,000,000**  
**STATE OF CONNECTICUT**  
**GENERAL OBLIGATION BONDS**

**\$353,000,000 General Obligation Bonds (2014 Series A)**  
**\$47,000,000 General Obligation Bonds (2014 Series B) – SIFMA Index Bonds**

**INTRODUCTION**

This Official Statement, including the cover and inside cover pages, this Introduction, Part I, Part II and Part III and the Appendices thereto, of the State of Connecticut (the “State”) is provided for the purpose of presenting certain information relating to the State in connection with the sale of \$353,000,000 aggregate principal amount of its General Obligation Bonds (2014 Series A) (the “Series A Bonds”) and \$47,000,000 aggregate principal amount of its General Obligation Bonds (2014 Series B) – SIFMA Index Bonds (the “Series B Bonds”, and together with the Series A Bonds, the “Bonds”).

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

**PART I**  
**INFORMATION CONCERNING THE BONDS**

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**PART I**

**INFORMATION CONCERNING THE BONDS**

**\$400,000,000**

**STATE OF CONNECTICUT**

**GENERAL OBLIGATION BONDS**

**\$353,000,000 General Obligation Bonds (2014 Series A)**

**\$47,000,000 General Obligation Bonds (2014 Series B) – SIFMA Index Bonds**

**THE BONDS**

**Description of the Bonds**

The State of Connecticut (the “State”) is issuing \$353,000,000 General Obligation Bonds (2014 Series A) (the “Series A Bonds”) comprised of the following issues:

- \$240,000,000 General Obligation Bonds (2014 Series A-1)
- \$ 18,000,000 General Obligation Bonds (2014 Series A-2)
- \$ 20,000,000 General Obligation Bonds (2014 Series A-3)
- \$ 75,000,000 General Obligation Bonds (2014 Series A-4)

and \$47,000,000 General Obligation Bonds (2014 Series B) – SIFMA Index Bonds (the “Series B Bonds”) comprised of the following issues:

- \$ 10,000,000 General Obligation Bonds (2014 Series B-1) – SIFMA Index Bonds
- \$ 4,160,000 General Obligation Bonds (2014 Series B-2) – SIFMA Index Bonds
- \$ 7,840,000 General Obligation Bonds (2014 Series B-3) – SIFMA Index Bonds
- \$ 25,000,000 General Obligation Bonds (2014 Series B-4) – SIFMA Index Bonds

The Series A Bonds will be dated the date of delivery, and will bear interest from their date payable on September 1, 2014 and semiannually thereafter on March 1 and September 1 in each year, until maturity or earlier redemption, as applicable, at the rate or rates indicated on the inside front cover page of this Official Statement.

The Series B Bonds will be dated the date of delivery, and will bear interest from their date payable on the first Business Day of each month, commencing May 1, 2014, until maturity (and upon maturity) at the rates per annum described below. (Capitalized terms relating to the Series B Bonds are defined below.)

The Series B Bonds will bear interest at the Adjusted SIFMA Rate, which is the sum of the SIFMA Rate in effect from time to time, plus or minus, as applicable, for each maturity of the Series B Bonds, the additional rate amount, as shown in the following table (the “Adjusted SIFMA Rate”):

<u>Maturity</u>	<u>Interest Rate</u>
<u>March 1,</u>	<u>(variable)</u>
2017	SIFMA Rate plus 0.31% (31 basis points)
2019	SIFMA Rate plus 0.49% (49 basis points)
2020	SIFMA Rate plus 0.63% (63 basis points)
2023	SIFMA Rate plus 1.05% (105 basis points)

“SIFMA Rate” means for any day the level of the most recently effective index rate which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association (“SIFMA”) and is issued on Wednesday of each week, or if any Wednesday is not a U.S. Government Securities Business Day (defined below), the next succeeding U.S. Government Securities Business Day. If such index is no longer published or otherwise not available, the SIFMA Rate for any day will mean the level of the “S&P Weekly High Grade Index” (formerly the “J.J. Kenny Index”) maintained by Standard & Poor’s Securities Evaluations, Inc. for a 7-day maturity as published on the Adjustment Date (defined below) or most recently published prior to the Adjustment Date. If at any time neither such index is available, the Calculation Agent (defined below) shall use instead an index that the Calculation Agent, after consultation with the original underwriters of the Series B Bonds or their successors, determines most closely approximates the SIFMA index.

“Adjustment Date” shall be Wednesday of each week, or if such day is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day.

“Business Day” means any day other than (1) a Saturday or a Sunday, (2) a day on which banking institutions in the city in which the corporate trust office of the Paying Agent is located or banking institutions in New York, New York, are authorized or required by law to be closed, or (3) a day on which the New York Stock Exchange is closed.

“Calculation Agent” means the entity appointed by the State from time to time to perform the duties described herein relating to the calculation of the interest rates on the Series B Bonds. The Paying Agent is acting as the initial Calculation Agent for the Series B Bonds.

“U.S. Government Securities Business Day” means any day other than (1) a Saturday or a Sunday, (2) any day on which SIFMA recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities, or (3) a day on which the Calculation Agent is required or permitted by law to close.

The Adjusted SIFMA Rate will be determined by the Calculation Agent; provided, however, the Adjusted SIFMA Rate for the Series B Bonds shall not exceed 10% per annum. The Adjusted SIFMA Rate shall adjust on each Adjustment Date, based upon the SIFMA Rate published for such week, with the effective date for each adjustment of the Adjusted SIFMA Rate to be each Thursday. Upon determining the Adjusted SIFMA Rate for a given week, the Calculation Agent shall notify the State of such determination, which notice, if provided by telephone, shall be promptly confirmed in writing. Such notice shall be provided by not later than 3:00 P.M. Hartford time on the Adjustment Date. Interest on the Series B Bonds will be computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be, and will be payable to the registered owner as of the close of business on the fifteenth day of the month preceding such interest payment date, or the preceding Business Day if such fifteenth day is not a Business Day.

The determination of the Adjusted SIFMA Rate (absent manifest error) shall be conclusive and binding upon the State, the registered owners and the Beneficial Owners of the Series B Bonds. If for any reason the Adjusted SIFMA Rate shall not be established, the Series B Bonds shall bear interest at the Adjusted SIFMA Rate last in effect until such time as a new Adjusted SIFMA Rate shall be established pursuant to the terms of the Series B Bonds.

Interest on the Series A Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable to the registered owner as of the close of business on the fifteenth day of February and August in each year, or the preceding business day if such fifteenth day is not a business day. The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of \$5,000 or any integral multiple thereof.

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

The Bonds will be general obligation bonds of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. The Bonds will be



issued pursuant to the State general obligation bond procedure act (Section 3-20 of the General Statutes of Connecticut, as amended), resolutions adopted by the State Bond Commission, and other proceedings related thereto, including a Certificate of Determination of the Treasurer. See **THE BONDS - Nature of Connecticut’s General Obligation** herein.

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

The Series A Bonds are being issued for various projects and purposes and are authorized by the bond acts listed in **Appendix I-A**. Series A Bonds of each series will mature on March 1 in the years and in the principal amounts set forth in the following table:

**\$353,000,000 Series A Bonds**

<u>Maturity</u>	<u>Series</u>				<u>Total</u>
<u>March 1,</u>	<u>2014 A-1</u>	<u>2014 A-2</u>	<u>2014 A-3</u>	<u>2014 A-4</u>	<u>2014 Series A</u>
2015				\$20,000,000	\$20,000,000
2016				20,000,000	20,000,000
2017				5,000,000	5,000,000
2017				4,000,000	4,000,000
2018				7,500,000	7,500,000
2018				12,500,000	12,500,000
2019				6,000,000	6,000,000
2020			\$2,000,000		2,000,000
2020			6,000,000		6,000,000
2021		\$8,000,000	12,000,000		20,000,000
2022	\$2,500,000	10,000,000			12,500,000
2022	7,500,000				7,500,000
2023	5,000,000				5,000,000
2023	5,000,000				5,000,000
2024	7,500,000				7,500,000
2024	12,500,000				12,500,000
2025	20,000,000				20,000,000
2026	20,000,000				20,000,000
2027	20,000,000				20,000,000
2028	20,000,000				20,000,000
2029	20,000,000				20,000,000
2030	20,000,000				20,000,000
2031	20,000,000				20,000,000
2032	12,500,000				12,500,000
2032	7,500,000				7,500,000
2033	20,000,000				20,000,000
2034	20,000,000				20,000,000
<b>TOTAL</b>	<b>\$240,000,000</b>	<b>\$18,000,000</b>	<b>\$20,000,000</b>	<b>\$75,000,000</b>	<b>\$353,000,000</b>

The Series B Bonds are being issued for various projects and purposes and are authorized by the bond acts listed in **Appendix I-A**. Series B Bonds of each series will mature on March 1 in the years and in the principal amounts set forth in the following table:

**\$47,000,000 Series B Bonds**

<u>Maturity</u>	<u>Series</u>				<u>Total</u>
<u>March 1,</u>	<u>2014 B-1</u>	<u>2014 B-2</u>	<u>2014 B-3</u>	<u>2014 B-4</u>	<u>2014 Series B</u>
2017				\$11,000,000	11,000,000
2019				14,000,000	14,000,000
2020		\$4,160,000	\$7,840,000		12,000,000
2023	\$10,000,000				10,000,000
<b>TOTAL</b>	<b>\$10,000,000</b>	<b>\$4,160,000</b>	<b>\$7,840,000</b>	<b>\$25,000,000</b>	<b>\$47,000,000</b>

The proceeds of the 2014 Series A-4 Bonds and the 2014 Series B-4 Bonds (collectively, the “501(c)(3) Bonds”) are being loaned to The Jackson Laboratory, a Maine nonprofit corporation described in Section 501(c)(3) of the Code (“Jackson Labs”), through Connecticut Innovations, Incorporated (“CII”), a quasi-public agency of the State under Section 1-120(i) of the Connecticut General Statutes, to finance the design, construction and equipping of a research laboratory to be operated by Jackson Labs and located on the campus of The University of Connecticut Health Center in Farmington, Connecticut. Neither Jackson Labs nor CII is obligated to pay debt service or to make any other payments with respect to the 501(c)(3) Bonds.

**Optional Redemption**

The Series A Bonds maturing after March 1, 2024 will be subject to redemption, at the election of the Treasurer, on or after March 1, 2024 at any time, in whole or in part prior to maturity. The redeemed Series A Bonds may be in such amounts and in such order of maturity and in such Series and bear such interest rate or rates (but by lot among bonds bearing the same interest rate within a maturity of a Series) as the Treasurer may determine. The redemption price (expressed as percentages of the principal amounts of bonds to be redeemed) is set forth in the following table, to which will be added interest accrued and unpaid to the redemption date:

<u>Redemption Date</u>	<u>Redemption Price</u>
From March 1, 2024 and thereafter	100%

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

The Series B Bonds are **not** subject to redemption prior to maturity.

**Nature of Connecticut’s General Obligation**

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

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

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

In the opinion of Bond Counsel, the above provisions impose a clear legal duty on the Treasurer to pay principal of and interest on the Bonds when due and, in the event of failure by the State to make such payment when due, a bondowner may sue the Treasurer to compel such payment from any monies available. Chapter 9 of Title 11 of the United States Code does not apply to the State of Connecticut or any other U.S. state.

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

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

### **Book-Entry-Only System**

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

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

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

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

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

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

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

**Sources and Uses of Bond Proceeds**

Proceeds of the Bonds are to be applied as follows:

Sources:	<u>Series A</u>	<u>Series B</u>
Par Amount of Bonds.....	\$353,000,000.00	\$47,000,000.00
Net Original Issue Premium.....	31,924,535.00	0.00
Other Funds Available to State .....	0.00	730,609.25 <sup>1</sup>
Total Sources .....	<u>\$384,924,535.00</u>	<u>\$47,730,609.25</u>
 Uses:		
Project Fund Deposit.....	\$353,000,000.00	\$47,000,000.00
Other Monies Available to State <sup>2</sup> .....	29,641,057.12	440,447.17
Costs of Issuance.....	706,000.00	94,000.00
Underwriters' Fee or Discount.....	1,577,477.88	196,162.08
Total Uses .....	<u>\$384,924,535.00</u>	<u>\$47,730,609.25</u>

<sup>1</sup> Funds derived from original issue premium on the Series A Bonds.

<sup>2</sup> Includes capitalized interest on the Bonds, funds to be used to pay other interest payments due in fiscal years 2014 and 2015 and payment of costs of issuance and underwriters' fee for the Series B Bonds.

**LEGALITY FOR INVESTMENT**

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

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

**RATINGS**

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

**TAX EXEMPTION OF THE BONDS**

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

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

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

The proceeds of the 501(c)(3) Bonds are being loaned to Jackson Labs through CII pursuant to the Connecticut Bioscience Collaboration Program. The State has elected to treat the 501(c)(3) Bonds as a separate issue from the other Series A Bonds and Series B Bonds for all permitted federal income tax purposes as provided in the Code and related regulations. As to the 501(c)(3) Bonds, Bond Counsel's and Tax Counsel's opinions will additionally rely upon an opinion of counsel to Jackson Labs and a separate tax certificate by and among the State, Jackson Labs and CII containing additional representations and covenants relating to certain requirements of the Code, including among other matters, Jackson Labs' continued status as an organization described in Section 501(c)(3) of the Code and not a "private foundation" as described in Section 509(a) of the Code, and that the proceeds of the 501(c)(3) Bonds will be used in furtherance of the "exempt purposes" of Jackson Labs. Failure to comply with certain of those covenants may cause interest on the 501(c)(3) Bonds to be included in gross income for federal income tax purposes retroactively to the date of their issuance irrespective of the date on which such noncompliance occurs.

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

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

### **Original Issue Discount**

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

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

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

### **Original Issue Premium**

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

### **Other Federal Tax Matters**

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

### **State Taxes**

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

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

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

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

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

### **General**

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

Federal, state or local legislation, administrative pronouncements or court decisions may affect the tax-exempt status of interest on the Bonds, gain from the sale or other disposition of the Bonds, the market value of the Bonds, or the marketability of the Bonds, or otherwise prevent the owners of the Bonds from realizing the full current benefit of the exclusion from gross income of the interest thereon. For example, federal legislative proposals have been made recently and in recent years that would, among other things, limit the exclusion from gross income of interest on obligations such as the Bonds for higher-income taxpayers. If enacted into law, such proposals could affect the tax exemption of interest on the Bonds or the market price for, or marketability of, the Bonds. No assurance can be given with respect to the impact of future legislation on the Bonds. Prospective purchasers of the Bonds should consult their own tax and financial advisors regarding such matters.

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

### **CONTINUING DISCLOSURE AGREEMENT**

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

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

### **DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS**

#### **State Treasurer’s Certificate**

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

#### **Absence of Litigation**

Upon delivery of the Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no controversy or litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the



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

### **Approving Opinions of Bond Counsel and Opinions of Disclosure Counsel, Tax Counsel and Underwriters' Counsel**

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

- (a) Lewis & Munday, A Professional Corporation with respect to the \$240,000,000 General Obligation Bonds (2014 Series A-1);
- (b) Pullman & Comley, LLC with respect to the \$18,000,000 General Obligation Bonds (2014 Series A-2);
- (c) Robinson & Cole LLP with respect to the \$20,000,000 General Obligation Bonds (2014 Series A-3); and
- (d) Squire Sanders (US) LLP with respect to the \$75,000,000 General Obligation Bonds (2014 Series A-4).

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

- (a) Lewis & Munday, A Professional Corporation with respect to the \$10,000,000 General Obligation Bonds (2014 Series B-1) – SIFMA Index Bonds;
- (b) Pullman & Comley, LLC with respect to the \$4,160,000 General Obligation Bonds (2014 Series B-2) – SIFMA Index Bonds;
- (c) Robinson & Cole LLP with respect to the \$7,840,000 General Obligation Bonds (2014 Series B-3) – SIFMA Index Bonds; and
- (d) Squire Sanders (US) LLP with respect to the \$25,000,000 General Obligation Bonds (2014 Series B-4) – SIFMA Index Bonds.

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

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

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

Certain legal matters will be passed upon for the Underwriters by their co-counsel, Updike, Kelly & Spellacy, P.C. of Hartford, Connecticut and Hinckley, Allen & Snyder LLP of Hartford, Connecticut. Updike, Kelly & Spellacy, P.C. serves as bond counsel to the State in connection with other State bond issues and various other matters.

## **FINANCIAL ADVISOR**

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

## **UNDERWRITING**

The aggregate initial offering price of the Series A Bonds to the public is \$384,924,535.00 plus accrued interest, if any. The Underwriters have jointly and severally agreed, subject to certain conditions precedent to closing, to purchase the Series A Bonds from the State at an aggregate purchase price of \$383,347,057.12, representing an underwriters' discount of \$1,577,477.88.

The aggregate initial offering price of the Series B Bonds to the public is \$47,000,000.00 plus accrued interest, if any. The Underwriters have jointly and severally agreed, subject to certain conditions precedent to closing, to purchase the Series B Bonds from the State at an aggregate purchase price of \$47,000,000.00. In lieu of an underwriters' discount, the State will pay the Underwriters a fee of \$196,162.08.

The Underwriters will be obligated to purchase all of the Bonds, if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the Bonds into investment trusts) at prices lower than such initial public offering prices, and such initial public offering prices may be changed, from time to time, by the Underwriters.

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**ADDITIONAL INFORMATION**

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

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

**STATE OF CONNECTICUT**

Dated at Hartford, Connecticut  
this 14<sup>th</sup> day of March, 2014

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

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**TABLE OF STATUTORY AUTHORIZATIONS SERIES A BONDS**

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

- A.     \$   240,000,000.00     General Obligation Bonds (2014 Series A-1)
  - 1.       \$   240,000,000.00     School Construction Bonds (Series RRRR) authorized by Chapter 173 of the General Statutes of the State of Connecticut, as amended.
  
- B.     \$    18,000,000.00     General Obligation Bonds (2014 Series A-2)
  - 1.       \$    18,000,000.00     Economic Development and Manufacturing Assistance Bonds (1990 Act, Section 33, Series LL) authorized by Section 33 of Public Act No. 90-270 of the General Assembly of the State of Connecticut, as amended.
  
- C.     \$    20,000,000.00     General Obligation Bonds (2014 Series A-3)
  - 1.       \$    20,000,000.00     General State Purposes Bonds (2011 Act, Sections 21(a) through 21(j) and 21(m) through 21(n), Series C) authorized by Sections 21(a) through 21(j) and 21(m) through 21(n) of Public Act No. 11-57 of the General Assembly of the State of Connecticut, June 2011 Session, as amended.
  
- D.     \$    75,000,000.00     General Obligation Bonds (2014 Series A-4)
  - 1.       \$    75,000,000.00     General State Purposes Bonds (2011 Act, Series C) authorized by Public Act No. 11-2 of the General Assembly of the State of Connecticut, October 2011 Session, as amended.

## TABLE OF STATUTORY AUTHORIZATIONS SERIES B BONDS

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

- A.     \$    10,000,000.00     General Obligation Bonds (2014 Series B-1) –SIFMA Index Bonds
  - 1.       \$    10,000,000.00     School Construction Bonds (Series SSSS) authorized by Chapter 173 of the General Statutes of the State of Connecticut, as amended.
  
- B.     \$    4,160,000.00     General Obligation Bonds (2014 Series B-2) –SIFMA Index Bonds
  - 1.       \$    4,160,000.00     Economic Development and Manufacturing Assistance Bonds (1990 Act, Section 33, Series MM) authorized by Section 33 of Public Act No. 90-270 of the General Assembly of the State of Connecticut, as amended.
  
- C.     \$    7,840,000.00     General Obligation Bonds (2014 Series B-3) –SIFMA Index Bonds
  - 1.       \$    7,831,885.80     General State Purposes Bonds (2011 Act, Sections 21(a) through 21(j) and 21(m) through 21(n), Series D) authorized by Sections 21(a) through 21(j) and 21(m) through 21(n) of Public Act No. 11-57 of the General Assembly of the State of Connecticut, June 2011 Session, as amended.
  - 2.       \$        8,114.20     General State Purposes Bonds (2012 Act, Sections 2(a) through 2(d), Series D) authorized by Sections 1 through 7 and more particularly subsections 2(a) through 2(d) of Public Act No. 12-189 of the General Assembly of the State of Connecticut, February 2012 Session, as amended.
  
- D.     \$    25,000,000.00     General Obligation Bonds (2014 Series B-4) –SIFMA Index Bonds
  - 1.       \$    25,000,000.00     General State Purposes Bonds (2011 Act, Series D) authorized by Public Act No. 11-2 of the General Assembly of the State of Connecticut, October 2011 Session, as amended.

**FORM OF BOND COUNSEL OPINION – SERIES A BONDS**

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

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

We have examined a record of proceedings relative to the issuance of \$\_\_\_\_\_ General Obligation Bonds (2014 Series A- ) of the State of Connecticut (the “Bonds”). The Bonds are issued contemporaneously with other general obligation bonds of the State of Connecticut of the same series in the aggregate principal amount of \$353,000,000.

The Bonds are dated as of the date of delivery, mature on March 1 in the years, in the principal amounts and bear interest from their dated date, payable on September 1, 2014 and semiannually thereafter on March 1 and September 1 in each year until maturity [or earlier redemption], at the rate or rates per annum, as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
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The Bonds are payable as to principal [and redemption price, if any,] at the office of U.S. Bank National Association, in Hartford, Connecticut. Interest on the Bonds is payable to the person in whose name such bond is registered as of the close of business on the fifteenth day of February and August in each year, or the preceeding business day if such fifteenth day is not a business day, by check mailed to such registered owner at such owner’s address as shown on the registration books kept by the State or its designated agent.

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

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

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

[The proceeds of the Bonds are being loaned to The Jackson Laboratory, a 501(c)(3) organization (“Jackson Labs”), through Connecticut Innovations, Incorporated (“CIIP”) pursuant to the Connecticut Bioscience Collaboration Program.]

The Bonds are issued under and pursuant to proceedings taken in accordance with Section 3-20 of the General Statutes of Connecticut, Revision of 1958, as amended, resolutions adopted by the State Bond Commission including a resolution adopted on December 13, 2013 and proceedings taken in conformity therewith, including a Certificate of Determination executed by the State Treasurer and filed with the Secretary of the State Bond Commission and a Tax Certificate and a Tax Compliance Agreement.

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

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

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

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

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. In the Tax Compliance Agreement and the Tax Certificate[s] the State[, Jackson Labs and CII] has [have] made covenants and representations designed to assure compliance with such requirements of the Code. The State has covenanted in the Tax Compliance Agreement [and the Tax Certificate] [and the State, Jackson Labs and CII have covenanted in the Tax Certificates] that [it] [they] will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, retroactively to the date of issue or otherwise, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds [, Jackson Labs' continued status as an organization described in Section 501(c)(3) of the Code and not a "private foundation" as described in Section 509(a) of the Code, that the proceeds of the Bonds will be used in furtherance of the "exempt purposes" of Jackson Labs], and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

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

In rendering the foregoing opinions regarding the federal income tax treatment of interest on the Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate and the Tax Compliance Agreement, and (ii) the continuing compliance by the State [, Jackson Labs and CII] with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continues to be, excluded from gross income for federal income tax purposes, as provided in the covenants set forth in the Tax Compliance



Agreement as to such matters. [We have further relied upon the opinion of counsel to Jackson Labs relating to certain requirements of the Code, including among other matters, Jackson Labs' status as an organization described in Section 501(c)(3) of the Code and not a "private foundation" as described in Section 509(a) of the Code, and that the proceeds of the Bonds will be used in furtherance of the "exempt purposes" of Jackson Labs. We have not given any opinion or assurance concerning Section 513(a) of the Code or the effect of any future activities of the State, CII or Jackson Labs.] We also have relied, with no independent investigation, upon the approving opinions of bond counsel with respect to the other general obligation bonds of the State of Connecticut issued contemporaneously with the Bonds in the aggregate principal amount of \$400,000,000 as to the validity and legality of such bonds and as to the exclusion of the interest thereon from gross income of the owners thereof for federal income tax purposes.

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

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

Respectfully yours,

**FORM OF BOND COUNSEL OPINION - SERIES B BONDS**

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

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

We have examined a record of proceedings relative to the issuance of \$\_\_\_\_\_ General Obligation Bonds (2014 Series B- ) – SIFMA Index Bonds of the State of Connecticut (the “Bonds”). The Bonds are issued contemporaneously with other general obligation bonds of the State of Connecticut of the same series in the aggregate principal amount of \$47,000,000.

The Bonds are dated as of the date of delivery, mature on March 1 in the years, in the principal amounts and bear interest from their dated date, payable on the first Business Day (as such term is defined in the Bonds) of each month, commencing May 1, 2014, until maturity (and upon maturity), at the rates per annum, as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u> <u>(variable)</u>
\$		SIFMA Rate plus __. __% ( __ basis points)

The Bonds are payable as to principal at the office of U.S. Bank National Association, in Hartford, Connecticut. Interest on the Bonds is payable to the person in whose name such bond is registered as of the close of business on the fifteenth day of the month preceding such interest payment date, [or the preceding Business Day if such fifteenth day is not a Business Day,] by check mailed to such registered owner at such owner’s address as shown on the registration books kept by the State or its designated agent.

The Bonds are **not** subject to redemption prior to maturity.

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

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

[The proceeds of the Bonds are being loaned to The Jackson Laboratory, a 501(c)(3) organization (“Jackson Labs”), through Connecticut Innovations, Incorporated (“CII”) pursuant to the Connecticut Bioscience Collaboration Program.]

The Bonds are issued under and pursuant to proceedings taken in accordance with Section 3-20 of the General Statutes of Connecticut, Revision of 1958, as amended, resolutions adopted by the State Bond Commission including a resolution adopted on December 13, 2013 and proceedings taken in conformity therewith, including a Certificate of Determination executed by the State Treasurer and filed with the Secretary of the State Bond Commission and a Tax Certificate and a Tax Compliance Agreement.

The Bonds are issuable in the form of registered bonds without coupons in denominations of \$5,000 or any integral multiple of \$5,000, not exceeding the aggregate principal amount of Bonds

maturing in any year. The Bonds are originally registered in the name of Cede & Co., as nominee of The Depository Trust Company, for the purpose of effecting a book-entry system for the ownership and transfer of the Bonds.

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

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

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

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. In the Tax Compliance Agreement and the Tax Certificate[s] the State[, Jackson Labs and CII] has [have] made covenants and representations designed to assure compliance with such requirements of the Code. The State has covenanted in the Tax Compliance Agreement [and the Tax Certificate] [and the State, Jackson Labs and CII have covenanted in the Tax Certificates] that [it] [they] will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, retroactively to the date of issue or otherwise, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds [, Jackson Labs' continued status as an organization described in Section 501(c)(3) of the Code and not a "private foundation" as described in Section 509(a) of the Code, that the proceeds of the Bonds will be used in furtherance of the "exempt purposes" of Jackson Labs], and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

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

In rendering the foregoing opinions regarding the federal income tax treatment of interest on the Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate and the Tax Compliance Agreement, and (ii) the continuing compliance by the State [, Jackson Labs and CII] with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continues to be, excluded from gross income for federal income tax purposes, as provided in the covenants set forth in the Tax Compliance Agreement as to such matters. [We have further relied upon the opinion of counsel to Jackson Labs relating to certain requirements of the Code, including among other matters, Jackson Labs' status as

an organization described in Section 501(c)(3) of the Code and not a “private foundation” as described in Section 509(a) of the Code, and that the proceeds of the Bonds will be used in furtherance of the “exempt purposes” of Jackson Labs. We have not given any opinion or assurance concerning Section 513(a) of the Code or the effect of any future activities of the State, CII or Jackson Labs.] We also have relied, with no independent investigation, upon the approving opinions of bond counsel with respect to the other general obligation bonds of the State of Connecticut issued contemporaneously with the Bonds in the aggregate principal amount of \$400,000,000 as to the validity and legality of such bonds and as to the exclusion of the interest thereon from gross income of the owners thereof for federal income tax purposes.

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

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

Respectfully yours,

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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

**Continuing Disclosure Agreement**

This Continuing Disclosure Agreement (“Agreement”) is made as of the 26<sup>th</sup> day of March, 2014 by the State of Connecticut (the “State”) acting by its undersigned officer, duly authorized, in connection with the issuance of \$353,000,000 General Obligation Bonds (2014 Series A) and \$47,000,000 General Obligation Bonds (2014 Series B) – SIFMA Index Bonds dated as of the date hereof (the “Bonds”), for the benefit of the beneficial owners from time to time of the Bonds.

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

“Final Official Statement” means the official statement of the State dated March 14, 2014 prepared in connection with the Bonds.

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

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

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

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

**Section 2. Annual Financial Information.**

(a) The State agrees to provide or cause to be provided to each Repository, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2014) as follows:

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

(ii) To the extent not included in the financial statements described in (i) above, the financial information and operating data within the meaning of the Rule described below (with references to the Final Official Statement); provided, however, that references to the Final Official Statement for the Bonds as a means of identifying such financial information and operating data shall not prevent the State from reorganizing such material in subsequent official statements or annual information reports:

1. Until such time as the State's only method of presenting its financial statements is substantially in accordance with generally accepted accounting principles ("GAAP"):
  - a. General Fund - Summary of Operating Results - Budgetary (Modified Cash) Basis (for most recent fiscal year) (See Table 2 and Appendices III-D-6 and III-D-7).
  - b. General Fund - Summary of Operating Results - Budgetary (Modified Cash) Basis vs. GAAP Basis (for most recent fiscal year) (See Table 3).
  - c. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis as of the end of the most recent fiscal year) (See Table 4 and Appendices III-D-4 and III-D-5).
  - d. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis vs. GAAP Basis (as of the end of the most recent fiscal year) (See Table 5).
2. Statutory Debt Limit (as of end of most recent fiscal year or a later date) (See Table 7).
3. Direct General Obligation Indebtedness - Principal Amount Outstanding (as of end of most recent fiscal year or a later date) (See Table 8).
4. Summary of Principal, Mandatory Sinking Fund Payments, and Interest on Long-Term Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 10).
5. Outstanding Long-Term Direct General Obligation Debt (as of end of most recent fiscal year) (See Table 11).
6. Authorized But Unissued Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 12).
7. Statutory General Obligation Bond Authorizations and Reductions (for recent fiscal years, if any legislative action) (See Table 13).
8. Special Capital Reserve Fund Debt (as of end of most recent fiscal year or a later date) (See Table 16).
9. Funding status of the State Employees' Retirement Fund and the Teachers' Retirement Fund.

(b) The financial statements and other financial information and operating data described above will be provided on or before the date eight months after the close of the fiscal year for which such information is being provided. The State's fiscal year currently ends on June 30.

(c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents available to the public on the MSRB's Internet Web site referenced in the Rule as amended from time to time or filed with the SEC. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report or an annual information statement of the State.

(d) The State reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in mandated state statutory principles as in effect from time to time; provided that the State agrees that the exercise of any such right will be done in a manner consistent with the Rule.

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

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

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

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

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

**Section 5. Use of Agents.**

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

**Section 6. Termination.**

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

**Section 7. Enforcement.**

The State acknowledges that its undertakings set forth in this Agreement are intended to be for the benefit of, and enforceable by, the beneficial owners from time to time of the Bonds. In the event the State shall fail to perform its duties hereunder, the State shall have the option to cure such failure within a reasonable time (but not exceeding 30 days with respect to the undertakings set forth in Section 2 of this Agreement or five business days with respect to the undertakings set forth in Sections 3 and 4 of this Agreement) from the time the State's Assistant Treasurer for Debt Management, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Assistant Treasurer for Debt Management is 55 Elm Street, 6th Floor, Hartford, Connecticut 06106.

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

**Section 8. Miscellaneous.**

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

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

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

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

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

STATE OF CONNECTICUT

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



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

**March 14, 2014**

The Annual Information Statement of the State of Connecticut (the “State”), dated February 28, 2014, appears in this Official Statement as **Part III** and contains information through February 28, 2014. The State expects to provide an updating Information Supplement from time to time in the future, which will appear in this location as Part II of future Official Statements or Reoffering Circulars of the State.

This Information Supplement updates certain information in the February 28, 2014 Annual Information Statement through March 14, 2014. The information in this **Part II** and **Part III** is subject to change without notice, and investors should not assume that there has been no change in the affairs of the State since the date of this **Part II**.

**STATE GENERAL FUND**

*Page III-31.* The table titled “OPM and Comptroller Estimates Fiscal Year 2014 (in Millions)” under the heading **Fiscal Year 2014 Operations** is revised as follows:

**OPM and Comptroller Estimates Fiscal Year 2014**  
**(in Millions)**

<b>Period</b>	<b><u>OPM’s Report</u></b>			<b><u>Comptroller’s Report</u></b>		
	<b><u>Revenues</u></b>	<b><u>Expenditures</u></b> <sup>(a)</sup>	<b><u>Surplus/ (deficit)</u></b>	<b><u>Revenues</u></b>	<b><u>Expenditures</u></b> <sup>(a)</sup>	<b><u>Surplus/ (deficit)</u></b>
November 30, 2013	\$17,394.8	\$17,121.5	\$273.3	\$17,394.9	\$17,121.2	\$273.7
December 31, 2013	17,614.3	17,108.2	506.1	17,614.3	17,108.2	506.1
January 31, 2014 <sup>(b)</sup>	17,614.3	17,109.9	504.4	17,614.3	17,109.5	504.8

(a) Expenditures include net appropriations continued and estimated lapses and miscellaneous adjustments.

(b) Estimates are not reflected in Appendix III-E to this Annual Information Statement.

The above projections are only estimates and no assurances can be given that future events will materialize as estimated, or that subsequent estimates or adjustments by OPM, the Comptroller or other State agencies will not reflect changes in the estimated or final result of Fiscal Year 2014 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 2014 operations of the General Fund.

**APPENDIX III-A**

*Page III-A-7.* The following information supplements the information included in **Table A-4**:

The Judicial Supervising Marshals contract is in place through June 30, 2016. The State Police (NP-1) contract is currently pending approval by the legislature. The Correctional Supervisors contract has been settled through June 30, 2015 and will be sent to the legislature for approval in March 2014. Footnote (b) to **Table A-4** thereto is deleted.

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

**FEBRUARY 28, 2014**

This Annual Information Statement of the State of Connecticut (the "State") contains information through February 28, 2014. For information about the State after February 28, 2014, the State expects to update this Annual Information Statement from time to time. This Annual Information Statement and any appendices attached hereto, should be read collectively and in their entirety.

This Annual Information Statement contains the State's June 30, 2013 audited GAAP based financial statements and June 30, 2013 audited legal accounting basis (modified cash) financial statements. The State expects generally to update certain information contained in this Annual Information Statement from time to time. Such updates are expected to include certain interim financial information prepared on a modified cash basis, but are not expected to include interim financial information prepared in accordance with GAAP.

The State's fiscal year begins on July 1 and ends on June 30. References to "Fiscal Year" throughout this Annual Information Statement refer to the referenced fiscal year ending June 30. For example, Fiscal Year 2013 refers to the fiscal year beginning July 1, 2012 and ending June 30, 2013.

This Annual Information Statement may be obtained electronically, by contacting the Office of the State Treasurer, Attn.: Assistant Treasurer for Debt Management, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3288.

**Constitutional Elected Officers**

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

**Executive Branch Officers**

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

**Legislative Branch Officers**

President Pro Tempore of the Senate	Sen. Donald E. Williams, Jr.
Speaker of the House of Representatives	Rep. J. Brendan Sharkey
* Co-chairpersons of the Joint Standing Committee on Finance, Revenue and Bonding	Sen. John W. Fonfara Rep. Patricia M. Widlitz
* Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding	Sen. L. Scott Frantz Rep. Sean J. Williams
Auditors of Public Accounts	John C. Geragosian Robert M. Ward

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\* Denotes member of the State Bond Commission

**PART III  
FEBRUARY 28, 2014**

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

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## INTRODUCTION

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

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

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

**Financial Procedures** discusses the legal and administrative processes, procedures, 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 III-C, III-D** and **III-E** to this Annual Information Statement.

**State Debt** describes the procedures for the authorization of the State to incur debt and the various ways in which the State may borrow funds to finance State functions 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. These include the budget and debt of the Special Transportation Fund, certain special revenue funds and debt, contingent liability debt, and other debt service and contractual commitments. Certain additional information regarding these other funds, debt and liabilities of the State is included in **Appendix III-C** to this Annual Information Statement.

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

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

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

The Annual Information Statement speaks only as of its date. For information about the State after February 28, 2014, the State expects to update this Annual Information Statement from time to time. This Annual Information Statement and any appendices attached hereto should be read collectively and in their entirety.

## **FORWARD-LOOKING INFORMATION AND BONDHOLDER CONSIDERATIONS**

This Annual 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 Annual 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, those contained in this Annual Information Statement. Investors should carefully review those factors.

Actual results could vary significantly from estimates and projections for many reasons including the effect of and from, future federal budgetary matters, including federal grants and other forms of financial aid to the State; macroeconomic economic and business developments, both for the country as a whole and particularly affecting the State; future energy costs; health care related matters including Medicaid reimbursements; federal defense spending; financial services industry; litigation or arbitration; natural disasters and other acts of God; and 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.

## THE STATE OF CONNECTICUT

### Governmental Organization and Services

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

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

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

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

### State Economy

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one-quarter of the total population of the United States and more than 50% of the Canadian population live within 500 miles of the State. The State’s population growth rate trailed the national average during the past four decades, but from 2002 to 2012, within New England, only New Hampshire experienced growth higher than Connecticut. The State has extensive transportation and utility services to support its economy.

Connecticut’s economic performance is measured by personal income, which has been among the highest in the nation on a per capita basis, and gross state product (the market value of all final goods and services produced by labor and property located within the State), which has demonstrated slower growth over the last five years than the New England region and the nation. Connecticut’s nonagricultural employment reached a high in March of 2008 with 1,712,700 persons employed, but began declining with the onset of the recession falling to 1,591,800 jobs by February 2010, and has since risen to 1,650,700 by October 2013.

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

## FINANCIAL PROCEDURES

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

### **Budget Discipline**

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

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

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

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

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

By statute, any General Fund surplus is directed to the Budget Reserve Fund until such fund equals 10% of annual expenditures, unless otherwise directed by law. Legislation is passed from time to time that assigns different uses to such surpluses. Recent legislation was passed to provide for the transfer of up to \$220.8 million of the Fiscal Year 2013 surplus to be used in the 2014-2015 biennium. See **Financial Controls – *Unappropriated Surplus – Budget Reserve Fund*** below.

### **Financial Controls**

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

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

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

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

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

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



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

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

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

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

### **Transition to GAAP**

The State is in the process of transitioning from the use of a modified cash basis of accounting to the application of Generally Accepted Accounting Principles, as prescribed by the Government Accounting Standards Board. See **Accounting Procedures – Transition to GAAP** below.

## **The Budgetary Process**

***Balanced Budget Requirement.*** In November 1992 electors approved an amendment to the State Constitution providing that the amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year. This amendment also provides a framework for a cap on budget expenditures. The General Assembly is precluded from authorizing an increase in general budget expenditures for any fiscal year above the amount of general budget expenditures authorized for the previous fiscal year by a percentage 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, which has not yet occurred. In the interim, the General Assembly has been following a provision of the General Statutes that contains the same budget cap as the constitutional amendment. In addition to the exclusion of debt service from the budget cap, this statute also excludes statutory grants to distressed municipalities, expenditures to implement federal mandates and court orders in the first fiscal year in which such expenditures are authorized, and payments from surplus for certain debt retirement and additional state employee pension contributions.

***Biennium Budget.*** The State’s fiscal year begins on July 1 and ends 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.

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

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

**Adoption of the Budget.** The budget document, as finally developed by the Governor with the assistance of OPM, is published and transmitted to the General Assembly in February of each odd-numbered year. A report summarizing recommended adjustments or revisions is submitted by the Governor to the General Assembly on the day on which the General Assembly first convenes in even-numbered years. The Governor or a representative then appears before the appropriate committee of the General Assembly to explain and address questions concerning the budget document or 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. A statement identifying the items so disapproved and explaining the reasons therefor must be transmitted with the bill to the Secretary of the State and, when in session, the General Assembly. The General Assembly may separately reconsider and repass such disapproved appropriation items by a two-thirds vote of each house.

**Consensus Revenue Estimates.** OPM and the legislature's Office of Fiscal Analysis 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 fifteenth annually, the Secretary of OPM and the Director of the legislature's Office of Fiscal Analysis each submit the following to the joint standing

committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of State agencies and to finance, revenue and bonding: (1) an estimate of State revenues, expenditures and ending balance for each fund for the current biennium and the next ensuing three fiscal years, and the assumptions on which such estimates are based; (2) the projected tax credits to be used in the current biennium and the next ensuing three fiscal years, and the assumptions on which such projections are based; (3) a summary of any estimated deficiencies in the current fiscal year, the reasons for such deficiencies, and the assumptions upon which such estimates are based; (4) the projected balance in the Budget Reserve Fund at the end of each uncompleted fiscal year of the current biennium and the next ensuing three fiscal years; (5) the projected bond authorizations, allocations and issuances in each of the next ensuing five fiscal years and their impact on the debt service of the major funds of the State; (6) an analysis of revenue and expenditure trends and of the major cost drivers affecting State spending, including identification of any areas of concern and efforts undertaken to address such areas, including efforts to obtain federal funds; and (7) an analysis of possible uses of surplus funds, including the Budget Reserve Fund, debt retirement and funding of pension liabilities.

By November 30, annually, the legislative committees then meet with the Secretary of OPM and the Director of the legislature's Office of Fiscal Analysis to consider the submitted reports.

### **Financial Controls**

***Expenditures.*** The financial control procedures utilized by the State in the expenditure of State funds are described below and may be generally summarized as follows: initially, the legislature appropriates funds for a particular purpose; such funds must then be allotted for such purpose by the Governor; and thereafter such funds are encumbered by the Comptroller upon the request of the responsible State agency. Once this appropriation, allotment and encumbrance procedure (which may be modified as described below) has been completed, State funds are paid by the Treasurer 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, through the Secretary of OPM, not less than 20 days before the beginning of the fiscal year for which the appropriation is made, a requisition for the allotment of funds needed for each quarter of the fiscal year. Appropriations for capital outlays may be allotted in any manner the Governor deems advisable. The Governor may reduce the budget allotment request by not more than three percent of the total appropriation from any fund or not more than five percent of any appropriation under certain circumstances. Such allotments are subject to further modification by the Governor throughout the course of the fiscal year if conditions warrant. If the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one per cent of the total of General Fund appropriations, the Governor is required, within thirty days 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 shall 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 as authorized by statute. 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.

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

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

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

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

Notwithstanding the above, legislation is passed from time to time that assigns different uses to such surpluses. Legislation enacted in 2013 provides 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. The current balance in the budget reserve fund is \$270.7 million. By statute, the Treasurer is directed to transfer, upon the written request of the Secretary of OPM, up to \$15.0 million from the budget reserve fund to the General Fund to be used as revenue for the fiscal year ended June 30, 2013, however, no such request has been made.

***Revenues.*** The Treasurer superintends the collection and receipt of all taxes and revenues belonging to the State and is authorized to deposit the same in any qualified public depository as defined by statute. Each State department, institution, board, commission or other State agency and any official or employee thereof that receives any money for revenue of the State must, within 24 hours of its receipt or within seven days of receipt for amounts less than \$500, account for and pay the same to the Treasurer or, with the approval of the Treasurer and the Comptroller, deposit the same in an account in a qualified public depository in the name of

the State or in the name of the public official as such official. The Treasurer is authorized to make exceptions to the limitations on amounts and timing of payments or deposits or reporting of receipts provided the Treasurer files a written statement of such exception with the Comptroller and the State's Auditors of Public Accounts. Any public official who deposits funds or moneys in an account in the name of the State or in such official's name must submit a list of all such accounts as of the preceding June 30 to the Treasurer and the Comptroller not later than September 1 of each year.

## **Accounting Procedures**

### ***Financial Statements.***

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

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

As specifically permitted by statute or decision of the Comptroller, the only present modifications from the cash basis in recording revenues under the modified cash method are: (1) the accrual of sales and use taxes to be received for the calendar quarter ending at the close of such fiscal year as estimated by the Secretary of OPM; (2) the accrual of cigarette tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (3) the accrual of alcoholic beverage tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (4) the accrual of motor fuels tax revenue and motor carrier road tax revenue on all fuel sold or used prior to the end of such fiscal year and received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (5) the accrual of utility company tax revenue and tax revenue on gross earnings from the sale of petroleum products which is received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (6) pursuant to the Comptroller's constitutional powers under Section 24, Article Fourth of the Connecticut State Constitution and his statutory powers under Public Act No. 08-111, the accrual of corporation business tax revenue received by the Department of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (7) the accrual of income tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (8) the accrual of nursing home provider tax received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (9) the accrual of payments received from any Indian tribe, pursuant to a memorandum of understanding, received by the Treasurer no later than the last day of July immediately following the end of such fiscal year; (10) the accrual of real estate conveyance tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (11) the recording as grants receivable of certain amounts of restricted grants for which the State has the contractual right to be reimbursed by the federal government or other parties; (12) the accrual of electric generator tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (13) the accrual of hospital provider tax received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; (14) the accrual

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

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

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

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. Core-CT is currently the book of record for all of the Comptroller's monthly and annual financial reports and provides formatted reports to all State agencies. Core-CT also provides a data warehouse used to develop custom reporting. Core-CT is fully implemented and stabilized with updates completed on a routine basis.

The audited legal accounting basis (modified cash) financial statements for the fiscal year ending June 30, 2013 and the audited financial statements of the State prepared in accordance with GAAP for the fiscal year ending June 30, 2013 appear in **Parts III-C and III-D**.

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

Legislation passed in 2011 directed the transition from a modified cash basis of accounting to GAAP. This legislation required that the budget, commencing with Fiscal Year 2014, be prepared on a GAAP basis. The Secretary of OPM has initiated a process intended to result in the implementation of the use of GAAP with respect to the preparation of the biennial budget. This transition includes changing the meaning of a deficit as it relates to the requirement that the Governor's budget includes recommendations to the General Assembly regarding the manner in which any deficit shall be met. Commencing in Fiscal Year 2014, the Governor shall account for the projected amount necessary to extinguish any unreserved negative balance for the prior fiscal year, as reported in the most recently audited comprehensive annual financial report issued by the Comptroller, prior to the start of the biennium in the budget document transmitted to the General Assembly.

The Comptroller has also initiated a process intended to result in the implementation of GAAP with respect to the preparation and maintenance of the biennial budget and the annual financial statements of the State previously prepared on a modified cash basis. The Comptroller established an opening combined balance sheet for each appropriated fund on the basis of GAAP. This combined balance sheet reflects as a

deferred charge the accumulated deficit in the General Fund on June 30, 2013, as determined on the basis of GAAP and identified in the comprehensive annual financial report of the State as the unassigned fund balance in the General Fund and is commonly referred to as the accumulated GAAP deficit. Such deferred charge shall 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. Beginning in Fiscal Year 2014, the Comptroller's annual report shall be submitted to the Governor by September 30<sup>th</sup> and prepared in accordance with GAAP.

Legislation was passed in 2013 that amended the statutory balanced budget provisions to require that future budgets include the amount necessary to eliminate any unassigned negative fund balance arising after June 30, 2013.

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.

### **Investment and Cash Management**

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

**Cash Management.** The cash management system and the investment by the Treasurer of 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, pursuant to a longstanding and established policy, 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 provides 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 average week-ending balances of available cash for Fiscal Year 2013 exceeded \$1.4 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. In each of 2009 and 2012 the Treasurer arranged a 364-day revolving credit facility in the amount of \$580 million and \$300 million respectively, neither of which was ever drawn upon nor extended beyond its 364-day term. See **State Debt – Certain Short-Term Borrowings**.

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 Office of Fiscal Analysis which includes among other items, a weekly list of the State's cash balance, a year to date total of authorized but unissued bonds, debt instruments or commercial paper of the State, and the amounts in the State's common cash 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 temporarily 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.** Minor amounts of 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 Connecticut General Statutes. In addition, investments are made in individual securities pursuant to Section 3-31a of the Connecticut General Statutes. Allowable investments under Section 3-31a of the Connecticut General Statutes 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 Connecticut General Statutes, which 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 Connecticut General Statutes 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, respectively. Assets of the bond funds may from time to time be transferred temporarily to the common cash pool in accordance with the State's overall cash flow needs. Under the State's accounting system, transfer of the assets of the bond funds to the common cash pool is reflected in the accounts of the bond funds as an uninvested cash balance. That accounting balance can be reduced only when an approved payment for an expenditure is charged to the bond funds. In no case does the transfer of bond fund assets to the common cash pool alter the timing or the extent of expenditures for the purposes for which the bonds were issued.

**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. At the close of each fiscal year, a report is submitted to the Governor on the value of all security investments of the State.

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

## STATE GENERAL FUND

The State finances most of its operations through its General Fund. 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 on a modified accrual basis of accounting ("budgetary-basis"), which generally aligns with generally accepted accounting principles ("GAAP"). The State has not been required by law to prepare 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 GAAP. For an explanation of the differences between the budgetary-basis and GAAP based accounting and a discussion of the transition to GAAP, see **FINANCIAL PROCEDURES — Accounting Procedures** herein.

GAAP based audited financial statements for all civil list funds of the State for Fiscal Year 2013 are included as **Appendix III-C** to this Annual Information Statement. Budgetary-basis audited financial statements for the General Fund for Fiscal Years 2009 through 2013 are included in **Appendix III-D** to this Annual Information Statement. The adopted budget and final financial budgetary-basis results for Fiscal Year 2013, the adopted budget and estimated (as of December 31, 2013) budget for Fiscal Year 2014, and the adopted budget for Fiscal Year 2015 are included as **Appendix III-E** to this Annual 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 budgetary-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; Moody's Economy.com, a nationally recognized econometric forecasting firm; and "The Connecticut Economy," a University of Connecticut quarterly review written and edited by widely-known State economists.

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

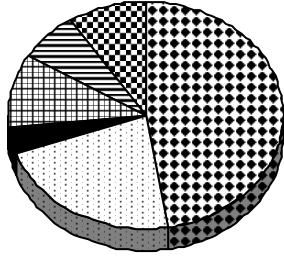
**Fiscal Year 2014 and 2015 Adopted Revenues.** General Fund revenues are forecasted by the legislature at the adoption of the budgets for Fiscal Years 2014 and 2015 ("Adopted Revenues") and are reflected in **Appendix III-E** to this Annual Information Statement.

General Fund revenues are derived primarily from the collection of State taxes, including the personal income tax, the sales and use tax and the corporation business tax. The State, as of the forecast date, expected to derive approximately 83.4 percent and 85.8 percent of its General Fund revenues from taxes during Fiscal

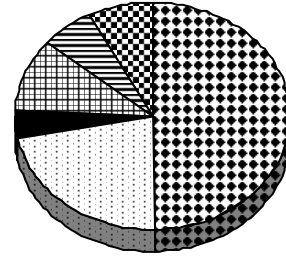
Year 2014 and Fiscal Year 2015, respectively. A summary of anticipated General Fund revenue sources based on the Adopted Revenues for Fiscal Years 2014 and 2015, is set forth below:

### Adopted General Fund Revenues (In Millions)

**Adopted Revenues  
Fiscal Year 2014**  
\$17,193.1<sup>(a)</sup>



**Adopted Revenues  
Fiscal Year 2015**  
\$17,500.7<sup>(a)</sup>



	Personal Income Tax	\$ 8,808.8	47.6%
	Sales and Use Tax	4,044.0	21.8%
	Corporate Business Tax	723.5	3.9%
	Other Taxes <sup>(b)</sup>	1,941.2	10.5%
	Unrestricted Federal Grants	1,312.7	7.1%
	Other Non-Tax Revenues <sup>(c)</sup>	1,678.0	9.1%

	Personal Income Tax	\$ 9,399.8	49.8%
	Sales and Use Tax	4,164.8	22.2%
	Corporate Business Tax	749.3	4.0%
	Other Taxes <sup>(b)</sup>	1,940.4	10.3%
	Unrestricted Federal Grants	1,227.9	6.5%
	Other Non-Tax Revenues <sup>(c)</sup>	1,396.2	7.4%

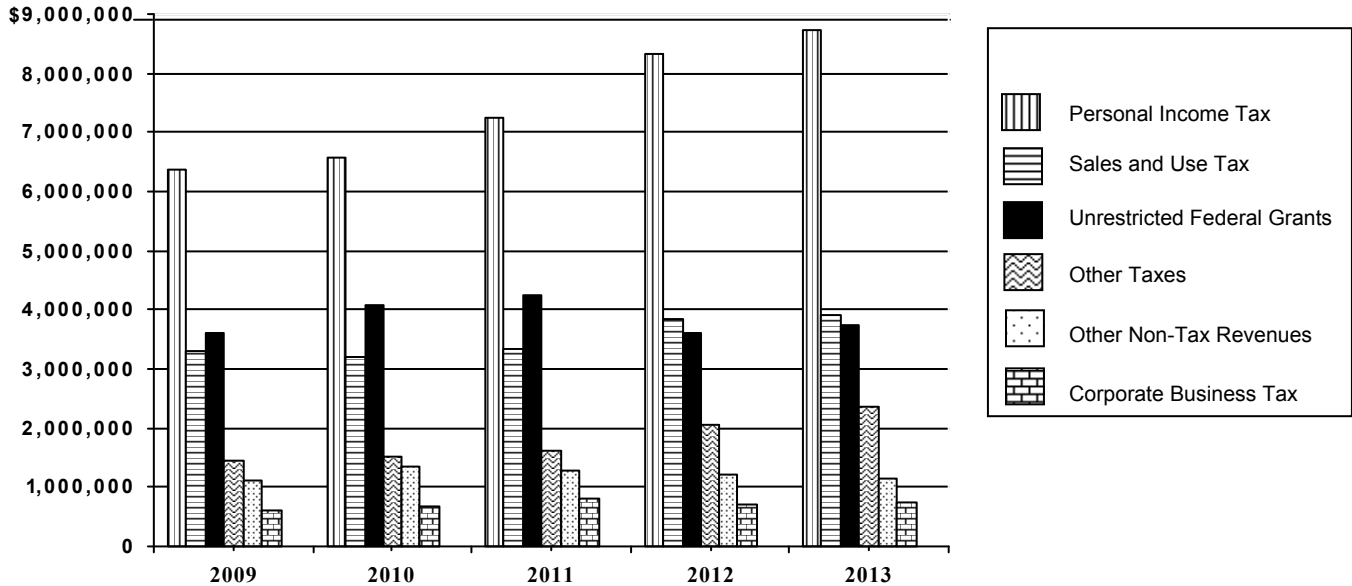
Note: Totals may not add to 100% due to rounding.

- (a) The pie charts reflect the total of the listed tax and revenue amounts of \$18,508.2 million for Fiscal Year 2014 and \$18,878.4 million for Fiscal Year 2015, while the references in the title of the pie charts reflect reductions from tax refunds, R&D Credit Exchange and transfers to other funds of \$1,315.1 million for Fiscal Year 2014 and \$1,377.7 million for Fiscal Year 2015. See **Appendix III-E** for anticipated adjustments to adopted tax revenues.
- (b) Other taxes are comprised of inheritance and estate taxes; taxes on gross receipts of public service corporations, on net direct premiums of insurance companies, on oil companies, on cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on healthcare providers; on electric generation and other miscellaneous taxes. See **Appendix III-E**.
- (c) Other non-tax revenues are comprised of special revenue transfers; Indian gaming payments; licenses, permits and fees; sales of commodities and services; rents, fines and escheats; investment income; other miscellaneous revenues; designated Tobacco Settlement Revenues and special transfers to the resources of the General Fund. See **Appendix III-E**.

SOURCE: Public Act No. 13-184, as amended.

**Historical General Fund Revenues.** Actual General Fund revenues for the fiscal years ending June 30, 2009 through 2013 are set forth in **Appendix III-D** to this Annual Information Statement. A summary of the composition of General Fund gross revenues for the last five fiscal years is illustrated below:

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



	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Taxes:</b>					
Personal Income Tax .....	\$ 6,385,856	\$ 6,586,099	\$ 7,246,431	\$ 8,310,820	\$ 8,719,245
Sales Tax .....	3,318,752	3,203,988	3,353,230	3,830,117	3,896,998
Corporate Business Tax .....	615,921	667,132	794,473	716,522	742,515
Other Taxes <sup>(b)</sup> .....	<u>1,448,448</u>	<u>1,507,283</u>	<u>1,619,985</u>	<u>2,055,644</u>	<u>2,343,005</u>
<b>Subtotal</b> .....	<b>\$11,768,977</b>	<b>\$11,964,502</b>	<b>\$13,014,119</b>	<b>\$14,913,103</b>	<b>\$15,701,763</b>
R & D Credit Exchange .....	(8,428)	(8,937)	(8,598)	(3,563)	(4,086)
Refunds of Taxes .....	<u>(1,052,286)</u>	<u>(1,061,433)</u>	<u>(956,054)</u>	<u>(1,105,171)</u>	<u>(1,144,993)</u>
<b>Total Net Taxes</b> .....	<b>\$10,708,263</b>	<b>\$10,894,132</b>	<b>\$12,049,467</b>	<b>\$13,804,369</b>	<b>\$14,552,684</b>
<b>Other Revenue:</b>					
Federal Grants					
(Unrestricted) .....	\$ 3,619,490	\$ 4,066,314	\$ 4,235,178	\$ 3,607,163	\$ 3,733,909
Other Non-Tax Revenues <sup>(c)</sup> .....	1,105,217	1,363,385	1,273,290	1,207,800	1,143,366
Transfers to Other Funds .....	(86,300)	(61,800)	(61,800)	(61,800)	(128,028)
Transfers from Other Funds .....	<u>354,131<sup>(d)</sup></u>	<u>1,426,498<sup>(e)</sup></u>	<u>211,319</u>	<u>4,101</u>	<u>103,100</u>
<b>Total Other Revenues</b> .....	<b>\$ 4,992,538</b>	<b>\$ 6,794,397</b>	<b>\$ 5,657,987</b>	<b>\$ 4,757,264</b>	<b>\$ 4,852,347</b>
<b>Total Revenues</b> .....	<b>\$15,700,801</b>	<b>\$17,688,529</b>	<b>\$17,707,454<sup>(f)</sup></b>	<b>\$18,561,633</b>	<b>\$19,405,031</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 III-D** for adjustments to revenues.

(b) Other taxes are comprised of inheritance and estate taxes; taxes on gross receipts of public service corporations, on net direct premiums of insurance companies, on oil companies, on cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on healthcare providers; electric generation and other miscellaneous taxes.

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

(d) For Fiscal Year 2009, \$179.4 million of reserved fund balance within the General Fund was released for Fiscal Year 2009 operations and was posted under the "Transfer from Other Funds" category.

(e) Includes numerous transfers from other funds of the State, the largest of which was \$1,278.5 million from the Budget Reserve Fund.

(f) Totals do not include the release of the reserved fund balance in the amount of \$449,868,589.

SOURCE: 2009, 2010, 2011, 2012 and 2013 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 6.7%, on Connecticut taxable income. Depending on federal income tax filing status, the taxable year and Connecticut adjusted gross income, personal exemptions are available to taxpayers, ranging from \$12,000 to \$24,000, with the lower-end of the range increasing annually to \$15,000 by taxable year 2015 for certain taxpayers. In addition, tax credits ranging from 1% to 75% of a taxpayer's Connecticut tax liability are also available depending upon federal income tax filing status, the taxable year and Connecticut adjusted gross income. Such exemptions and tax credits are phased out at higher income levels. Under the current structure, the top rate increases to 6.7% with a rate of 3% applicable to taxable income up to certain amounts. The first \$20,000 of taxable income for a joint filer and the first \$10,000 of taxable income for a single filer is taxed at the 3% rate, rising thereafter to 6.7%. In addition, the lower rates are fully phased out for joint filers earning over \$700,000. An income tax credit for property taxes paid of \$500 per filer for tax years beginning on or after January 1, 2006, was decreased to \$300 per filer for tax years beginning on or after January 1, 2011. Taxpayers also are subject to a Connecticut minimum tax, based on their liability, if any, for payment of the federal alternative minimum tax. 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 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 70%. The State imposed a corporation business tax surcharge of 10% for income years 2009, 2010 and 2011 for businesses with over \$100 million in federal adjusted gross income, and increased it to 20% for tax years 2012 through 2015.

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

**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 oil companies, on cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on healthcare providers; on electric generation 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 federal grants in Fiscal Year 2013 were made for the purposes of providing medical assistance payments to low income individuals and temporary assistance to needy families. The State also receives certain restricted federal grants 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 Annual Information Statement, three matters affect comparability.

- The American Recovery and Reinvestment Act (“ARRA”) provided the State with increased Medicaid and Title IV-E (foster care) grants as well as new funding for education, transportation, and other general government functions in Fiscal Years 2009, 2010 and 2011.
- 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. Effective April 1, 2010, Connecticut was the first state in the nation to expand its Medicaid program under the Affordable Care Act by extending Medicaid coverage to low-income childless adults with incomes up to 53% of the federal poverty level. Until that time, the State operated a more limited health benefit program serving approximately 45,000 low-income adults. Enrollment under the April 1, 2010 expansion greatly exceeded expectations and led to a doubling of the previous program’s caseload in only three years, resulting in considerable unbudgeted costs that the State was forced to

address mid-year. Beginning January 1, 2014, the federal government assumed full financial responsibility for costs associated with serving these populations under the Affordable Care Act. As a result, it is expected that this shift will mean not only that the State will realize annualized net budgetary savings of more than \$400 million, but will also eliminate from State budgetary responsibility the program component that has been the least predictable and the most responsible for expenditure overruns for the past three years.

***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**

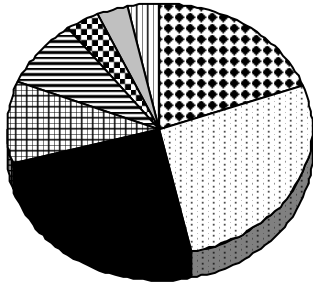
### ***Appropriated and Historical Expenditures***

***Fiscal Year 2014 and 2015 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.

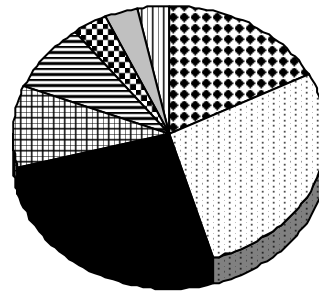
The final financial budgetary-basis results for Fiscal Year 2013, the adopted and estimated (as of December 31, 2013) budget for Fiscal Year 2014, and the adopted budget for Fiscal Year 2015 are included as **Appendix III-E** to this Annual Information Statement. A summary of appropriated General Fund expenditures for Fiscal Years 2014 and 2015 is set forth below.

















## Appropriated General Fund Expenditures (In Millions)

**Appropriated Expenditures  
Fiscal Year 2014  
\$17,188.7<sup>(a)</sup>**



**Appropriated Expenditures  
Fiscal Year 2015  
\$17,497.6<sup>(a)</sup>**



	Human Services	\$ 3,381.3	19.5%		Human Services	\$ 3,054.5	17.3%
	Education, Libraries and Museums	4,709.5	27.1%		Education, Libraries and Museums	5,004.7	28.3%
	Non-Functional	4,174.1	24.0%		Non-Functional	4,426.2	25.1%
	Health and Hospitals	1,835.4	10.6%		Health and Hospitals	1,827.6	10.3%
	Corrections	1,481.9	8.5%		Corrections	1,516.8	8.6%
	General Government	616.7	3.6%		General Government	628.1	3.6%
	Judicial	577.1	3.3%		Judicial	601.3	3.4%
	Other Expenditures <sup>(b)</sup>	585.4	3.4%		Other Expenditures <sup>(b)</sup>	596.8	3.4%

(a) The pie charts reflect the total listed expenditures of \$17,361.4 million for Fiscal Year 2014 and \$17,656.1 million for Fiscal Year 2015, while the references in the title of the pie charts reflect adjustments for unallocated lapses of \$172.6 million for Fiscal Year 2014 and \$158.5 million for Fiscal Year 2015. See **Appendix III-E** for anticipated adjustments to appropriated expenditures.

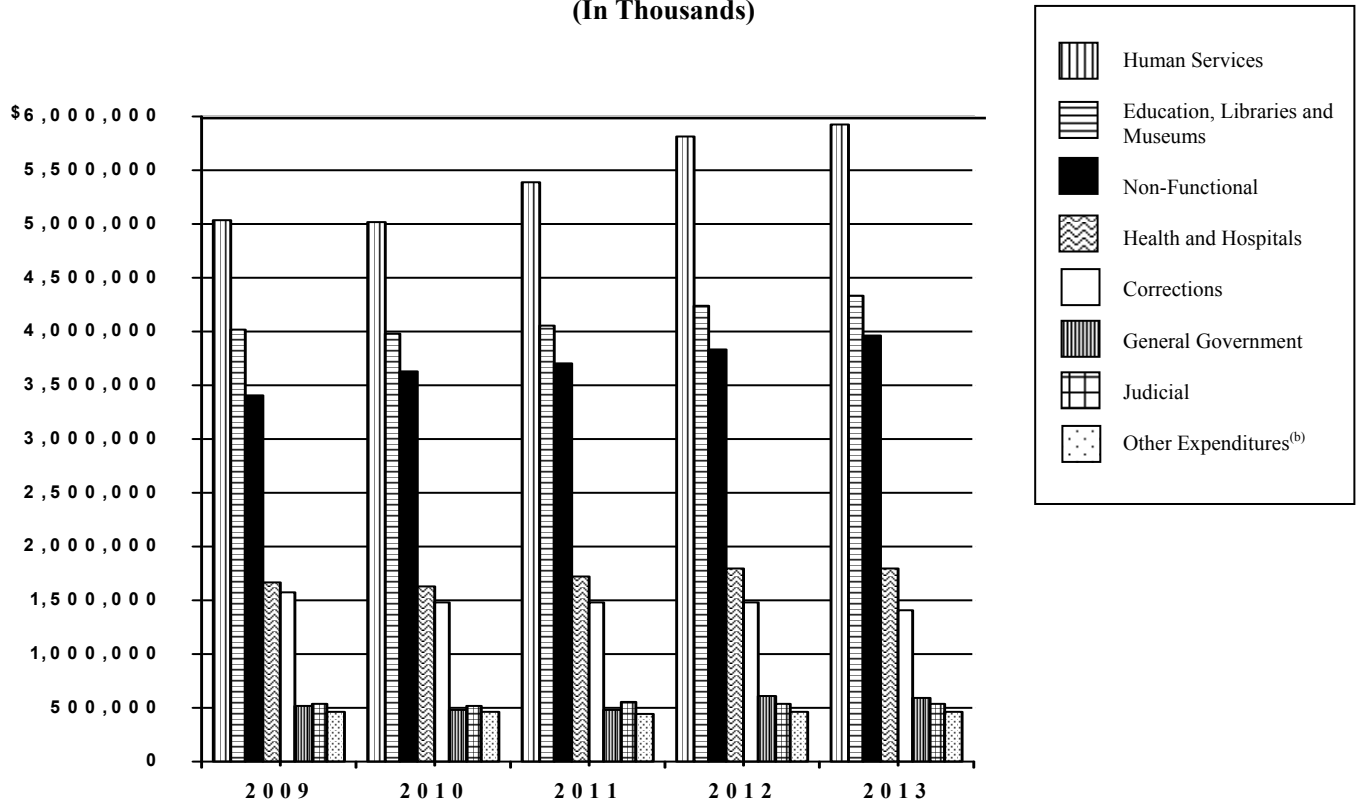
(b) Other expenditures are comprised of appropriations for Regulation and Protection; Conservation and Development; and Legislative.

SOURCE: Public Act No. 13-184, as amended.



**Historical General Fund Expenditures.** Actual General Fund expenditures for Fiscal Years 2009 through 2013 are set forth in **Appendix III-D** to this Annual Information Statement. A summary of the composition of General Fund expenditures for the last five fiscal years is illustrated below:

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



	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Human Services.....	\$ 5,041,515	\$ 5,012,333	\$ 5,387,535	\$ 5,817,369	\$ 5,931,567
Education, Libraries and Museums.....	4,019,381	3,990,199	4,060,467	4,235,428	4,328,894
Non-Functional.....	3,399,404	3,633,977	3,709,293	3,841,292	3,965,211
Health and Hospitals.....	1,662,540	1,624,827	1,715,670	1,792,435	1,801,952
Corrections.....	1,577,167	1,475,769	1,484,364	1,472,685	1,408,761
General Government.....	520,115	486,318	476,090	609,239	593,367
Judicial.....	543,078	524,043	559,912	545,650	534,512
Other Expenditures <sup>(b)</sup> .....	<u>471,655</u>	<u>460,655</u>	<u>451,793</u>	<u>467,536</u>	<u>461,403</u>
Totals.....	\$ 17,234,855	\$ 17,208,021	\$ 17,845,124	\$ 18,781,634	\$ 19,025,667

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

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

SOURCE: 2009, 2010, 2011, 2012 and 2013 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 significantly altered the manner in which it appropriates for Medicaid. 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 payments to private Medicaid providers 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 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 are categorized for both administrative and budgetary purposes based on the type of appropriation. Appropriation account types may be grouped conceptually into two broad categories: payments to third parties and costs of State administration. Payments to third parties consist of two major appropriation account types: payments to local governments and payments to parties other than local governments (which include debt service payments for purposes of **Table 1**; see footnote g to **Table 1** below). Such payments to third parties amount to approximately 65.7% of total General Fund appropriations under the adopted budget for Fiscal Year 2013. Costs of State administration consist of three major appropriation account types: personal services, equipment, and other expenses. These expenditures are used directly to operate the facilities and programs of State agencies and include such items as salaries, wages, pension and other benefits for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses. Appropriations for costs of State administration represent approximately 40.5% of all General Fund appropriations under the revised adopted budget for Fiscal Year 2014.

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

**Table 1**<sup>(a)(b)(c)</sup>

**Fixed Charges - General Fund  
Summarized by Function of Government and Expenditure Category  
Including Major Expenditure Items  
(In Thousands of Dollars)**

	Fiscal Year 2012 (Actual)		Fiscal Year 2013 (Unaudited)		Fiscal Year 2014 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
<b>LEGISLATIVE</b>						
Total – Legislative .....	516	0	554	0	577	0
<b>GENERAL GOVERNMENT</b>						
Tax Relief for Elderly Renters <sup>(d)</sup> .....	23,596	0	24,815	0	0	0
Property Tax Relief Elderly Circuit Breaker .....	20,506	20,506	20,506	20,506	20,506	20,506
Reimbursement to Towns for Loss of Taxes on State Property <sup>(e)</sup> .....	73,519	73,519	73,642	73,642	73,642	73,642
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property <sup>(e)</sup> .....	115,432	115,432	115,432	115,432	115,432	115,432
Undesignated .....	16,230	15,557	10,206	9,426	15,423	14,348
Total – General Government .....	249,283	225,014	244,600	219,005	225,002	223,927
<b>REGULATION AND PROTECTION</b>						
Total - Regulation and Protection .....	1,089	0	1,073	0	1,168	0

	<u>Fiscal Year 2012 (Actual)</u>		<u>Fiscal Year 2013 (Unaudited)</u>		<u>Fiscal Year 2014 (Appropriated)</u>	
	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>
<b>CONSERVATION AND DEVELOPMENT</b>						
Total - Conservation and Development.....	28,092	12,661	24,444	8,575	111,712	8,584
<b>HEALTH AND HOSPITALS</b>						
Employment Opportunities and Day Services (Dept. of Developmental Services) .....	181,277	0	193,834	0	212,764	0
Community Residential Services (Dept. of Developmental Services).....	419,447	0	423,874	0	435,201	0
Grants for Substance Abuse Services.....	24,898	0	24,930	0	20,605	0
Grants for Mental Health Services .....	83,764	0	76,476	0	66,135	0
Undesignated .....	46,734	14,499	57,044	14,959	42,010	17,604
Total - Health and Hospitals .....	756,119	14,499	776,157	14,959	776,715	17,604
<b>HUMAN SERVICES</b>						
Medicaid <sup>(1)</sup> .....	4,714,306	0	4,897,951	0	2,409,315	0
Old Age Assistance.....	36,570	0	35,385	0	37,630	0
Aid to the Disabled .....	60,170	0	58,544	0	63,290	0
Temporary Assistance to Families – TANF .....	110,078	0	106,550	0	112,140	0
Connecticut Pharmaceutical Assistance Contract to the Elderly.....	298	0	(41)	0	127	0
Medicaid - Disproportionate Share - Mental Health.....	105,935	0	108,935	0	108,935	0
Connecticut Home Care Program .....	47,609	0	42,151	0	44,324	0
Child Care Services - TANF/CCDBG .....	100,086	0	97,453	0	98,967	0
Housing/Homeless Services.....	51,187	0	52,589	0	5,211	0
Disproportionate Share - Medical Emergency Assistance.....	268,487	0	201,365	0	134,243	0
State Administered General Assistance.....	14,784	0	16,124	0	17,283	0
Undesignated .....	46,086	863	46,487	897	43,844	227
Total - Human Services .....	5,555,591	863	5,663,504	897	3,075,308	227
<b>EDUCATION, LIBRARIES AND MUSEUMS</b>						
Charter Schools.....	56,926	0	0	0	0	0
Adult Education .....	20,002	20,002	19,995	19,995	21,034	21,034
Transportation of School Children.....	25,785	25,785	24,921	24,921	24,885	24,885
Education Equalization Grants.....	1,889,229	1,889,229	1,995,091	1,995,091	2,066,589	2,066,589
Priority School Districts.....	0	0	118,699	118,699	47,427	47,427
Excess Cost - Student Based .....	139,829	139,829	139,832	139,832	139,806	139,806
Magnet Schools.....	206,742	206,742	244,638	244,638	265,449	265,449
Connecticut Independent College Student Grant .....	18,072	0	15,958	0	0	0
Connecticut Aid for Public College Students.....	29,808	0	24,225	0	42,012	0

	<b>Fiscal Year 2012 (Actual)</b>		<b>Fiscal Year 2013 (Unaudited)</b>		<b>Fiscal Year 2014 (Appropriated)</b>	
	<b>Total Payments</b>	<b>Payments to Local Governments</b>	<b>Total Payments</b>	<b>Payments to Local Governments</b>	<b>Total Payments</b>	<b>Payments to Local Governments</b>
Teachers' Retirement Contributions ...	757,246	0	787,536	0	948,540	0
Undesignated .....	243,099	174,369	120,733	63,200	217,392	157,609
Total – Education.....	3,386,738	2,455,956	3,491,628	2,606,376	3,773,133	2,722,799
<b>CORRECTIONS</b>						
Community Support Services (Dept. of Correction).....	40,370	0	39,747	0	41,276	0
Board and Care for Children – Adoption.....	86,744	0	88,966	0	91,066	0
Board and Care for Children – Foster.....	107,146	0	112,944	0	113,318	0
Board and Care for Children – Residential.....	169,013	0	140,796	0	141,375	0
Community KidCare .....	22,764	0	23,451	0	35,717	0
Undesignated .....	91,142	0	89,541	0	106,317	0
Total – Corrections .....	517,180	0	495,445	0	529,068	0
<b>NON FUNCTIONAL</b>						
Debt Service (Including UConn 2000 and CHEFA Day Care Security and Teachers' Retirement Pension Obligation Bonds) <sup>(g)</sup> .....	1,813,450	0	1,804,222	0	1,719,829	0
Undesignated .....	0	0	0	0	0	0
Total - Non Functional.....	<u>1,813,450</u>	<u>0</u>	<u>1,804,222</u>	<u>0</u>	<u>1,719,829</u>	<u>0</u>
<b>Total – Fixed Charges.....</b>	<b>12,308,058</b>	<b>2,708,993</b>	<b>12,501,627</b>	<b>2,849,812</b>	<b>10,212,513</b>	<b>2,973,140</b>

- (a) Table 1 includes actual fixed charge expenditures for Fiscal Year 2012, unaudited fixed charge expenditures for Fiscal Year 2013, and appropriated fixed charge expenditures for Fiscal Year 2014.
- (b) In Fiscal Year 2012, Vocational Services, Employment Opportunities and Independent Living Centers moved from the Department of Social Services to the Bureau of Rehabilitative Services; Commission on Tourism was merged into the Department of Economic and Community Development; and Commission on Fire Prevention and Control was merged into the Department of Emergency Services and Public Protection.
- (c) In Fiscal Year 2014 two new agencies were created, the Department of Housing and the Office of Early Childhood. The Department of Housing was created from programs found in the Department of Economic and Community Development and Department of Social Services. The Office of Early Childhood was created from programs found in the State Department of Education.
- (d) In Fiscal Year 2014 Tax Relief for Elderly were moved from General Government to Conservation and Development (DOH).
- (e) In Fiscal Year 2012 Reimbursement to Towns for Loss of Taxes was moved from Nonfunctional to General Government (OPM).
- (f) Beginning in Fiscal Year 2014 the State commenced net budgeting of Medicaid. This reduced appropriated revenues and expenditures by \$2,768.7 million in Fiscal Year 2014.
- (g) Under the old coding system, Debt Service was considered a fixed charge – one of the Payments to Other Than Local Governments. Under the new coding system, Debt Service is coded as an Other Current Expense. Debt Service is included in this table for consistency with past presentation.

SOURCE: Office of Policy and Management

## **Fiscal Year 2013 Operations**

Pursuant to the Comptroller's audited budgetary based financial report provided on December 31, 2013, as of June 30, 2013, General Fund revenues were \$19,405.0 million, General Fund expenditures and miscellaneous adjustments (including net appropriations continued and estimated lapses) were \$19,007.0 million and the General Fund surplus for Fiscal Year 2013 was \$398.0 million. Of the surplus total, pursuant to Public Act No. 13-184, \$220.8 million was reserved for future fiscal year activity and \$177.2 million was reserved for a statutory transfer to the Budget Reserve Fund bringing the Budget Reserve Fund balance to \$270.7 million. This leaves no unappropriated surplus for Fiscal Year 2013. These transfers will not affect the accumulated GAAP deficit.

The final Fiscal Year 2013 operations of the General Fund have been outlined in **Appendices III-D** and **III-E** to this Annual Information Statement.

## **Biennium Budget for Fiscal Years 2014 and 2015**

The General Assembly passed, and the Governor signed into law, Public Act No. 13-184, An Act Concerning Expenditures and Revenue for the Biennium Ending June 30, 2015 along with additional legislation to implement the policy change reflected in the budget. These acts made General Fund appropriations of \$17,188.7 million in Fiscal Year 2014 and \$17,497.6 million in Fiscal Year 2015. The budget projects General Fund revenues of \$17,193.1 million in Fiscal Year 2014 and \$17,500.7 million in Fiscal Year 2015, resulting in a projected surplus of \$4.4 million in Fiscal Year 2014 and \$3.1 million in Fiscal Year 2015.

The adopted biennial budget made two significant changes in the manner in which the State appropriates for Medicaid expenditures within the Connecticut Department of Social Services ("DSS") and in the Connecticut Department of Mental Health and Addiction Services. The first change was undertaken as part of the upcoming implementation of the federal Affordable Care Act related to the increase in 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. The second change net-budgeted the Medicaid account in DSS. Previously, the State appropriated Medicaid expenditures on a gross basis within DSS, 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 will commence net budgeting Medicaid expenditures within DSS, resulting in only the State's share of payments to private Medicaid providers being appropriated. These changes reduced both appropriations and revenues by \$2,768.7 million in Fiscal Year 2014 and by \$3,204.9 million in Fiscal Year 2015 compared to current services. The budget also included expenditure adjustments to reflect the conversion from a cash basis of accounting to an accrual basis of accounting as part of the conversion to GAAP-based budgeting.

### ***Revenue Enhancements***

The adopted biennial budget included \$564.6 million in revenue enhancements in Fiscal Year 2014 and \$160.5 million in Fiscal Year 2015. The significant revenue enhancements included:

- the extension of certain tax measures that were anticipated to expire which include the twenty percent corporate surcharge, the tax on electric generators for one additional calendar quarter, and certain limits on the use of tax credits under the insurance premiums tax, anticipated to raise \$88.9 million in Fiscal Year 2014 and \$101.0 million in Fiscal Year 2015;
- the elimination of certain revenue intercepts that are targeted toward municipal aid as part of the overall reconfiguration of such aid, anticipated to increase revenue by \$92.4 million in Fiscal Year 2014 and \$97.9 million in Fiscal Year 2015;

- transfers from other sources totaling \$451.5 million in Fiscal Year 2014 and \$176.4 million in Fiscal Year 2015, as follows:
  - the use of the Fiscal Year 2013 surplus projected, at the time the budget was adopted, at \$220.8 million;
  - the funding of the Mashantucket Pequot Fund grant to towns, which reduces transfers from the General Fund by \$146.4 million over the biennium; and
  - \$109.7 million over the biennium from the Special Transportation Fund and up to \$35 million related to the State's assumption of certain responsibilities and corresponding reserves of the Connecticut Resource Recovery Authority.

The adopted budget also reflected a net revenue reduction of \$68.2 million in Fiscal Year 2014 and \$214.8 million in Fiscal Year 2015, primarily from the loss of matching federal funds due to proposed expenditure changes outlined below.

### ***Expenditure Changes***

Prior to policy changes adopted in the budget, the budget for Fiscal Year 2014 on a current services basis would have been \$1,929.0 million above estimated expenditures in the prior fiscal year. Current services expenditures for Fiscal Year 2015 would have increased by an additional \$1,017.7 million above the level in Fiscal Year 2014. The largest drivers of these increases were related to the implementation of the federal Affordable Care Act and increases in the level of pension plan funding. The adopted budget appropriated \$3,748.1 million less than the current services level in Fiscal Year 2014 and \$4,456.9 million less than the current services level in Fiscal Year 2015. The most significant factor contributing to the decrease in appropriations is the net budgeting of Medicaid payments discussed above. Other significant reductions contained in the adopted budget included:

- reduction in expenditures of \$196.0 million in each year of the biennium from restructuring the 2009 Economic Recovery Notes by the extension of their maturity for two additional years;
- the phase down of disproportionate share payments to hospitals totaling \$120.8 million in Fiscal Year 2014 and \$255.1 million in Fiscal Year 2015;
- various savings initiatives in the Medicaid program totaling \$247.9 million in Fiscal Year 2014 and \$371.7 million in Fiscal Year 2015; and
- the extension of the cap on municipal aid grants totaling \$102.8 million in Fiscal Year 2014 and \$114.6 million in Fiscal Year 2015.

Section 2-33a of the Connecticut General Statutes sets out the State's expenditure cap. The adopted budget was \$9.4 million below the expenditure cap for Fiscal Year 2014 and \$166.3 million below the expenditure cap for Fiscal Year 2015.

### ***Bond Authorizations***

The adopted budget also included several bonding authorizations, including:

- ***General Obligation*** -- a net increase in general obligation bond authorizations totaling \$1,619.5 million in Fiscal Year 2014 and \$1,581.0 million in Fiscal Year 2015;
- ***Clean Water Fund*** -- \$380.4 million in additional clean water revenue bond authorizations in Fiscal Year 2014 and \$332.0 million in Fiscal Year 2015;
- ***Special Transportation Obligation*** -- \$706.7 million in special transportation obligation bond authorizations in Fiscal Year 2014 and \$588.8 million in Fiscal Year 2015;

- **University of Connecticut** -- \$198.0 million in general obligation bond authorizations for the University of Connecticut take effect in Fiscal Year 2014 and \$208.5 million take effect in Fiscal Year 2015;
- **Connecticut State University System** -- \$95.0 million in general obligation bond authorizations of the State for the Connecticut State University System take effect in each of Fiscal Years 2014 and 2015;
- **Connecticut Bioscience Collaboration Program** -- \$59.7 million general obligation bond authorizations for the Connecticut Bioscience Collaboration Program take effect in Fiscal Year 2014 and \$19.7 million take effect in Fiscal Year 2015; and
- **UConn 2000** -- \$1.5 billion expansion to the existing UConn 2000 bond authorization, which extends the UConn capital program through Fiscal Year 2024. This will increase the UConn 2000 bond authorization by \$6.4 million in Fiscal Year 2014 and by \$107 million in Fiscal Year 2015.

In addition, the budget partially addressed the State's accumulated GAAP deficit reflected on its financial statements as the unassigned fund balance in the General Fund, estimated to be approximately \$1.1 billion at June 30, 2013, through the issuance of general obligation bonds in an aggregate principal amount sufficient to generate net proceeds of no more than \$750 million and that mature no later than June 30, 2028. The implementing act further provided that there shall be deemed appropriated from the General Fund of the State in each fiscal year from and including Fiscal Year 2016 through Fiscal Year 2028, to be distributed over such fiscal years, an amount equal to the difference between the accumulated deficit of the State in the General Fund determined using GAAP and the amount of bonds authorized for the purpose of reducing the accumulated General Fund GAAP deficit. Additionally, the act required the State to covenant with the bond holders that the State shall not diminish such appropriation until such bonds are fully met and discharged, subject to certain exceptions. See **FINANCIAL PROCEDURES - Transition to GAAP** herein.

See **Appendix III-E** of this Annual Information Statement for more information regarding the adopted budget for Fiscal Years 2014 and 2015.

### **Fiscal Year 2014 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 2014 Fiscal Year as of the referenced ending period under a GAAP-based budgeting scenario:



**OPM and Comptroller Estimates Fiscal Year 2014  
(in Millions)**

<b>Period</b>	<b><u>OPM's Report</u></b>			<b><u>Comptroller's Report</u></b>		
	<b><u>Revenues</u></b>	<b><u>Expenditures</u><sup>(a)</sup></b>	<b><u>Surplus/ (deficit)</u></b>	<b><u>Revenues</u></b>	<b><u>Expenditures</u><sup>(a)</sup></b>	<b><u>Surplus/ (deficit)</u></b>
November 30, 2013	\$17,394.8	\$17,121.5	\$273.3 <sup>(b)</sup>	\$17,394.9	\$17,121.2	\$273.7
December 31, 2013	17,614.3	17,108.2	506.1	17,614.3	17,108.2	506.1
January 31, 2014 <sup>(c)</sup>	17,614.3	17,109.9	504.4	N/A <sup>(d)</sup>	N/A <sup>(d)</sup>	N/A <sup>(d)</sup>

- (a) Expenditures include net appropriations continued and estimated lapses and miscellaneous adjustments.  
(b) The Secretary of OPM indicated that he was concerned about the potential economic impact of political confrontation regarding the Federal debt ceiling, which must be addressed in February or March 2014.  
(c) Estimates are not reflected in Appendix III-E to this Annual Information Statement.  
(d) Estimates are expected on March 3, 2014 and not yet available.

The next monthly report of OPM is expected on March 20, 2014 and no assurances can be given that the estimates in such report will match the OPM's prior estimates. The next monthly report of the Comptroller is expected on March 3, 2014 and no assurances can be given that the estimates in such report will match the Comptroller's prior estimates or the estimates of OPM.

On February 25, 2014, the Office of Fiscal Analysis projected a surplus in the General Fund of \$518.2 million for Fiscal Year 2014 on a budgetary basis.

The above projections are only estimates and no assurances can be given that future events will materialize as estimated, or that subsequent estimates or adjustments by OPM, the Comptroller or other State agencies will not reflect changes in the estimated or final result of Fiscal Year 2014 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 2014 operations of the General Fund. The Office of Policy and Management's estimate for the Fiscal Year 2014 operations of the General Fund (as of the period ending December 31, 2013) has been outlined in **Appendix III-E** to this Annual Information Statement.

**Forecasted Operation**

**Consensus Revenue Estimates.** Pursuant to Section 2-36c of the Connecticut General Statutes, on January 15, 2014, OPM and the legislature's Office of Fiscal Analysis issued their consensus revision to their original consensus revenue estimates of November 8, 2013 for the current fiscal year and the four ensuing fiscal years as follows:

<b><u>Fiscal Year</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>
<b>Revenue Estimate (in millions)</b>	\$17,614.3	\$17,685.4	\$17,851.5	\$18,579.3	\$19,377.4

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. The next consensus revenue estimates for the same fiscal years are expected on April 30, 2014.

**Fiscal Accountability Report.** OPM and the legislature’s Office of Fiscal Analysis, on November 15, 2013 each submitted a fiscal accountability report projecting the ending balance in the General Fund for the current fiscal year and the four ensuing fiscal years as follows:

**General Fund Operating Surplus/(Deficit) Projections  
(In Millions)**

<u>Fiscal Year</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Office of Policy and Management.....	\$ 134.7	\$ 35.1	\$ (612.4)	\$ (432.5)	\$ (376.3)
Office of Fiscal Analysis.....	117.1	8.4	(1,103.4)	(1,226.8)	(1,436.5)

The difference between the projections of the two offices reflects differences in methodology. The projections in the OPM report were based upon a *current practices* approach and assume the continuation of certain budgetary policies that have been customarily enacted in prior years. The projections in the Office of Fiscal Analysis report were based on *current services*.

OPM and the legislature’s Office of Fiscal Analysis also projected the amounts by which the estimates of the expenditures would be below or above the State’s expenditure cap as follows:

**Projection of Amounts Above/(Below) Expenditure Cap  
(In Millions)**

<u>Fiscal Year</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Office of Policy and Management.....	\$(9.4)	\$(56.9)	\$ 95.8	\$ (98.6)	\$(106.8)
Office of Fiscal Analysis.....	(9.4)	11.9	482.8	547.7	655.2

The reports also estimated general obligation bond authorizations, allocations, issuance and debt service for the current fiscal year and ensuing four fiscal years. The reports estimated general obligation bond issuances over the five-year period of between \$1.9 billion and \$2.7 billion per year, with the expenditure on debt service gradually increasing.

The projections of OPM and the legislature’s Office of Fiscal Analysis are only estimates and the information in each of the fiscal accountability reports contain only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or actions of the State will not indicate changes in the final result of such fiscal years. In addition, the State has a balanced budget requirement and an expenditure cap as discussed at **Page III-7** under the heading **The Budgetary Process – Balanced Budget Requirement**. As such, budgets adopted for the future fiscal years will need to comply with those requirements. As a result, the figures included in these reports do not represent a projection of the actual financial results that might be expected, but instead serve as planning tools.

**Midterm Budget Adjustments**

Per Section 4-71 of the Connecticut General Statutes, the Governor is required to submit a status report to the General Assembly on the biennial budget enacted in the previous year. The status report shall include any recommendations for adjustments and revisions to the enacted budget. On February 6, 2014 the Governor submitted to the General Assembly a status report including detailed projections of expenditures and revenues and proposed midterm budget adjustments for Fiscal Year 2015. In addition, since the State is projecting a surplus of \$506.1 million in Fiscal Year 2014, the Governor proposes that \$155 million of the surplus be returned to taxpayers in the form of a sales and gas tax refund, \$100 million be deposited into the State Employee Retirement System, and \$242.6 million be deposited into the Budget Reserve Fund. The

Governor also proposes that an additional \$30.0 million be deposited into the Budget Reserve Fund from the FY 2013 surplus that had been reserved for use in Fiscal Year 2015. The total deposit of \$272.6 million would increase the balance of the Budget Reserve Fund to \$543.3 million at the end of Fiscal Year 2014.

The midterm budget adjustments incorporate the January 15<sup>th</sup> consensus revenue forecast as a baseline and include modest tax relief for total revenue collections in the General Fund for Fiscal Year 2015 of \$17,518.5 million. The Governor recommended a decrease in General Fund appropriations for Fiscal Year 2015 of \$1.4 million from the adopted Fiscal Year General Fund budget of \$17,497.6 million for total General Fund appropriations of \$17,496.2 million, resulting in a projected General Fund budget surplus of \$22.3 million. The proposed budget is \$8.1 million below the spending cap in Fiscal Year 2015.

The Governor is proposing modest tax relief in Fiscal Year 2015. Tax policy and revenue changes proposed in this budget include exempting up to 50 percent of teachers' pensions from the personal income tax, exempting non-prescription drugs from the sales and use tax, depositing certain fee income related to immunization revenue in the insurance fund instead of the General Fund, and reserving a one-time \$60.0 million of revenue for use by the Board of Regents and the Connecticut State Colleges & Universities. The projected decrease in General Fund revenues from all proposed policy changes is \$166.9 million in Fiscal Year 2015.

While modestly decreasing Fiscal Year 2015 appropriations, the proposed adjustments to the Fiscal Year 2015 budget result in investments in several service areas. Included is a \$40 million increase in spending on early childhood and K-12 education and an additional \$2 million for the Governor's Scholarship Program. The Governor proposes providing \$3.6 million to the Department of Labor for a State-wide program to provide training and subsidized employment opportunities to the long-term unemployed. Also included in the Governor's budget is an \$8 million increase in the State's payments-in-lieu-of-taxes (PILOT) program benefitting Connecticut's cities and towns. The Governor also recommends additional investment in mental health services in Connecticut.

The largest reductions from the originally adopted Fiscal Year 2015 budget include \$30.0 million due to lower debt service costs, \$27.2 million due to re-estimation of anticipated GAAP costs, and \$16.7 million due to re-estimation of case load for residential board and care in the Department of Children and Families.

The Governor is proposing a total of \$445.5 million in Fiscal Year 2015 capital budget adjustments, of which \$380.7 million is under the General Obligation Bond program. The adjustments emphasize investments in education, economic development, shoreline improvements, and transportation infrastructure with the goal of rebuilding Connecticut's infrastructure with a focus on funding projects and programs that create and retain jobs in the State.

The General Assembly is expected to deliberate on the Governor's mid-term budget adjustments with an expected adjournment date of May 7, 2014.

### **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. Eight companies including Cigna, ESPN, NBC Sports and Bridgewater Associates have agreed to participate in this program, pledging to create over 1,050 combined jobs in Connecticut in return for \$132.45 million in forgivable loans, grants, and tax credits from the State and potential further tax credits depending on expenditure levels of certain of the companies. After securing these

commitments, legislation was passed to expand the program to allow incentives to be bundled in this manner for up to 15 companies.

***Bioscience Connecticut.*** Legislation 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.

### General Fund Budget History

**Table 2** summarizes the results of operation of the General Fund on a budgetary-basis. Summaries of actual revenues and expenditures on the budgetary (modified cash) basis for the Fiscal Years 2009 through 2013 are set forth in **Appendix III-D** to this Annual Information Statement.

**TABLE 2**  
**General Fund**  
**Summary of Operating Results — Budgetary (Modified Cash) Basis**  
**(In Millions)**

<u>Fiscal Year</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Total General Fund Revenues <sup>(a)</sup> .....	\$15,700.8	\$17,688.5	\$17,707.5	\$18,561.6	\$19,405.0
Net Appropriations/Expenditures <sup>(b)</sup> .....	<u>16,648.4</u>	<u>17,238.6</u>	<u>17,470.6</u>	<u>18,705.1</u>	<u>19,007.0</u>
<b>Operating Surplus/(Deficit)</b> .....	<u>\$ (947.6)</u> <sup>(c)</sup>	<u>\$ 449.9</u> <sup>(d)</sup>	<u>\$ 236.9</u> <sup>(e)</sup>	<u>\$ (143.5)</u> <sup>(f)</sup>	<u>\$ 398.0</u> <sup>(g)</sup>

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

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

(c) The State Treasurer was given authority to fund, and did fund, the Fiscal Year 2009 General Fund deficit through economic recovery notes in the amount of \$915,795,000.

(d) The entire surplus balance of \$449.9 million was reserved for Fiscal Year 2011, \$140.0 million for spending and the remaining \$309.9 million to reduce the amount of economic recovery revenue bonds to be issued. The State has since repealed the authorization to issue economic recovery revenue bonds.

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

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

(g) 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.

SOURCE: Comptroller's Office

**Table 3** shows the reconciliation of the actual operations surplus (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting for the last five fiscal years. Audited GAAP based financial statements for Fiscal Year 2013 are included in **Appendix III-C**.

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

<u>Fiscal Year</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Modified Cash Basis Operating Surplus/(Deficit) .....</b>	\$ (947.6)	\$ 449.9	\$ 236.9	\$ --	\$ 398.0
<u>Adjustments:</u>					
Increases (decreases) in revenue accruals:					
Governmental Receivables.....	284.0	(113.1)	(103.3)	(178.1)	(38.70)
Other Receivables .....	101.4	(42.6)	85.2	(117.2)	(74.50)
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities .....	(601.6)	(160.9)	(100.4)	590.2	87.80
Salaries and Fringe Benefits Payable .....	56.6	(7.8)	4.4	131.3	(32.80)
Increase (decrease) in Continuing Appropriations ...	(415.3)	32.7	79.5	(70.6)	(17.90)
Reclassification of equity adjustments .....	--	--	--	--	--
Proceeds of Recovery Notes .....	--	947.5	--	--	--
Transfer of restricted resources .....	--	(1,278.5)	(103.2)	--	--
Transfer of prior year surplus .....	(179.4)	--	(449.9)	(143.5)	--
<b>GAAP Based Operating Surplus/(Deficit) .....</b>	<u>\$ (1,701.9)</u>	<u>\$ (172.8)</u>	<u>\$ (350.8)</u>	<u>\$ 212.1</u>	<u>\$ 321.9</u>

SOURCE: Comptroller's Office

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

**TABLE 4**  
**General Fund**  
**Unreserved Fund Balance — Budgetary (Modified Cash) Basis**  
**(In Millions)**

<u>Fiscal Year</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Operating Surplus/(Deficit).....</b>	\$ (947.6)	\$ 449.9	\$ 236.9	\$(143.5)	\$398.0
<b>Fund Transfers and Reserves</b>					
Transfers to Budget Reserve Fund.....	0.0	0.0	0.0	0.0	177.2
Transfers from Budget Reserve Fund .....	--	--	--	143.5	--
Reserve for Fiscal Year 2011 Operations .....	--	140.0	--	--	--
Reserve to reduce economic recovery revenue bonds <sup>(a)</sup>	--	309.9	--	--	--
Reserve for Fiscal Year 2009 Operations .....	--	--	--	--	--
Reserve for Subsequent Fiscal Year Operations .....	--	--	236.9 <sup>(b)</sup>	--	220.8
Total Transfers/Reserves.....	\$ (947.6)	\$ 449.9	\$ 236.9	\$ 143.5	\$ 0.0
<b>Unreserved Fund Balance</b>					
<b>Surplus/(deficit).....</b>	<u>\$ (947.6)</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>

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

(b) In accordance with a labor agreement, \$14.5 million of this reserve will be deposited in the Other Post Employment Benefit Trust Fund and the remaining balance will be used to pay down Economic Recovery Notes issued in 2009.

SOURCE: Comptroller's Office

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

**TABLE 5**  
**General Fund**  
**Unreserved Fund Balance — Budgetary (Modified Cash) Basis vs. GAAP Basis**  
**(In Millions)**

<u>Fiscal Year</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Unreserved Fund Balance (Deficit)</b>					
<b>Modified Cash Basis</b> .....	\$ (947.6)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
<b>GAAP Based Adjustments</b>					
<b>Additional Assets</b>					
Taxes Receivable					
Income Tax Accrual Reduction.....	(364.1)	(377.4)	(525.3)	(328.1)	(372.5)
Eliminate Corporation Accrual .....	(11.2)	(12.6)	(5.4)	(4.4)	(8.9)
Additional Taxes Receivable .....	<u>4.1</u>	<u>3.8</u>	<u>4.2</u>	<u>3.7</u>	<u>4.4</u>
Net Increase (Decrease) Taxes.....	(371.2)	(386.2)	(526.5)	(328.8)	(377.0)
Net Accounts Receivable.....	199.6	218.0	307.9	299.9	291.4
Federal and Other Grants Receivable <sup>(a)</sup> .....	758.5	645.4	542.1	364.0	325.3
Due From Other Funds .....	<u>27.1</u>	<u>24.8</u>	<u>19.6</u>	<u>19.0</u>	<u>26.2</u>
Total Additional Assets.....	\$ 614.0	\$ 502.0	\$ 343.1	\$ 354.1	\$ 265.9
<b>Additional Liabilities</b>					
Salaries and Fringe Payable .....	(242.5)	(250.3)	(245.9)	(114.6)	(147.4)
Accounts Payable—Department of					
Social Services .....	(585.0)	(573.0)	(711.9)	(588.8)	(550.8)
Accounts Payable—Trade & Other.....	(891.0)	(1,131.2)	(844.1)	(543.7)	(575.3)
Payable to Federal Government.....	(146.1)	(124.5)	(186.9)	(176.6)	(124.6)
Due to Other Funds .....	<u>(105.2)</u>	<u>(102.0)</u>	<u>(103.2)</u>	<u>( 76.4)</u>	<u>( 84.9)</u>
Total Additional Liabilities.....	\$(1,969.8)	\$(2,181.0)	\$(2,092.0)	\$(1,500.1)	\$(1,483.0)
<b>Unreserved Fund Balance (Deficit)</b>					
<b>GAAP Basis</b> .....	<u>\$(2,303.4)</u>	<u>\$(1,679.0)</u>	<u>\$(1,748.9)</u>	<u>\$(1,146.0)</u>	<u>\$(1,217.1)</u>

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

SOURCE: Comptroller's Office

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

**TABLE 6**  
**General Fund Fund Balances-GAAP Basis**  
**(In Millions)**

<u>Fiscal Year</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Reserved:</b>					
Petty Cash .....	\$ 1.0	\$ 1.0	\$ --	\$ --	\$ --
Budget Reserve .....	1,381.7	103.2	--	93.4	270.7
Loans & Advances to Other Funds .....	9.8	15.0	22.5	26.6	30.5
Restricted Purposes .....	--	449.9	236.9	--	220.8
Inventories.....	24.3	13.9	13.6	13.6	15.5
Continuing Appropriations.....	87.1	113.2	178.6	100.0	91.0
Debt Service.....	--	--	--	--	--
Total .....	<u>\$ 1,503.9</u>	<u>\$ 696.2</u>	<u>\$ 451.6</u>	<u>\$ 233.6</u>	<u>\$ 628.5</u>
<b>Unreserved:</b>	<u>(2,303.4)</u>	<u>(1,679.0)</u>	<u>(1,748.9)</u>	<u>(1,146.0)</u>	<u>(1,217.1)</u>
<b>Total Fund Balance .....</b>	<u>\$ (799.5)</u>	<u>\$ (982.8)</u>	<u>\$(1,297.3)</u>	<u>\$ (912.4)</u>	<u>\$ (588.6)</u>

SOURCE: Comptroller's Office



## STATE DEBT

### Constitutional Provisions

The State has no constitutional limit on its power to issue obligations or incur debt, except that it 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"). That act provides that such bonds shall be general obligations of the State and that the full faith and credit of the State are pledged for the payment of the principal of and interest on such bonds as the same become due. 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 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 the principal amount of revenue anticipation notes having a maturity of one year or less, refunded indebtedness, bond anticipation notes, borrowings payable solely from the revenues of a particular project, the balances of debt retirement funds associated with indebtedness subject to the debt limit as certified by the Treasurer, the amount of federal grants certified by the Secretary of OPM as receivable to meet the principal of certain indebtedness, all authorized and issued indebtedness to fund any budget deficit of the State for any fiscal year ending on or before June 30, 2009, all authorized debt to fund the Connecticut Development Authority's tax increment bond program, any indebtedness represented by agreements entered into pursuant to certain provisions of the General Statutes, provided the indebtedness in connection with which such agreements were entered into shall be included in such aggregate amount of indebtedness, any indebtedness issued for the purpose of meeting cash flow needs, and any indebtedness issued for the purpose of covering emergency needs in times of natural disaster. For purposes of the debt limit statute, all bonds and notes issued or guaranteed by the State and payable from General Fund tax receipts are counted against the limit, except for the exclusions or deductions described above, and certain other debt specifically excluded by statute. In addition, the amount of authorized but unissued debt for the UConn 2000 program is limited to the amount permitted to be issued under the cap. See ***Types of Direct General Obligation Debt — UConn 2000 Financing Program.***

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

The total tax receipts for the Fiscal Year 2014 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 December 15, 2013, are described in the following table.

**TABLE 7**  
**Statutory Debt Limit**  
**As of December 15, 2013**

Total General Fund Tax Receipts	\$14,334,000,000	
Multiplier	<u>1.6</u>	
Debt Limit		\$22,934,400,000
Outstanding Debt <sup>(a)</sup>	\$11,686,285,038	
Guaranteed Debt <sup>(b)</sup>	\$ 999,530,000	
Authorized Debt <sup>(c)</sup>	<u>\$ 5,775,096,972</u>	
Total Subject to Debt Limit		\$18,460,912,010
Less Debt Retirement Funds <sup>(d)</sup>	\$ 4,588,741	
Aggregate Net Debt		\$18,456,323,269
Debt Incurring Margin		\$ 4,478,076,731

- 
- (a) See **Table 8**. Includes accreted value of capital appreciation bonds. Excludes General Obligation Notes (Economic Recovery 2009 Series A and 2013 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**. Includes 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 2014.
- (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.

Subject to satisfaction of certain conditions, the Commission may authorize the issuance of general obligation bonds by the approving vote of at least a majority of the Commission, upon a finding that such authorization will be in the best interest of the State. Upon authorization, the principal amount of bonds so authorized is deemed 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.*** Legislation passed in 2007 authorized the issuance of pension obligation bonds to fund up to \$2 billion of the unfunded accrued liability in the Teachers' Retirement Fund plus capitalized interest and issuance costs. In April 2008 the State issued \$2,277 million of such bonds, and \$2,349 million (reflecting the accreted value) of such bonds are outstanding as of December 15, 2013. The public act also requires the State to appropriate annually the actuarially-determined annual required contribution to the Teachers' Retirement Fund, while the bonds are outstanding. The bonds are general obligations of the State, but do not count against the State's debt limit.

***UConn 2000 Financing Program.*** In 1995 the General Assembly established the University of Connecticut as a separate corporate entity and instrumentality of the State empowered to issue bonds and construct 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 **Table 12**. 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. Each resolution approved by the University to borrow money, including bonds secured by the State's debt service commitment, may be rejected by the Governor within thirty days of submission. As of December 15, 2013, \$1,771.45 million of such debt secured by the State's debt service commitment had been issued, of which \$998.33 million remain outstanding, with a remaining authorization of \$254.4 million.

The total amount of University bonds and State general obligation bonds authorized by the enabling legislation is approximately \$336.4 million less than the estimated total cost of the infrastructure improvements. Approximately \$271 million of this difference has been addressed, and the remaining balance of approximately \$65 million will be addressed through capital cost reductions, the deferral of certain projects to a future date, and by the securing of additional funding sources, such as private fundraising, general obligations of the University not secured by the State's debt service commitment, and special obligation bonds

of the University. Special obligation bonds are to be secured by particular revenues of the University pledged therefore, are not subject to the cap on the University's general obligation bonds and are not counted against the State's debt limit. The University does not have any Special Capital Reserve Fund debt outstanding as of December 15, 2013.

The General Assembly has and may continue to authorize capital improvements for the University of Connecticut in addition to the UConn 2000 Program. In 2011 general obligation bonds of the State were authorized for the establishment of a bioscience cluster anchored by the Jackson Laboratory for Genomic Medicine, a research laboratory to be located on University of Connecticut Health Center's Farmington campus, and for creation of a technology park on the University's Storrs Campus. These are reflected in the Authorized but Unissued Direct General Obligation Debt shown in **Table 12**. The construction of a new \$203 million ambulatory care center at the University of Connecticut Health Center also was authorized in 2011 and has been financed through a lease financing through the University of Connecticut Health Center Finance Corporation.

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

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

**Supportive Housing Financing.** In 2005 the General Assembly directed the Connecticut Housing Finance Authority ("CHFA") in conjunction with other state agencies to develop a collaborative plan to create affordable housing and support services for specified eligible persons and families up to a specified number of units. The program is to be funded in part through mortgages, tax credits and grants from CHFA and the Department of Economic and Community Development. CHFA is authorized to issue bonds in support of the program and the 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 December 15, 2013, \$70.5 million of such bonds were outstanding. Any provision in the contract providing for the payment of annual debt service will constitute a full faith and credit obligation of the State, and any bonds for which the State provides assistance will be excluded from the State's debt limit.

**Emergency Mortgage Assistance Program.** In 2008 the General Assembly authorized CHFA to issue up to \$50 million of bonds to fund an Emergency Mortgage Assistance Program and required the Treasurer and OPM 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 December 15, 2013, the entire \$50 million had been issued, of which \$46.1 million was then outstanding. Any provision in the contract providing for the payment of annual debt

service will constitute a full faith and credit obligation of the State, and any bonds for which the State provides assistance will be excluded from the State's debt limit.

***Economic Recovery Notes.*** In 2009 the General Assembly authorized the Treasurer 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 overall limit on state debt. In December 2009, the State issued \$915,795,000 of such Economic Recovery Notes. As of December 15, 2013, \$580.8 million of such Economic Recovery Notes remain outstanding.

***Certain Short-Term Borrowings.*** The General Statutes authorize the Treasurer, subject to the approval of the Governor, to borrow such funds, from time to time, as may be necessary, and to issue obligations of the State therefor, which shall be redeemed by the Treasurer whenever, in the opinion of the Treasurer, there are funds in the treasury available for such purpose, or not later than two years from the date of issuance, whichever is earlier. The State has established programs of temporary note issuances 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 State General Obligation Bond Procedure Act provides that the Treasurer may issue temporary notes and any renewals thereof in anticipation of the proceeds from the sale of bonds whenever the Commission has adopted a resolution authorizing bonds. The Treasurer is also authorized by the State General Obligation Bond Procedure Act to issue refunding bonds whenever the Treasurer finds that 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 State Bond Commission, has the power to enter into reimbursement and similar agreements in connection with liquidity or credit facilities and to pledge the full faith and credit of the State or other collateral to secure the State's payment obligations under any such agreement. The Treasurer, with the authorization of the Commission, has the power to enter into contracts to place the obligation of the State as represented by bonds or notes of the State, on such interest rate or cash flow basis as the Treasurer may determine, including swap agreements and other arrangements to manage interest rate risk. When any such arrangement is entered, the counter-party to the arrangement must have a rating on its unsecured long-term obligations 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 C, Note 19 – Derivative Financial Instruments**.

**Swap Agreements as of December 15, 2013**

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

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

***Debt Statement***

The following table shows all direct general obligation indebtedness (including the accreted value of capital appreciation bonds) 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 December 15, 2013**  
**(In Thousands)**

General Obligation Bonds	\$12,155,764
Pension Obligation Bonds	2,348,855
UConn 2000 Bonds	998,330
Other <sup>(b)</sup>	<u>250,075</u>
Long Term General Obligation Debt Total	\$15,753,024
Short Term General Obligation Debt Total	<u>0</u>
Gross Direct General Obligation Debt	\$15,753,024
Deduct:	
University Auxiliary Services <sup>(c)</sup>	<u>4,589</u>
Net Direct General Obligation Debt	<u>\$15,748,435</u>

- (a) The table does not include refunded bonds for which escrow funds and investments are sufficient to pay all debt service. The table also does not include limited or contingent liabilities of the State or obligations of the State to towns for participation in the construction and alteration of school buildings. See **OTHER FUNDS, DEBT AND LIABILITIES**.
- (b) “Other” includes lease financings, tax incremental financings, CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds. Does not include CRDA Bonds or CHEFA Child Care Facilities Bonds. See **OTHER FUNDS, DEBT AND LIABILITIES – Other Debt Service and Contractual Commitments**.
- (c) 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**  
**Debt Ratios - Long Term General Obligation Debt**

<u>Fiscal Year</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Gross Direct Debt <sup>(a)</sup>	\$13,945,108	\$15,004,732	\$14,574,791	\$14,557,051	\$14,646,101
Net Direct Debt <sup>(a)</sup>	\$13,921,725	\$14,987,088	\$14,561,944	\$14,548,591	\$14,641,513
Ratio of Debt to Personal Income <sup>(b)</sup>					
Gross Direct Debt	7.29%	7.58%	7.04%	6.79%	6.83%
Net Direct Debt	7.28%	7.58%	7.03%	6.79%	6.83%
Ratio of Debt to Estimated Full Value of Equalized Grand List <sup>(c)</sup>					
Gross Direct Debt	2.37%	2.74%	2.71%	2.81%	2.83%
Net Direct Debt	2.36%	2.74%	2.71%	2.81%	2.83%
Per Capita Debt <sup>(d)</sup>					
Gross Direct Debt	\$3,915	\$4,192	\$4,061	\$4,053	\$4,073
Net Direct Debt	\$3,908	\$4,188	\$4,057	\$4,050	\$4,072

(a) In thousands. Includes gross and net long-term direct general obligation bonded indebtedness as set out in **Table 11**.

(b) See **Appendix III-B, Table B-2**. Personal Income: 2009 — \$191.3 billion; 2010 — \$197.8 billion; 2011 — \$207.1 billion; and 2012 — \$214.3 billion. The 2013 ratio uses 2012 data.

(c) Full value estimated by OPM. Uses final equalized net grand lists: 2007 — \$589.4 billion; 2008 — \$547.3 billion; 2009 — \$537.2 billion; and 2010 — \$517.8 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 2009 ratio uses 2007 data; 2010 ratio uses 2008 data; 2011 ratio uses 2009 data; and 2012 and 2013 ratios use 2010 data.

(d) See **Appendix III-B, Table B-1**. State population in thousands: 2009 — 3,562; 2010 — 3,579; 2011 — 3,589; 2012 — 3,592; and 2013 — 3,596.

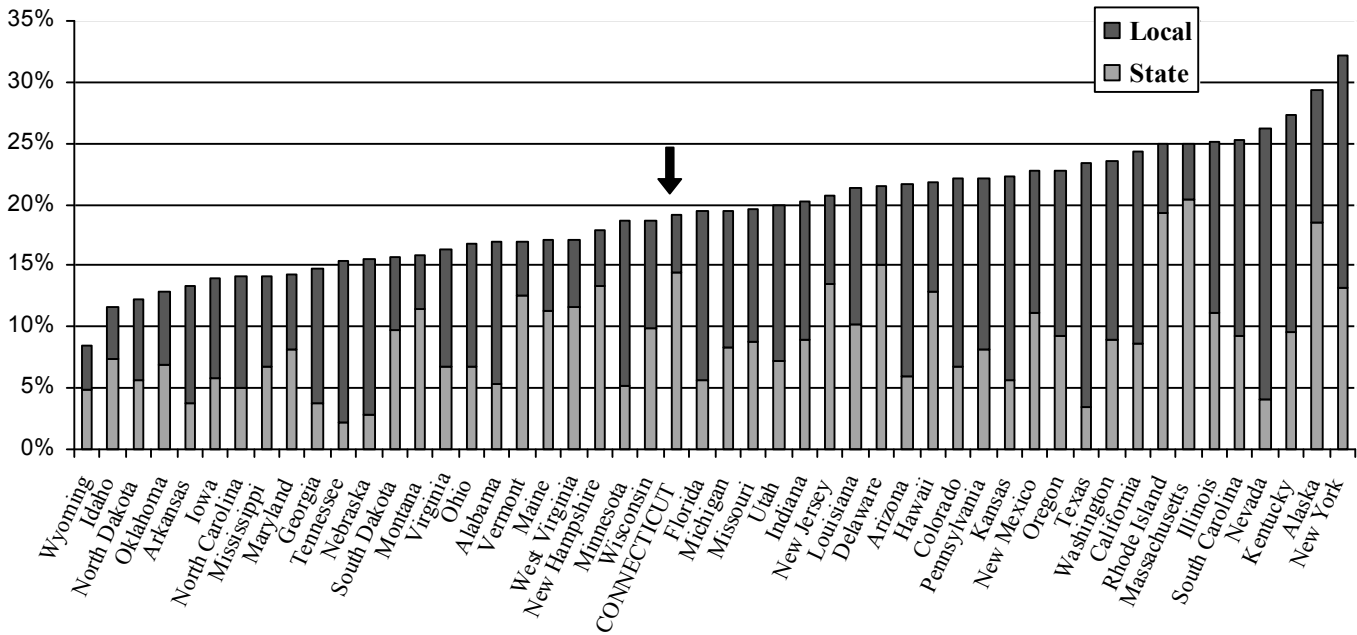
### *Aggregate State and Local Debt*

The following chart sets forth the per capita aggregate debt level of each state, including debt issued at both the state and local levels, compared to per capita personal income within the state. As the chart shows, the State of Connecticut is 24<sup>th</sup> among all states in a ranking of states with the least aggregate debt per capita as a percentage of per capita personal income. The chart below also indicates that the State has the sixth lowest ratio of per capita local debt to per capita personal income and fifth lowest ratio of local debt to aggregate debt. This is due in part to the State's practice of financing school construction primarily at the state level and the 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, 2013 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, 2011 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 2012.
- (b) The Census Bureau state and local debt figures include debt obligations of all dependent agencies of the state and local government, respectively, including agencies, boards, commissions, or other organizations, regardless of the responsibility for debt service. This differs from the components of debt in other places within this Annual Information Statement.

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

***Debt Service Schedule***

The following table sets forth the principal, sinking fund and interest payments required on all outstanding long-term direct general obligation debt of the State, as of December 15, 2013. 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 December 15, 2013**

<u>Fiscal Year</u>	<u>Principal Payments<sup>(b)</sup></u>	<u>Interest Payments<sup>(b,c)</sup></u>	<u>Total Debt Service</u>
2014	\$ 586,284,569	\$ 359,603,959	\$ 945,888,528
2015	1,176,621,365	695,746,714	1,872,368,079
2016	1,201,505,061	643,352,872	1,844,857,933
2017	1,165,654,988	590,543,317	1,756,198,305
2018	1,160,552,299	543,828,532	1,704,380,831
2019	955,296,471	493,532,584	1,448,829,055
2020	900,565,614	451,801,658	1,352,367,271
2021	861,781,206	409,478,268	1,271,259,474
2022	854,914,111	419,654,400	1,274,568,511
2023	869,631,122	390,774,618	1,260,405,740
2024	778,619,066	378,445,770	1,157,064,837
2025	736,317,437	344,754,985	1,081,072,421
2026-2033	<u>4,428,415,000</u>	<u>871,736,411</u>	<u>5,300,151,411</u>
<b>Totals</b>	<b>\$15,676,158,309</b>	<b>\$6,593,254,088</b>	<b>\$22,269,412,396</b>

- (a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments (\$15,676,158,309), plus accreted interest (\$72,277,019), total the amount of such long-term debt (\$15,748,435,328) 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 2014 through 2025.
- (c) Some of the State's direct debt pays interest at variable rates. The interest on such debt is calculated based on the following assumed average rates:

<u>Year Issued</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Maturities</u>	<u>Interest Rate</u>
1997	\$ 100,000,000	\$ 10,000,000	2014	4.25%
2005*	300,000,000	280,000,000	2016-2023	4.50
2005*	15,620,000	15,620,000	2016	3.99
2005*	20,000,000	20,000,000	2017	5.07
2005*	20,000,000	20,000,000	2020	5.20
2011	337,620,000	269,485,000	2014-2018	3.50
2011	75,000,000	75,000,000	2016, 2019	3.50
2012	212,400,000	188,800,000	2014-2020	3.50
2012	219,865,000	194,865,000	2014-2024	3.50
2013	244,570,000	244,570,000	2014-2025	3.50
2013	115,000,000	115,000,000	2015-2021	3.50
2013	<u>314,295,000</u>	<u>314,295,000</u>	2016-2018	3.00
<b>Totals</b>	<b>\$1,974,370,000</b>	<b>\$1,747,635,000</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 and graph sets forth the total long-term direct general obligation debt outstanding and the net long-term direct general obligation debt outstanding at the end of each of the last ten fiscal years. Net debt excludes bonds that are considered self-liquidating. See **Table 8**.

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

<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>
2003	\$ 9,513,380 <sup>(a)</sup>	\$ 9,463,962 <sup>(a)</sup>
2004	9,940,945 <sup>(b)</sup>	9,895,717 <sup>(b)</sup>
2005	10,168,006 <sup>(c)</sup>	10,121,035 <sup>(c)</sup>
2006	10,403,634 <sup>(d)</sup>	10,361,226 <sup>(d)</sup>
2007	10,615,810	10,580,359
2008	13,076,942 <sup>(e)</sup>	13,042,524 <sup>(e)</sup>
2009	13,945,108 <sup>(f)</sup>	13,921,725 <sup>(f)</sup>
2010	15,004,732 <sup>(g)</sup>	14,987,088 <sup>(g)</sup>
2011	14,574,791 <sup>(h)</sup>	14,561,944 <sup>(h)</sup>
2012	14,557,051 <sup>(i)</sup>	14,548,591 <sup>(i)</sup>
2013	14,646,101 <sup>(j)</sup>	14,641,513 <sup>(j)</sup>

(a) Includes \$219,235,000 Economic Recovery Notes.

(b) Includes \$273,215,000 Economic Recovery Notes.

(c) Includes \$209,560,000 Economic Recovery Notes.

(d) Includes \$146,090,000 Economic Recovery Notes.

(e) Includes \$2,278,382,011 Pension Obligation Bonds.

(f) Includes \$2,289,598,815 Pension Obligation Bonds.

(g) Includes \$2,301,522,318 Pension Obligation Bonds and \$915,795,000 Economic Recovery Notes.

(h) Includes \$2,314,197,063 Pension Obligation Bonds and \$915,795,000 Economic Recovery Notes.

(i) Includes \$2,327,670,401 Pension Obligation Bonds and \$747,935,000 Economic Recovery Notes.

(j) Includes \$2,341,992,670 Pension Obligation Bonds and \$573,365,000 Economic Recovery Notes.

SOURCE: State Treasurer's Office

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

***Authorized But Unissued Direct General Obligation Debt.*** The General Assembly has empowered the Commission to authorize direct general obligation bonds pursuant to certain bond acts. The table below shows, as of December 15, 2013, 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 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, 2014.

**TABLE 12**  
**Authorized but Unissued Direct General Obligation Debt**  
**As of December 15, 2013**  
**(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	\$31,776,400	\$2,276,578	\$2,025,852	\$52,750	\$36,131,580
Amount Authorized <sup>(e)</sup>	28,194,406	2,276,578	2,025,852	52,750	32,549,587
Amount Issued	26,254,278	2,276,578	1,771,452	49,155	30,351,463
Authorized but Unissued	1,940,128	0	254,400	3,595	2,198,123
Available for Authorization	3,581,994	0	0	0	3,581,994

- (a) Includes CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds. Also includes authorization and allocation for GAAP Deficit Bonds in an aggregate principal amount sufficient to generate net proceeds of not more than \$750 million. Excludes CRDA Bonds, CHEFA Child Care Facilities Bonds, General Obligation Notes (Economic Recovery 2009 Series A and 2013 Series A) and lease financings.
- (b) The amount available does not include additional amounts which may exceed the cap to finance issuance costs and capitalized interest.
- (c) Includes bonds 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 table and graph below 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.

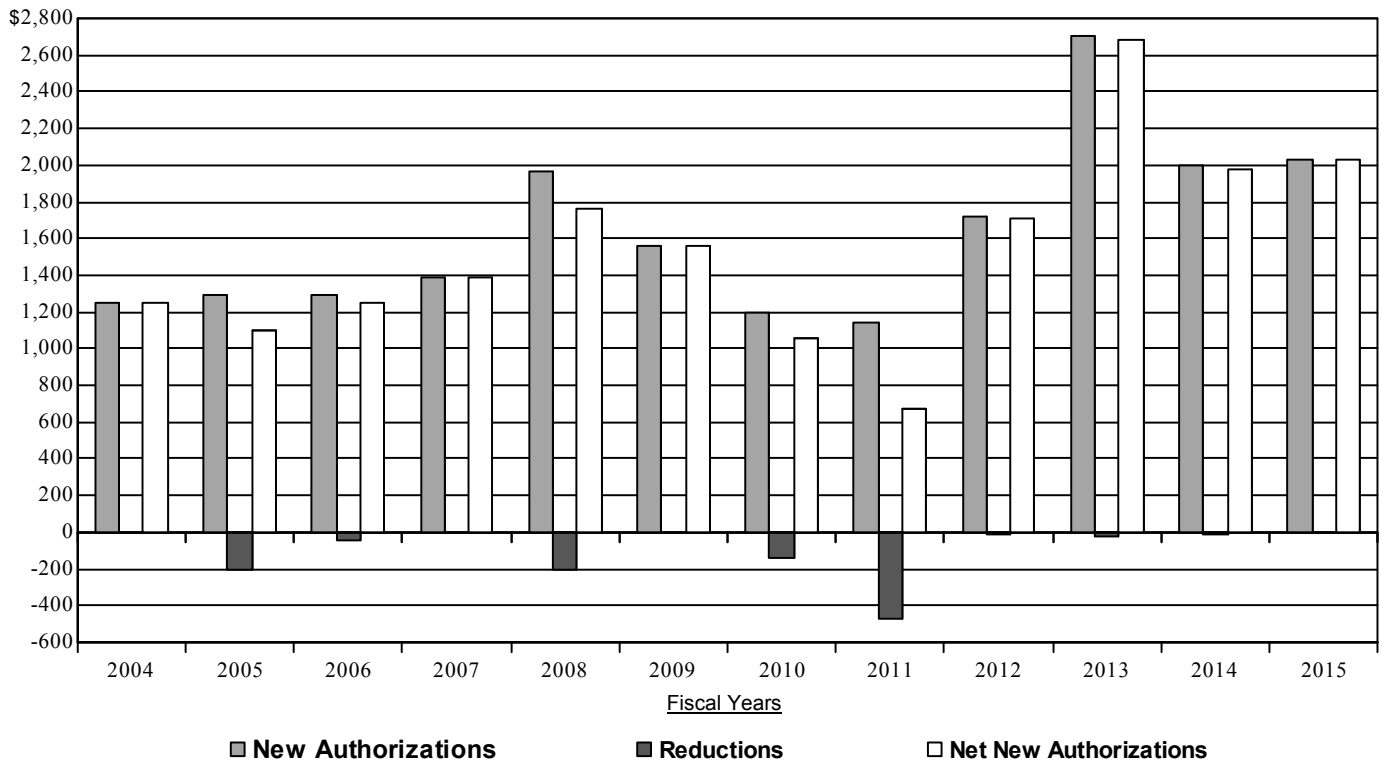
**TABLE 13**  
**Statutory General Obligation Bond Authorizations and Reductions<sup>(a)</sup>**  
**(In Millions of Dollars)**

<b>Fiscal Year</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
New Authorizations	1,246.1	1,296.5	1,290.4	1,388.7	1,965.0	1,564.5	1,195.4	1,147.2	1,724.8	2,708.3	1,993.6	2,026.1
Reductions	<u>0.0</u>	<u>(200.3)</u>	<u>(41.3)</u>	<u>0.0</u>	<u>(206.9)</u>	<u>0.0</u>	<u>(140.5)</u>	<u>(474.6)</u>	<u>(10.8)</u>	<u>(25.3)</u>	<u>(12.0)</u>	<u>0.0</u>
Net New Authorizations	1,246.1	1,096.2	1,249.1	1,388.7	1,758.1	1,564.5	1,054.9	672.6	1,714.0	2,683.0	1,981.6	2,026.1

(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 \$750 million. Includes amount for UConn 2000 available under the cap for Fiscal Years 2004 through 2015, 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 2015. See Table 14.

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

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



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

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

<b><u>Fiscal Year</u></b>	<b><u>2010<sup>(d)</sup></u></b>	<b><u>2011</u></b>	<b><u>2012<sup>(d)</sup></u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>
<b><u>Purpose</u></b>					
Office of Policy and Management <sup>(e)</sup> .....	\$ 85,000	\$ 117,500	\$ 126,700	\$ 198,659	\$ 335,330
Secretary of the State.....	0	0	3,000	2,000	0
State Comptroller.....	0	0	15,000	7,000	0
Attorney General.....	0	0	2,125	0	0
Veterans Affairs.....	0	0	2,000	0	750
Administrative Services <sup>(e)(f)</sup> .....	0	0	35,000	216,500	577,300
Public Works <sup>(e)</sup> .....	2,500	2,500	0	0	0
Construction Services <sup>(e)(f)</sup> .....	0	0	543,900	635,000	0
Emergency Services and Public Protection.....	0	0	6,000	17,420	30,000
Motor Vehicles.....	3,000	0	0	0	1,703
Military.....	1,000	1,000	8,250	5,000	6,150
Agriculture.....	2,500	10,500	15,000	10,000	10,500
Agricultural Experiment Station.....	0	0	3,500	0	0
Energy and Environmental Protection.....	81,000	40,000	161,600	171,000	127,900
Labor.....	0	1,300	10,000	15,000	5,000
Economic and Community Development: <sup>(e)(f)</sup>					
Housing.....	0	0	55,000	147,500	0
Housing Trust Fund.....	20,000	0	25,000	25,000	0
Economic Development....	0	0	236,000	355,000	150,000
Other.....	0	0	5,000	24,000	56,500
Department of Housing: <sup>(f)</sup>					
Housing.....	0	0	0	0	92,000
Housing Trust Fund.....	0	0	0	0	30,000
Capital Region Economic Development Authority.....	0	0	0	60,000	39,122
Connecticut Innovations, Incorporated.....	0	5,000	59,163	120,113	94,728
Public Health.....	7,000	0	2,000	52,000	10,000
Developmental Services.....	0	2,500	7,000	7,000	5,000
Mental Health and Addiction Services.....	0	0	8,000	10,000	2,275
Social Services <sup>(f)</sup> .....	5,000	0	10,000	10,000	0
Education <sup>(e)</sup> .....	694,300	646,200	34,250	107,645	62,250
State Library.....	0	0	0	0	5,000
Charter Oak State College <sup>(e)</sup> .....	2,500	0	0	0	0
Regional Community-Colleges <sup>(e)</sup> .....	3,366	56,129	0	0	0

<b>Fiscal Year</b>	<b>2010<sup>(d)</sup></b>	<b>2011</b>	<b>2012<sup>(d)</sup></b>	<b>2013</b>	<b>2014</b>
Board of Regents for Higher Education <sup>(e)</sup> .....	0	0	57,321	76,723	24,990
Correction .....	0	0	0	0	10,000
Children & Families .....	32,700	0	6,751	7,285	1,231
Judicial .....	0	0	11,000	11,000	11,500
Legislative Management .....	0	9,000	0	0	0
UConn .....	0	0	18,000	154,500	0
UConn 2000 <sup>(b)</sup> .....	140,500	146,500	157,200	143,000	204,400
Transportation .....	8,000	8,000	6,000	25,000	5,000
CSUS 2020 <sup>(c)(e)</sup> .....	<u>95,000</u>	<u>95,000</u>	<u>95,000</u>	<u>95,000</u>	<u>95,000</u>
<b>Totals</b> .....	\$1,183,366	\$1,141,129	\$1,724,760	\$2,708,345	\$1,993,629

- (a) Does not include authorizations that take effect after Fiscal Year 2015. Does not include Pension Obligation Bonds, Economic Recovery Notes, tax increment or cash flow borrowings, CHFA Supportive Housing Bonds and CHFA Emergency Mortgage Assistance Program Bonds, CHEFA Child Care Facilities bonds, GAAP Deficit Bonds or lease financings.
- (b) To be issued by University of Connecticut based on cap for the year indicated prior to actual bond issuance. Does not include additional amounts that may exceed cap to finance reserve funds, issuance costs and capitalized interest.
- (c) The Connecticut State University Infrastructure Act authorizes \$95 million per year from Fiscal Year 2009 through Fiscal Year 2018.
- (d) Includes authorizations enacted in prior fiscal years that become effective during the biennium.
- (e) During the 2012 session of the General Assembly various agency consolidations and realignment of programs were enacted as follows: The Department of Public Works was eliminated and its responsibilities were divided among the Department of Administrative Services and the newly created Department of Construction Services. The Department of Construction Services was created and assumed the design and construction duties of the former Department of Public Works, the Building Inspection and Fire Marshal duties of the former Department of Public Safety and the Bureau of School Facilities of the Department of Education. The Board of Regents for Higher Education was created and Charter Oak State College, the Community College System and the State University System were consolidated under the administration of the Board of Regents.
- (f) During the 2013 session of the General Assembly various agency consolidations and realignments were enacted as follows: The Department of Construction Services was consolidated into the Department of Administrative Services. The Department of Housing was created and assumed the housing duties of the Department of Economic and Community Development, the Office of Policy and Management and the Department of Social Services.

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

## OTHER FUNDS, DEBT AND LIABILITIES

The State conducts certain of its operations through State funds other than the State General Fund and, pursuant to legislation, may issue debt secured by the special taxes or revenues pledged to certain of such funds. In addition, the State is contingently liable, or has limited liability, from the resources of the State's General Fund, for payment of debt service on certain obligations of quasi-public State agencies and municipalities of the State. The State also has committed to apply moneys for debt service on loans to finance certain child care facilities. The State also has made commitments 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 State highways and bridges, projects on the interstate highway system, alternate highway projects in the interstate highway substitution program, waterway facilities, mass transportation and transit facilities, the highway safety program, maintenance garages and administrative facilities of the Department of Transportation, payment of the State's share of the costs of the local bridge program, and payment of State contributions to the local bridge revolving fund. The transportation infrastructure program is administered by the Department of Transportation.

The cost of the transportation infrastructure program for Fiscal Years 1985-2018, which will be met from federal, State, and local funds, is currently estimated at \$31.8 billion. The State's share of such cost, estimated at \$14.1 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. Such expenses currently include liquid resurfacing, minor bridge repairs, highway maintenance activities, safety improvements, and other minor transportation improvements.

The State's share of the cost of the infrastructure program for Fiscal Years 1985-2018 to be financed by STO bonds currently is estimated at \$13.3 billion. The actual amount may exceed \$13.3 billion in order to finance reserves and cost of issuance amounts. The issuance of such STO bonds has eliminated the need for the authorization of additional general obligation bonds of the State for surface transportation purposes. STO bonds also may be issued for the purpose of refunding general obligation bonds of the State issued for transportation infrastructure purposes.

During Fiscal Years 1985-2015, \$28.2 billion of the total transportation infrastructure program was approved by the appropriate governmental authorities. The remaining \$3.6 billion of such infrastructure costs is anticipated to be funded by the issuance of \$1.8 billion in STO bonds, \$59.1 million in anticipated revenues, and \$1.8 billion in anticipated federal funds.

The State has established the Special Transportation Fund for the purpose of budgeting and accounting for all transportation-related taxes, fees and revenues credited to such Fund and securing the STO bonds. STO bonds are payable solely from revenues of the Special Transportation Fund. The aggregate of certain motor fuel taxes, motor vehicle receipts, motor vehicle related licenses, permits and fees, and portions of the oil companies tax and sales tax on motor vehicles and other transportation related revenue sources, including enacted adjustments to all the foregoing sources, and any direct pay federal interest subsidy received by the State in connection with the 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. After providing for debt service requirements, the balance of the receipts from such revenue sources



may be applied to the payment of general obligation bonds of the State issued for transportation purposes and for the payment of annually budgeted expenses of the Department of Transportation and the Department of Motor Vehicles.

The table below shows 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. The General Assembly passed and the Governor signed into law, special transportation obligation bond authorizations of \$706.7 million in Fiscal Year 2014 and \$588.8 million in Fiscal Year 2015.

**TABLE 15**  
**Special Tax Obligation Bonds**  
**As of December 15, 2013**  
**(In Millions)**

	<u>New Money</u>	<u>Refundings</u> <sup>(a)</sup>	<u>Total</u>
<b>Bond Acts in Effect</b>	\$ 11,862	N/A	\$ 11,862
<b>Amount Authorized</b> <sup>(b)</sup>	11,423	N/A	11,423
<b>Amount Issued</b>	8,620	3,887	12,507
<b>Authorized but Unissued</b>	2,803	N/A	2,803
<b>Available for Authorization</b>	439	N/A	439
<b>Amount Outstanding</b>	2,944	923	3,867

(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 addition to STO Bonds, the State has issued direct general obligation bonds for transportation purposes and the debt service on these bonds may be paid from resources of the Special Transportation Fund provided there is sufficient funding first to pay all STO debt service. For Fiscal Year 2013 the Special Transportation Fund paid \$6.2 million of State direct general obligation refunding transportation debt service payments. The amount budgeted by the Special Transportation Fund for State direct general obligation transportation debt service payments for Fiscal Year 2014 is \$0.3 million.

The Special Transportation Fund’s revenues and expenses undergo periodic legislative adjustment. The revenues currently credited to the Fund consist of (i) the motor fuels tax (which includes the gasoline tax and the special fuels tax, which formerly were levied as separate taxes, and the motor carrier road tax); (ii) motor vehicle receipts (e.g., fees for registration of motor vehicles); (iii) license, permit and fee revenue (e.g., fees for license to sell or repair motor vehicles); (iv) specific amounts of the petroleum products gross earnings tax; (v) specific amounts of the tax imposed on casual sales of motor vehicles, vessels, snowmobiles and aircraft; (vi) moneys formerly received by the State from the Federal Transit Administration pursuant to the Urban Mass Transportation Act of 1964; (vii) specified amounts to be transferred from the General Fund during certain fiscal years; and (viii) other receipts, funds, and moneys credited to the Fund.

A Transportation Strategy Board (“TSB”) was established in 2001 to propose a transportation strategy, an implementation cost estimate and funding approaches to the Governor and General Assembly. In order to implement the strategy-related projects submitted by the TSB, legislation was passed in 2005 that established fixed transfers from the Special Transportation Fund to the TSB project accounts. Legislation passed in 2011 eliminated the TSB. The 2011 legislation retains the TSB projects enumerated by law and maintains the TSB project accounts within the Special Transportation Fund. Remaining funding for the TSB projects, taking into consideration all legislative changes since the initial funding in 2005 is \$15.0 million in Fiscal Years 2014 through 2015.

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

### ***Bradley International Airport***

As of July 1, 2013, 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 governed by an eleven member board. The Airport was previously owned by the State and operated by the Bureau of Aviation and Ports in the State’s Department of Transportation. 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. Legislation passed in 2001 removed a bond issuance cap for Bradley International Airport but retained the requirement for Commission approval of any new bond issue. As of December 15, 2013, there were \$135.6 million of Bradley International Airport Revenue Bonds outstanding. In addition, the State is a party to certain interest rate swap agreements with respect to certain outstanding bonds. Any obligations of the State under the interest rate swap agreements are payable from all or a portion of the revenues generated at the Airport. 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 December 15, 2013 \$32.3 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 \$2,805.61 million, of which \$1,716.59 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 loans are evidenced by interim funding obligations and project loan obligations of the municipalities and public water systems, pursuant to which either the full faith and credit of each such entity, or the revenues and other funds of a municipal sewer or public water system are pledged. As of December 15, 2013 \$747.07 million revenue bonds were outstanding (including refunding bonds). The General Assembly passed and the Governor signed into law clean water revenue bond authorizations of \$332.0 million for Fiscal Year 2015.

### ***Unemployment Compensation***

The State pays unemployment compensation benefits from the State's Unemployment Compensation Fund, which is funded by unemployment compensation taxes collected from employers. To fund possible shortfalls, the State has reserved the authority to issue bonds in an aggregate amount outstanding at any time not in excess of \$1.0 billion, plus amounts for certain reserves and costs of issuance. In addition, the State may borrow from the Federal Unemployment Trust Fund to fund a deficit in the State's Unemployment Compensation Fund. As of December 15, 2013, State borrowings outstanding from the Federal Unemployment Trust Fund were \$573.7 million. The State anticipates that there will be additional borrowing from the Federal Unemployment Trust Fund in the amount of approximately \$150 million during calendar year 2014, and that such additional \$150 million will be repaid on or prior to September 1, 2014.

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

### **Contingent Liability Debt**

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

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

The primary vehicle through which the State has undertaken contingent or limited liability is the special capital reserve fund. A special capital reserve fund ("SCRF"), if established, provides additional security for bonds issued by the entity authorized to establish such a reserve fund. Subject to exceptions in the legislation authorizing the establishment of a particular SCRF, monies held in and credited to a SCRF are intended to be used solely for the payment of the principal of bonds secured by such SCRF, 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 SCRF 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 SCRF to its minimum level. The method for determining such required minimum capital reserve is set out in the legislation authorizing the SCRF. If the SCRF should fall below the required minimum capital reserve amount, an official of the authority or municipality which established the SCRF shall certify to the Secretary of OPM or the Treasurer or both the amount necessary to restore such SCRF to the required minimum capital reserve amount. On or before December 1, annually, there will be deemed to be appropriated from the State's General Fund such amount as specified in the certificate, which amount shall be allotted and paid to the entity that established the SCRF. On

an annual basis, the State's liability under any SCRF mechanism is limited to its obligation to restore that fund to its minimum capital reserve amount.

### ***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 and whose exercise of authority granted to them is deemed to be the performance of an essential public and governmental function. These organizations provide a wide range of services that might otherwise be provided directly by the State.

Among the public authorities are: the Clean Energy Finance and Investment Authority; 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, into which has merged the operations and programs of the Connecticut Development Authority; the Capital Region Development Authority, previously known as the Capital City Economic Development Authority; and the Connecticut Resources Recovery Authority. Each of these public authorities is authorized to issue bonds in its own name to facilitate its activities and each has issued bonds secured by a SCRF, or other contractual arrangement, for which the State has limited contingent liability.

***Clean Energy Finance and Investment Authority (“CEFIA”).*** The Clean Energy Finance and Investment Authority (“CEFIA”) was formed in 2011 and was designated the successor agency to Connecticut Innovations, Incorporated for the purposes of administering the Clean Energy Fund. CEFIA is an energy finance authority, designed to leverage public and private funds to drive investment and increase clean energy deployment in Connecticut. CEFIA is authorized to issue bonds to facilitate its activities, which bonds may be secured by a SCRF. The CEFIA Board of Directors is comprised of eleven voting and two non-voting members including: the Treasurer, the Commissioner of Energy and Environmental Protection, and the Commissioner of Economic and Community Development, each serving *ex-officio*; four members appointed by the legislative leadership; and four members appointed by the Governor. The president of CEFIA and a member of the Board of Directors of Connecticut Innovations, Incorporated, serve in an *ex-officio*, non-voting capacity.

***Connecticut Airport Authority (“CAA”).*** The Connecticut Airport Authority (“CAA”) was created in 2011 and is governed by an eleven member board comprised of the Treasurer, the Commissioner of Transportation, and the Commissioner of Economic and Community Development, each serving *ex officio*; four members appointed by the Governor; and a member appointed by each of the President Pro Tempore of the State Senate, the minority leader of the State Senate, the Speaker of the State House of Representatives and the minority leader of the State House of Representatives. On July 1, 2013 ownership, management and operations of Bradley International Airport and the State's other general aviation airports were transferred from the State's Department of Transportation to CAA. The legislation authorizes the issuance of revenue bonds by CAA, including bonds backed 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. Payments from institutions provide funds to service the debt on loans made pursuant to the issuance of bonds and other obligations by CHEFA. CHEFA is also authorized to issue tax-exempt and taxable revenue bonds secured by one or more special capital reserve funds solely to finance projects for “participating nursing homes,” or for housing, student centers, food service facilities and other auxiliary service facilities at public institutions of higher learning, including the

Connecticut State University System, or for clinical services projects for the University of Connecticut Health Center, and up to \$100.0 million to finance equipment acquisitions by hospitals.

Under CHEFA's nursing home program, loans are secured by mortgages on the nursing homes and pledges of gross receipts. Minimum debt service coverage ratios of 1.0 to 1.25 times annual debt service are required and restrictions are placed on the issuance of additional debt. Participating nursing homes are required to fund a debt service reserve fund in an amount equal to one year's maximum annual debt service. If a participating nursing home is in default or is likely to become in default under its loan agreement with CHEFA due to the failure to make any payment(s) required, CHEFA may request that the Commissioner of the Department of Social Services withhold any funds in the State's custody that are due and payable to the nursing home via a Medicaid intercept. Funds subject to withholding under this section include federal and state grants, contracts, allocations and appropriations.

CHEFA is authorized to issue revenue bonds to finance facility improvements for the Connecticut State University System (the "System") that are secured by one or more special capital reserve funds. CHEFA also is authorized to issue bonds secured by a SCRF to finance equipment acquisitions by hospitals and clinical services projects for The University of Connecticut Health Center, however, these programs have not yet been implemented. In addition, CHEFA is authorized to issue revenue bonds that may be secured by one or more special capital reserve funds to finance projects for any constituent unit of the State higher education system. No statutory limit is imposed on such additional permitted projects and no debt with respect to such additional permitted projects has been issued.

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

The Connecticut Higher Education Supplemental Loan Authority ("CHESLA") is a subsidiary of CHEFA. See **Connecticut Higher Education Supplemental Loan Authority ("CHESLA")** below.

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

**Connecticut Higher Education Supplemental Loan Authority ("CHESLA").** CHESLA provides financial assistance in the form of education loans to students in or from the State. CHESLA provides alternative financing that enables institutions of higher education in the State to assist qualified students in attending such institutions. CHESLA is authorized to issue bonds the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayment of such loans service the debt on CHESLA bonds. CHESLA, in connection with the issuance of its bonds has made certain covenants with respect to such loans, including a covenant to do or cause to be done all such acts and things necessary to receive and collect all revenues due with respect to such loans. CHESLA bonds are further secured by a SCRF.

CHESLA is a subsidiary of CHEFA. See **Connecticut Health and Educational Facilities Authority ("CHEFA")** above. The Board of Directors of CHESLA is comprised of nine members including the Treasurer, the President of the Board of Regents for Higher Education, and the Secretary of OPM, the Chairperson of the Board of Directors of CHEFA, and the Executive Director of CHEFA, each serving *ex officio*; and four members appointed by the Board of Directors of CHEFA, two of whom shall be members of the CHEFA Board of Directors.

**Connecticut Housing Finance Authority ("CHFA").** CHFA was established in 1969 to meet the needs of low and moderate income families and persons for decent housing and to encourage and assist the

development and construction of multi-family housing by reducing the cost of mortgage financing therefor. CHFA is authorized to issue bonds the proceeds of which are used to fund mortgage loans to applicants meeting certain eligibility requirements including unrestricted statutory income limits in certain urban areas. The enabling act authorizes CHFA to make or purchase construction and permanent mortgage loans 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 pursuant to which CHFA has pledged all revenues that it may receive in connection with the mortgages financed thereunder including its fees and charges therefor and any recoveries of principal therefrom from any source and any monies received from investments, as well as other mortgages specifically pledged. In addition, such General Bond Resolution provides for general covenants such as a covenant to do all things necessary with respect to the operation of such Housing Mortgage Finance Program in order to pay principal of and interest on its bonds and provides for certification as to self-sufficiency in order to issue any additional bonds. Bonds issued under CHFA's General Bond Resolution are further secured by a 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 under a separate indenture, including bonds for group homes, assisted living facilities, and residential care homes, which bonds are and will be secured by a 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.**

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

**Connecticut Innovations (“CI”).** The Connecticut Development Authority (“CDA”) was merged into Connecticut Innovations, effective July 1, 2012. In order to discharge its responsibilities and fulfill its purposes, CI is authorized to offer various financing programs including The Mortgage Insurance and Loan Program (the “Insurance Fund”). As of December 15, 2013, \$20.45 million of State bonds have been authorized but remain unissued to fund the Insurance Fund and loans insured by the Insurance Fund totaled \$3.3 million. Other CI programs include the Umbrella Bond Program, the Self-Sustaining Bond Program, the Connecticut Growth Fund, the Connecticut Works Fund, the Connecticut Works Guarantee Fund, the Connecticut Capital Access, the Environmental Assistance Revolving Loan Fund, the Tax Incremental Financing Program, the High-Technology Infrastructure Fund and the General Obligation Bond Program.

Under the General Obligation Bond Program, CI may issue bonds to finance eligible economic development and information technology projects. General revenues of CI, which are not otherwise pledged, are made available to service the debt of bonds issued under the General Obligation Bond Program, and such bonds may be secured by a SCRF. As of December 15, 2013, no such bonds are outstanding. Although there remains legislative authority for the issuance of bonds secured by special capital reserve funds 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.

The Board of Directors of CI is comprised of 17 members: the Treasurer, the Commissioner of Economic and Community Development, the Secretary of OPM, and the president of the Board of Regents for Higher Education, as *ex officio* members; nine members appointed by the Governor; and four members appointed by legislative leadership.

***Capital Region Development Authority (“CRDA”).*** In 2012 the Capital City Economic Development Authority (“CCEDA”) was re-named the Capital Region Development Authority (“CRDA”). Created in 1998 as CCEDA, it was granted the power 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 also is authorized to use special capital reserve funds in connection with such revenue bonds, but there are currently no plans to do so. The 2012 legislation broadened the CRDA’s powers to stimulate development and redevelopment in the City of Hartford and the surrounding towns, including East Hartford. CRDA’s Board of Directors is made up of 14 members, four of whom are appointed by the Governor, two of whom are appointed by the Mayor of Hartford, and two of whom are appointed by legislative leadership. The Mayors of Hartford and East Hartford, the Secretary of OPM, and the Commissioners of Transportation, Housing and Economic and Community Development serve as *ex-officio* members of the Board.

***Connecticut Resources Recovery Authority (“CRRRA”).*** CRRRA was created in 1973 to assist municipalities in meeting their solid waste disposal and recycling needs. To further its purpose CRRRA develops, finances and supervises solid waste management facilities and contracts. CRRRA has developed four integrated solid waste systems that have served over 100 municipalities in the State. CRRRA bonds may be secured by a SCRF. CRRRA bonds are generally secured by service agreements with participating municipalities under which the municipalities agree to deliver a minimum amount of waste to a specified facility each year or to pay the tipping fee for any amount that does not meet the minimum commitment. These service agreements are generally secured by the municipality’s full faith and credit. CRRRA bonds are additionally secured by revenues from the sale of energy generated by the facility and waste from non-municipal sources.

The Board of Directors of CRRRA is comprised of eleven members: three members appointed by the Governor; two members appointed by each of the president pro-tempore of the Senate, the speaker of the House of Representatives, the minority leader of the Senate, the minority leader of the House of Representatives. There are two vacancies. In addition, there are eight ad hoc members, two representing each of the four facilities. As of December 15, 2013, only two ad hoc seats were filled.

***UConn 2000 Special Obligation Financing.*** The University of Connecticut may issue special obligation bonds that may be secured by a SCRF, which the State undertakes to restore to its minimum level. Before issuing special obligation bonds secured by such a SCRF, the act requires the board of trustees of the University to determine that project revenues, other than those derived from the State’s debt service commitment and the State’s minimum operating provision, are estimated to be sufficient to pay the debt service on the special obligation bonds, to maintain reserves and to operate the physical infrastructure of the University. The act requires the Treasurer to confirm that such determination is not unreasonable or arbitrary. The University may also issue special obligation bonds that are not secured by such a SCRF. As of December 15, 2013, the University has outstanding \$124.6 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 all such bonds have been refunded. 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.

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

By statute, CEFIA, CAA, CHEFA, CHESLA, CHFA, CI, CRDA, and CRRA may not owe any money or issue any bonds or notes that are guaranteed by the State or for which there is a SCRF of any kind which is in any way contributed to or guaranteed by the State until or unless such borrowing or issuance is approved by the Treasurer or the Deputy Treasurer. The approval shall be based on documentation provided by the authority that the authority anticipates receiving sufficient revenues to (1) pay the principal of and interest on the bonds and notes 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 SCRF of any kind that is in any way contributed to or guaranteed by the State unless and until such obligation and the agreement establishing the capital reserve fund are approved by the 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.



***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**  
**(In Millions)**

	<b>Authorized Debt</b>	<b>Outstanding Debt</b>	<b>Minimum SCR Requirement</b>
<u>Indebtedness Secured by SCRF</u>	<u>As of 12/15/13</u>	<u>As of 12/15/13</u>	<u>As of 12/15/13</u>
<b>Clean Energy Finance and Investment Authority .....</b>	\$ 50.0	\$ 0.0	\$ 0.0
<b>Connecticut Airport Authority .....</b>	(a)	0.0	0.0
<b>Connecticut Health and Educational Facilities Authority</b>			
Nursing Home Program .....	(a)	7.17	1.6
Connecticut State University System.....	(a)	342.21	34.50
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	153.54	20.74
<b>Connecticut Housing Finance Authority</b>			
Housing Mortgage Finance Program .....	(a)	3,051.4	243.5
Special Needs Housing Mortgage Finance Program .....	(a)	61.8	4.6
<b>Connecticut Innovations</b>			
Umbrella Bond Program.....	300.0	0.0	0.0
General Obligation Bond Program .....	30.6	0.0	0.0
<b>Capital Region Development Authority.....</b>	(a)	0.0	0.0
<b>Connecticut Resources Recovery Authority .....</b>	725.0	0.0	0.0
<b>Southeastern Connecticut Water Authority.....</b>	15.0	1.2	N.A.
<b>University of Connecticut.....</b>	(a)	0.0	0.0

(a) No statutory limit.

## **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. The State Department of Education may enter into commitments to apply monies for each such entity to pay the debt service on the loans in amounts sufficient to cover a portion of the debt service on CHEFA's Child Care Facilities Bonds. The State Department of Education is obligated to provide a portion of the funds to make debt service payments, which payments are to be made by the Treasurer. Any obligation by the State Department of Education or the Treasurer to pay such debt service is subject to annual appropriation. As of December 15, 2013 CHEFA had approximately \$59.2 million in Child Care Facilities Bonds outstanding under this program with annual debt service of approximately \$5.1 million, of which the State Department of Education is committed to pay approximately \$4.3 million. The remaining portion of debt service is to be paid from State Department of Education intercepts of revenues from providers. The State's obligation under the assistance agreement is not included in any of the debt calculations in **Tables 7, 8, 9, 10, 11, 12 or 16**. Two other Child Care Facilities programs also authorize the Commissioner of the State Department of Education to enter into guaranties of loans made to entities to finance the development of child care and child development centers or programs. CHEFA is administering this program on behalf of the Department, and is currently limiting the aggregate amount of guaranties to the balance of monies in the reserve funds for the respective programs. The State's obligations in connection with these programs are not included in any of the debt calculations in **Tables 7, 8, 9, 10, 11, 12 or 16**.

***Capital Region Development Authority.*** The State Bond Commission approved up to \$122.5 million of revenue bonds and other borrowings for the Hartford convention center project. CCEDA, as predecessor 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 \$94.81 million was outstanding as of December 15, 2013. The State's obligation under the contract assistance agreement is limited to \$9.0 million per year, and the Authority's debt obligations are structured not to exceed this amount. An additional \$12.5 million of borrowing, not backed by the contract assistance agreement, has also been incurred. Debt service on the revenue bonds is payable from debt service appropriations in the General Fund and 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**.

The convention center portion of the project opened in June 2005. Other elements of the project include an adjacent parking structure which opened later in 2005, a second adjacent parking structure underlying the Connecticut Science Center and a retail and entertainment district, including two additional parking structures. The entire project is not expected to be fully placed in service until 2017 at the earliest. Since June 2006, the delay in completion of the additional elements of the project, along with higher than anticipated startup expenses and operating expenses have resulted in insufficient parking revenues, after operating expenses, to fully reimburse the State for debt service payments. This situation is expected to continue at least until all elements of the project are completed and placed in service. As debt service on 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 which vary in amounts from year to year. The State has authorized new school construction grant commitments of approximately \$345 million that take effect in fiscal year 2013. As of June 30, 2013, the Commissioner estimates that current grant obligations under the program for school construction projects approved during the 1997 legislative session and thereafter are approximately \$2,792 million, which includes approximately \$8,944 million in grants approved as of such date less payments already made of \$6,152 million.

Prior to 1997 the grant program was conducted differently. Under the pre-1997 program, school construction project grants are paid to the cities, towns and districts in installments that correspond to the number and time of principal payments due on municipal bonds, or temporary notes renewed for a third or subsequent year, issued to finance project costs. If a project is fully paid from sources other than borrowing, such grants are paid in five annual installments. Grants in support of interest payments correspond to the number and time of such interest payments. As of June 30, 2013, under the pre-1997 grant program, the State is obligated to various cities, towns and regional school districts for approximately \$140 million in aggregate principal installment payments and \$17 million in aggregate interest subsidies, for a total of \$157 million. Funding for these payments may come from future State direct general obligation bond sales. No new grant commitment can be authorized under this program.

The legislature has authorized bonds for both grant programs based on the amount of grants that the Commissioner of 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, 2013 the current and long-term liabilities of the Corporation total \$200.98 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 represent significant financial obligations of the State, both now and in the future. In round numbers, the unfunded liability of the pension systems aggregate approximately \$24.4 billion and the unfunded liability of the other post-employment benefits aggregate approximately \$19.5 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. 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. 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 which was extended in the past. The remaining period to reach full funding is approximately 22.4 years (as of June 30, 2012) for the Teachers' Retirement Fund and 18 years (as of June 30, 2013) for the State Employees' Retirement Fund. Thus, as expected, the State plans are not currently "fully funded", but are expected to reach full funding by the end of the remaining amortization periods as long as the State fully funds the annual funding requirement recommended by the actuary, as described below. This actuarially recommended contribution is referred to as the "ARC".

One measure of the level of 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 funded ratio for each plan is shown below. Also shown is the funded ratio calculated based on the market value of the assets of the plan. Until 2000, the pension plans made steady progress towards being fully funded; for example, the State Employee's Retirement System experienced an increase in the funded ratio from 51% in 1993 to 63% in 2000, and the funding required remained fairly constant at 12.8% to 14.9% of payroll. Two factors had a significant impact in reversing this trend. First, significant market downturns experienced in Fiscal Years 2000, 2001 and 2009 reduced the market value of the assets set aside in the plans. Second, prior to Fiscal Year 2009, in the case of the Teachers' Retirement System, and prior to Fiscal Year 2012 in the case of the State Employees' Retirement System, the State failed to fully fund its ARC payments. In Fiscal Years 2009-2011 the shortfall totaled \$314.5 million.

Because of factors such as these, 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 unfunded actuarial accrued liability ("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 the State Employees' Retirement System, it has negotiated reduced benefits, as described below, made more conservative assumptions which have had the effect of increasing the ARC payment, and eliminated the provisions which permitted the State to not make its full ARC payment. In the case of the Teacher's Retirement System, it has issued pension obligation bonds to augment the funding of the system. 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, the State believes that the amortization period it uses and its commitment to amortization of the UAAL are indicators of stronger overall health of its retirement plans, compared to plans of other states using longer amortization periods but having similar funded ratios. 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 the Teachers Retirement System, 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 the State Employees' Retirement System, the State is required to annually fund the ARC pursuant to its bargaining agreement with the State Employees Bargaining Agent Coalition ("SEBAC"), which runs through 2022; the amortization period continues to 2032.

### **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.

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 costs, 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 unfunded actuarial accrued liability, or UAAL. These additional contributions, made over the length of time chosen as the amortization period, are designed to eliminate the UAAL and bring the plan to the state of being fully funded, after which only the normal cost amount would need to be contributed to maintain this state, plus the effect of actual experience compared to the actuarial assumptions. Table 18 below illustrates how the normal costs and amortization of the UAAL are intended to bring the plan into the state of being fully funded, and the subsequent drop in the required funding to normal cost. One of the most significant factors in determining this 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 22.4 years (as of June 30, 2012) for the Teachers' Retirement Fund and 18 years (as of June 30, 2013) for the State Employees' Retirement Fund, having originally started with an amortization period of 40 years for each. A second important factor is determining how much to amortize in each year of the remaining amortization period. The State plans use 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. The increase in the contribution rates are primarily attributable to the significant asset losses that are being recognized and increase the UAAL. This results in an increase in required funding to offset these recognized losses over the remaining amortization period. This makes the assumption of the rate at which payroll increases each year an important assumption. State Employees' Retirement System uses a "projected unit credit" method to calculate the annual amortization payments needed to amortize the UAAL, while the Teachers' Retirement System uses an "entry age normal" method. 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 and also is the only method allowed under the new Governmental Accounting Standards Board ("GASB") reporting standards coming into effect for 2014.

Between 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 we set out below the new funding ratios that result.

The State will be 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 will not necessarily be 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 is one of the systems maintained by the State with approximately (i) 49,269 active members, consisting of 38,896 vested members and 10,373 non-vested members, (ii) 1,495 deferred vested members, and (iii) 43,959 retired members and beneficiaries as of June 30, 2013.

Payments into the fund are made from employee contributions, General and Special Transportation Fund appropriations and grant reimbursements from Federal and other funds. State contributions to the fund are made monthly on the basis of transfers submitted by the Office of the State Comptroller.

Full actuarial valuations are performed as of June 30th of each even-numbered year. The actuarial valuation uses recognized actuarial methods to calculate the actuarial value of assets and the actuarial accrued liability of the State Employees' Retirement Fund. The actuarial accrued liability is determined directly as the present value of benefits accrued to date, where the accrued benefits for each member is the pro-rata portion (based on service to date) of the projected benefit payable at death, disability, retirement or termination. The valuation uses an asset valuation method that smoothes the difference between the market value of assets and actuarial value of assets to prevent extreme fluctuations that may result from short-term or cyclical economic and market conditions. The actuarial value of assets is determined by first projecting the actuarial value forward from the beginning of the prior fiscal year based on the actual cash flow during the fiscal year and the assumed investment rate of return. One fifth of any difference between this expected actuarial value and the actual market value is added to or subtracted from the expected actuarial value to arrive at the actuarial value of assets in order to "smooth" year to year changes in market values. The unfunded actuarial liability is the actuarial accrued liability less the actuarial value of assets. The valuation includes a projection from the valuation date to future years based on certain key assumptions such as the investment return on the market

value of assets, the active population count for hazardous and nonhazardous duty members, total payroll growth, age and salary distributions for new entrants, and actual plan experience with respect to terminations, retirement, mortality, and cost of living increases, among other things.

Two actuarial valuations are currently relevant to the State Employees' Retirement Fund. The first is a November 2010 valuation, which was revised by an interim actuarial valuation in February 2012 and calculated the annual required contribution for Fiscal Year 2013. The second is a November 2012 valuation, which calculated the annual required contribution for Fiscal Years 2014 and 2015, as supplemented by a "roll forward" actuarial valuation further discussed below. The next valuation is expected in November 2014.

***November 2010 Actuarial Valuation and the Fiscal Year 2013 Annual Required Contribution***

An actuarial valuation prepared in November 2010 determined an employer contribution requirement of \$1,045.0 million for Fiscal Year 2013, based on a projected unit credit actuarial cost method and level percent-of-payroll contributions, which contribution is sufficient to meet GASB standards. A subsequent interim actuarial valuation dated February 8, 2012 was prepared determining an employer contribution requirement of \$1,059.7 million for Fiscal Year 2013 based on the same assumptions and methods. The State's contribution to the State Employees' Retirement Fund for Fiscal Year 2013 together with grant reimbursements from Federal and other funds were sufficient to meet 99.9% of the annual contribution requirement as determined in the February 8, 2012 interim valuation (actual federal receipts were slightly less than were assumed, which is why less than 100% of the annual contribution requirement was funded).

***November 2012 Actuarial Valuation, December 2013 Roll Forward Actuarial Valuation and the Fiscal Year 2014 and 2015 Annual Required Contributions***

The State Employees Retirement Commission (the "Commission") received from Cavanaugh Macdonald Consulting, LLC an actuarial valuation dated November 5, 2012 prepared as of June 30, 2012. In addition, the Commission received a roll forward valuation dated December 10, 2013, prepared as of June 30, 2013, which 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, 2013 plan year and roll forward techniques to best estimate what payroll and liabilities will be as of June 30, 2013. The actuaries have not performed a reconciliation of census data or development of liabilities as of June 30, 2013 in the December 2013 roll forward valuation. The valuations included changes to the actuarial assumptions adopted by the Commission based on an experience investigation report dated September 12, 2012 and prepared by the actuaries for the State Employees' Retirement Fund for the four-year period ending June 30, 2011, assessing the reasonableness of the actuarial assumptions and valuation methods used by the retirement system.

Based on the September 2012 experience investigation report, the following changes were made to the actuarial assumptions to be used in the November 2012 actuarial valuation and December 2013 roll forward actuarial valuation from those used in the valuation dated November 15, 2010:

- the investment return assumption was changed from 8.25% to 8.00%
- the price inflation adjustment was changed from 3.00% to 2.75%
- demographic changes in the rates of withdrawal, disability and mortality were made, increasing the annual employer contribution by 2.97% from fiscal year ending June 30, 2011 to June 30, 2012 and resulting in a 2.6% decrease in the funded ratio of the plan.

The November 2012 actuarial valuation reported the following results as of June 30, 2012 with respect to the State Employees' Retirement Fund:

Market Value of Assets	\$8,468.5 million
Actuarial Value of Assets	\$9,745.0 million

Actuarial Accrued Liability	\$23,018.8 million
UAAL	\$13,273.8 million
Funded Ratio (based on the actuarial value of the assets)	42.3%
Funded Ratio (based on the market value of assets)	36.8%

The December 2013 roll forward actuarial valuation reported the following results as of June 30, 2013 with respect to the State Employees' Retirement Fund:

Market Value of Assets	\$9,182.4 million
Actuarial Value of Assets	\$9,784.5 million
Actuarial Accrued Liability	\$23,768.2 million
UAAL	\$13,983.7 million
Funded Ratio (based on the actuarial value of the assets)	41.2%
Funded Ratio (based on the market value of assets)	38.6%

The November 2012 actuarial valuation and December 2013 roll forward actuarial valuation were based upon the following assumptions among others:

- 8.00% investment return assumption
- Projected salary increases of 4.0% to 20.0%
- Cost-of-living adjustments of 2.3% to 3.6%
- Social security wage base of 3.5%
- Payroll growth of 3.75%
- Recalculation of the actuarial value of assets for the past four valuations so that the actuarial value of assets recognizes 20% of the difference between the market value of assets and the expected actuarial value of assets
- Benefits for members retiring from service on or after the *Longley v. State Employees Retirement Commission* decision were assumed to increase by 0.084% as a result of the revised treatment of longevity pay. Retroactive application of *Longley* was reflected in the valuation to the extent impacted retiree benefits were recalculated. These recalculations are *not* reflected in Table 17 below. (The Longley decision is described below under "Litigation".)
- Remaining amortization period of 19 years for the November 2012 actuarial valuation and 18 years for the December 2013 roll forward actuarial valuation.

Pursuant to the statutory provisions applicable to the State Employees' Retirement Fund and agreements between the State and SEBAC, which supplant the statutory provisions in part, the Fund's UAAL is amortized as a level percent of payroll over a declining period of years, beginning with 40 years as of July 1, 1991. The State is currently in year 22 of an initial 40 year amortization period. While this method of funding does lead to full funding by the end of the amortization period, the repayment of the UAAL is not level. Because of this, even if the State were to contribute the full amount of the actuarially recommended contributions and all other actuarial assumptions were met, the UAAL for the State Employee's Retirement Fund is not projected to be reduced significantly until the latter years of the amortization period. Two collective bargaining agreements with SEBAC negotiated in 1996 and 1997 ("SEBAC IV" and "SEBAC V", respectively) designed to take advantage of sizable market gains in plan assets at the time, have the effect of extending the period until the UAAL is expected to increase because it allowed less than 100% funding of the actuarial required contribution. These provisions are no longer in effect.



The November 2012 actuarial valuation determined the following employer contribution requirements, which contributions are sufficient to meet GASB standards: (i) \$1,268.9 million for Fiscal Year 2014; and (ii) \$1,379.2 million for Fiscal Year 2015, resulting in an annual employer contribution rate of 37.82% of payroll and 43.94% of payroll, respectively. The adopted budget passed by the General Assembly and signed into law by the Governor for the Fiscal Year 2014-2015 biennium contains appropriations sufficient, together with anticipated grant reimbursement from Federal and other funds, to fully fund the employer contribution requirements for such biennium as determined in the November 2012 actuarial valuation. The December 2013 roll forward actuarial valuation determined the Fiscal Year 2015 employer contribution requirement to be \$1,374.1 million, but the actuaries indicated that it is not recommended that the results of a roll forward valuation be used as the basis of adjusting the scheduled contribution requirements but rather as information as to the expected condition of the State Employees' Retirement System at the end of the interim fiscal year.

The November 2012 actuarial valuation breaks out the normal cost component and the amortization component as well. The following table shows the amount and rate of contribution (as a percent of payroll) payable by the State as determined for Fiscal Years 2014 and 2015.

Contributions for:	2014		2015	
	<u>Amount</u> (in millions)	<u>Rate</u>	<u>Amount</u> (in millions)	<u>Rate</u>
A. Normal Cost of Benefits:	\$315.5	9.40%	\$323.5	10.31%
B. Less Member Contributions	(\$65.5)	(1.95%)	\$62.7	2.00%
C. Employer Normal Cost	\$250.0	7.45%	\$260.8	8.31%
D. Net Unfunded Actuarial Accrued liabilities (19 year level percent of payroll amortization)	\$1,018.9	30.37%	\$1,118.4	35.63%
E. Total (C + D)	\$1,268.9	37.82%	\$1,379.2	43.94%

SOURCE: November 2012 Actuarial Valuation.

As mentioned, the valuation used the projected unit credit actuarial cost method to calculate the annual amortization payments needed to amortize the State Employees' Retirement Fund's UAAL. In this method, the present value, discounted based on the interest rate assumed to be earned in the future (currently 8.00%), of each member's expected benefits at retirement or death is determined, based on age, service and sex. In the experience investigation report dated September 12, 2012, the actuaries indicated that while this is an accepted actuarial method, the Commission may want to consider changing to the entry age normal cost method used by the Teachers' Retirement System for several reasons, including that it is the only method allowed under the new Governmental Accounting Standards Board ("GASB") reporting standards coming into effect for 2014. Changing to the entry age normal cost method would increase the unfunded accrued liability, decrease the funding ratio and increase the employer annual required contribution rate. The valuation cost method currently in place may not be changed without the agreement of the SEBAC and approval by the legislature.

Set forth in the following table are State contributions to the State Employees' Retirement Fund, Federal grant programs, employee contributions, investment income, net realized gains and losses, net unrealized gains and losses, benefits paid, actuarial recommended contributions and market value of assets for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of fund assets, the resulting unfunded accrued liabilities and the funded ratios on an actuarial and market basis for the actuarial valuations as of June 30, 2008, June 30, 2010, June 30, 2011 and June 30, 2012, and interim "roll forward" valuations as of June 30, 2009 and June 30, 2013.

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

	Fiscal Year				
	2009	2010	2011	2012	2013
General Fund					
Contributions.....	\$ 454.8	\$ 478.1	\$ 563.3	\$ 652.6	\$ 721.5
Transportation Fund					
Contributions.....	71.4	70.4	82.4	90.1	107.9
Federal and other					
Reimbursements.....	173.5	172.0	180.0	183.7	228.8
Employee Contributions....	<u>70.8</u>	<u>65.7</u>	<u>67.6</u>	<u>68.8</u>	<u>164.0</u>
Total Contributions .....	<u>\$ 770.6</u>	<u>\$ 786.2</u>	<u>\$ 893.4</u>	<u>\$ 995.1</u>	<u>\$ 1,222.2</u>
Benefits Paid <sup>(c)</sup> .....	\$ 1,063.3	\$ 1,263.8	\$ 1,315.7	\$ 1,417.0	\$ 1,487.7
Investment Income <sup>(a)</sup> .....	\$ 252.4	\$ 207.6	\$ 290.9	\$ 233.6	\$ 284.7
Net Realized Gains					
(Losses) <sup>(b)</sup> .....	12.3	346.4	156.1	126.4	507.2
Net Unrealized Gains					
(Losses) .....	<u>(1,973.2)</u>	<u>401.1</u>	<u>1,176.4</u>	<u>(450.5)</u>	<u>205.7</u>
Total Investment Income and Net Gains (Losses) ..	<u>\$ (1,708.5)</u>	<u>\$ 955.1</u>	<u>\$ 1,623.4</u>	<u>\$ (90.5)</u>	<u>\$ 997.6</u>
Actuarial Recommended Contribution .....	\$ 753.7	\$ 897.4	\$ 944.1	\$ 926.4	\$ 1,059.7
Percentage of Actuarial Recommended Contribution Made .....	92.8%	80.3%	87.5%	100.0%	99.9%
Actuarial Accrued Liabilities .....	N/A <sup>(d)</sup>	\$21,054.2	\$21,126.7	\$23,018.8	\$23,768.2
Actuarial Values of Assets.....	\$ 8,787.2	\$ 9,349.6	\$10,122.8	\$ 9,745.0	\$ 9,784.5
Unfunded Accrued Liabilities .....	N/A <sup>(d)</sup>	\$11,704.6	\$11,004.0	\$13,273.8	\$13,983.7
Market Value of Assets.....	\$ 7,322.6	\$ 7,791.3 <sup>(e)</sup>	\$ 8,984.9 <sup>(f)</sup>	\$ 8,468.5 <sup>(g)</sup>	\$ 9,182.4 <sup>(h)</sup>
Funded Ratio (actuarial value).....	N/A <sup>(d)</sup>	44.4%	47.9%	42.3%	41.2%
Funded Ratio (market value) .....	N/A <sup>(d)</sup>	37.0%	42.5%	36.8%	38.6%
Ratio of Actuarial Value of Assets to Market Value of Assets .....	N/A <sup>(d)</sup>	120.0%	112.7%	115.1%	106.6%

(a) Investment Income (exclusive of net realized gains and losses).

(b) Net realized gain (loss) on shares redeemed.

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

(d) Information not available in actuarial valuation.

(e) As reported in Actuarial Valuation. This amount includes \$2,087,879 of receivables.

(f) As reported in Actuarial Valuation. This amount includes \$2,509,578 of receivables.

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

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

***Modeling of Future Funded Ratios and Annual Contributions through Fiscal Year 2044***

In 2012, the Office of Policy and Management requested the consulting actuary for State Employees' Retirement Fund to prepare a model of future funded ratios and annual contribution requirements for the State Employees' Retirement Fund through Fiscal Year 2044. The modeling was prepared January 3, 2013 and has not been updated since that time. The modeling does not represent a forecast, estimate or projection, but represents only modeling based on the assumptions used for the actuarial valuation and actuarial methods of future annual employer contribution requirement figures. The modeling does not reflect future factors or conditions that would cause the actual future experience of the State Employees' Retirement Fund to diverge from the model. In particular, future actuarial valuations mandated by statute over the period of the modeling will result in recalculation of the annual employer contribution requirements for each biennial budget. No representation is made that future annual employer contribution requirements or funded ratios will conform to the modeling.

**TABLE 18**  
**Modeling Of State Employees' Retirement Fund**  
**Future 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.

<u>Fiscal Year Ending June 30</u>	<u>Valuation Date June 30</u>	<u>Funded Ratio as of Valuation Date</u>	<u>Normal Cost</u>	<u>Amortization of Unfunded Accrued Liability</u>	<u>Total State Contribution</u>	<u>Employee Contribution</u>	<u>Total State and Employee Contribution</u>
2014	2012	42.3%	\$249,996	\$ 1,018,938	\$ 1,268,934	\$ 64,919	\$ 1,333,853
2015	2013	40.7	260,807	1,118,381	1,379,188	67,261	1,446,449
2016	2014	41.4	261,519	1,181,352	1,442,871	69,462	1,512,333
2017	2015	42.8	263,850	1,236,834	1,500,684	72,726	1,573,410
2018	2016	43.7	266,159	1,308,781	1,574,940	75,938	1,650,878
2019	2017	45.4	268,130	1,367,254	1,635,384	79,286	1,714,670
2020	2018	47.5	267,871	1,425,042	1,692,913	82,951	1,775,864
2021	2019	49.6	268,180	1,484,972	1,753,152	86,321	1,839,473
2022	2020	52.0	267,886	1,547,956	1,815,842	90,095	1,905,937
2023	2021	54.5	268,895	1,613,558	1,882,453	93,949	1,976,402
2024	2022	57.3	270,126	1,682,296	1,952,422	98,164	2,050,586
2025	2023	60.3	272,191	1,753,477	2,025,668	102,528	2,128,196
2026	2024	63.7	273,216	1,827,380	2,100,596	106,972	2,207,568
2027	2025	67.4	274,131	1,903,637	2,177,768	111,549	2,289,317
2028	2026	71.5	273,927	1,982,767	2,256,694	116,134	2,372,828
2029	2027	76.0	273,687	2,064,276	2,337,963	120,907	2,458,870
2030	2028	81.1	273,473	2,147,507	2,420,980	125,975	2,546,955
2031	2029	86.8	276,511	2,228,286	2,504,797	131,313	2,636,110
2032	2030	93.1	279,944	2,292,630	2,572,574	136,741	2,709,315
2033 <sup>(a)</sup>	2031	100.0	285,338	0	285,338	142,461	427,799
2034	2032	100.0	292,477	0	292,477	148,322	440,799
2035	2033	100.0	301,484	0	301,484	154,396	455,880
2036	2034	100.0	311,889	0	311,889	160,684	472,573
2037	2035	100.0	323,566	0	323,566	167,048	490,614
2038	2036	100.0	336,221	0	336,221	173,577	509,798
2039	2037	100.0	349,345	0	349,345	180,287	529,632
2040	2038	100.0	363,990	0	363,990	187,170	551,160
2041	2039	100.0	379,224	0	379,224	194,151	573,375
2042	2040	100.0	395,118	0	395,118	201,388	596,506
2043	2041	100.0	411,945	0	411,945	208,881	620,826
2044	2042	100.0	429,415	0	429,415	216,490	645,905

(a) In fiscal year ending June 30, 2033 and thereafter the annual employer contribution requirement consists only of the payment of the normal costs, which represents the portion of the present value of retirement benefits that are allocable to active members' current year of service. 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 State Employees' Retirement Fund, which requires employee contributions. As of July 1, 2013 approximately 5.7% of the total work force was covered under the Tier I Plan. Other employees generally participate in the Tier II plan, which is non-contributory for certain members and provides somewhat lesser benefits. As of July 1, 2013, approximately 34.0% 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, 2013, approximately 50.8% of the total work force was covered under the Tier IIA Plan. SEBAC 2011 provides for two new retirement plans for State employees first hired on and after July 1, 2011, Tier III 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. 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, or Tier IIA member in fiscal year ending June 30, 2013 was approximately \$39,636, \$24,884, and \$12,009, respectively. There were no retired Tier III members receiving benefits in Fiscal Year 2013 and there were 91 Hybrid retirees in Fiscal Year 2013. The State Employees' Retirement Fund also provides disability and pre-retirement death benefits.

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

**TABLE 19**  
**State Employees' Retirement System Member Contribution Requirements, Eligibility Requirements and Normal Retirement Benefits**

<b>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

<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>
All Other Tier II	None	<p>Prior to July 1, 2022: Earliest of age 62 with 10 years of vesting service (effective July 1, 1992), age 60 with 25 years of vesting service, age 70 with 5 years of vesting service, or age 62 with 5 years of actual state service for terminations on or after July 1, 1997</p> <p>Effective July 1, 2022: Earliest of age 63 with 25 years of vesting service or age 65 with at least 10 but less than 25 years of vesting service</p>	<p>(a) 1.333% of FAE plus 0.50% of FAE in excess of the year's breakpoint (which breakpoint equals \$10,700 increased by 6% each year after 1982, rounded to nearest \$100 but not greater than Social Security Covered Compensation), times (b) years of service from October 1, 1982 up to 35 years, plus (c) 1.625% of FAE times any years of service in excess of 35 years, with a minimum benefit with 25 years of service of \$360 per month</p>
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
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>	<p>(a) 1.333% of FAE plus 0.50% of FAE in excess of the year's breakpoint (which breakpoint equals \$10,700 increased by 6% each year after 1982, rounded to nearest \$100 but not greater than Social Security Covered Compensation), times (b) years of service from October 1, 1982 up to 35 years, plus (c) 1.625% of FAE times any years of service in excess of 35 years, with a minimum benefit with 25 years of service of \$360 per month</p>
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

<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>
All Other Tier III	2% of earnings	Earliest of age 63 with 25 years of vesting service or age 65 with at least 10 but less than 25 years of vesting service	1.33% of FAE plus 0.50% of FAE in excess of the year’s breakpoint times years of service up to 35 years and 1.625% of FAE times any years of service in excess of 35 years
Hybrid Plan	5% of earnings for members first hired on or after July 1, 2011  5% of earnings for members with original date of hire on or after July 1, 1997  3% of earnings for members with original date of hire prior to July 1, 1997	Earliest of age 63 with 25 years of vesting service or age 65 with at least 10 but less than 25 years of vesting service	1.33% of FAE plus 0.50% of FAE in excess of the year’s breakpoint times years of service up to 35 years and 1.625% of FAE times any years of service in excess of 35 years <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 following table shows the normal cost associated with the several tiers of employees, as calculated for Fiscal Year 2014.

**Normal Cost by Tier**

<b><u>Group</u></b>	<b><u>Number of Active Members</u></b>	<b><u>Average Age (years)</u></b>	<b><u>Average Service (years)</u></b>	<b><u>Normal Cost (Millions)</u></b>	<b><u>Normal Rate (percent of payroll)</u></b>
Tier I—Hazardous	94	56.2	27.6	\$0	0.0%
Tier I-Plan B	2,942	56.1	30.2	\$33.0	12.5%
Tier I-Plan C	117	58.4	31.9	\$0.9	9.0%
Tier II-Hazardous	3,466	48.6	18.8	\$43.3	13.9%
Tier II-Others	13,809	52.3	21.2	\$88.1	8.0%
Tier IIA-Hazardous	6,311	40.6	8.2	\$35.0	7.8%
Tier IIA-Others	19,148	44.8	7.2	\$48.0	4.2%
Tier III-Hazardous	321	34.0	0.3	\$0.4	3.1%
Tier III-Others	1,603	37.2	0.4	\$1.4	2.2%
Tier III Hybrid	57	37.7	0.6	\$0	0.0%
<b>Total</b>	<b>47,868</b>	<b>47.1</b>	<b>13.5</b>	<b>\$250.0</b>	<b>7.45%</b>

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SOURCE: January 8, 2014 Report to the Governor “Reducing the State’s Debt.”



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

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

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

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

### **Teachers' Retirement Fund**

The Teachers' Retirement Fund, administered by the Teachers' Retirement Board, provides benefits for any teacher, principal, supervisor, superintendent or other eligible employee in the public school systems of the State, with certain exceptions. While setting and paying salaries for teachers, municipalities do not provide contributions to the maintenance of the fund. As of June 30, 2013, there were (i) 66,015 active and former employees, consisting of 50,014 active members, 1,849 inactive vested members and 14,152 inactive non-vested members, (ii) 33,037 retired members and beneficiaries, and (iii) 252 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 below.

***October 2012 Actuarial Valuation***

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

The Teachers’ Retirement Board received an actuarial valuation as of June 30, 2012 dated October 24, 2012 from Cavanaugh Macdonald Consulting, LLC. The actuarial valuation reported the following results as of June 30, 2012 with respect to the Teachers’ Retirement Fund:

Market Value of Assets	\$13,473.7 million
Actuarial Value of Assets	\$13,734.8 million
Actuarial Accrued Liability	\$24,862.2 million
UAAL	\$11,127.4 million
Funded Ratio (based on the actuarial value of the assets)	55.24%
Funded Ratio (based on the market value of assets)	55.19%

The October 2012 actuarial valuation was based upon the same actuarial assumptions and methods as the actuarial valuation dated November 3, 2010, after consideration of an experience study dated April 7, 2011 prepared by the actuaries for the Teachers’ Retirement Fund for the five-year period ending June 30, 2010, assessing the reasonability of the actuarial assumptions and valuation methods used by the retirement system. These included:

- 8.50% earnings assumption
- Projected salary increases of 3.5% to 7.00%
- Cost-of-living adjustments of 3.0% annually for members retired before September 1992 and 2.0% for members retired on and after September 1, 1992
- Payroll Growth Rate of 3.75%

The Teachers’ Retirement Fund 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 2012 is 22.4 years. While this method of funding does lead to full funding by the end of the amortization period, the repayment of the UAAL is not level. Because of this, even if the State were to contribute the full amount of the actuarially recommended contributions and all other actuarial assumptions were met, the UAAL for the Teachers' Retirement Fund is not anticipated to be reduced significantly until the 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.

A November 2010 actuarial valuation determined an employer contribution requirement of \$787.5 million for fiscal year ending June 30, 2013, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions, which contribution is sufficient to meet GASB standards. To meet the annual contribution requirement for Fiscal Year 2013, \$787.5 million was appropriated. The October 2012 actuarial valuation determined the following employer contribution requirements, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions, which contributions are sufficient to meet GASB standards: (i) \$948.5 million for Fiscal Year 2014, and (ii) \$984.1 million for Fiscal Year 2015. The State's contribution to the Teachers' Retirement Fund was sufficient to meet the annual contribution requirement for the system for Fiscal Year 2013 as determined in the November 2010 actuarial valuation. The adopted budget passed by the General Assembly and signed into law by the Governor for the Fiscal Year 2014-2015 biennium contains appropriations sufficient to fully fund the employer contribution requirements for such biennium as determined in the October 2012 actuarial valuation.

Set forth below are State contributions to the Teachers' Retirement Fund, employee contributions, investment income, net realized gains and losses, net unrealized gains and losses, benefits paid, actuarial recommended contributions and market value of assets for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of fund assets, the resulting unfunded accrued liabilities and the funded ratios on an actuarial and market basis for the actuarial valuations as of June 30, 2008, June 30, 2010 and June 30, 2012.

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

	Fiscal Year				
	2009	2010	2011	2012	2013
General Fund					
Contributions.....	\$ 539.3	\$ 559.2	\$ 581.6	\$ 757.2	\$ 787.5
Employee					
Contributions <sup>(b)</sup> .....	243.1	254.1	256.1	263.5	274.3
Total Contributions.....	<u>\$ 782.4</u>	<u>\$ 813.3</u>	<u>\$ 837.7</u>	<u>\$ 1,020.7</u>	<u>\$ 1,061.9</u>
Benefits Paid <sup>(e)</sup> .....	\$ 1,381.1	\$ 1,415.9	\$ 1,499.9	\$ 1,531.7	\$ 1,625.7
Investment Income <sup>(c)</sup> .....	\$ 393.7	\$ 321.4	\$ 456.4	\$ 368.9	\$ 456.7
Net Realized Gains					
(Losses) <sup>(d)</sup> .....	24.9	502.5	202.6	173.3	611.7
Net Unrealized Gains					
(Losses).....	<u>\$ (2,958.8)</u>	<u>\$ 648.2</u>	<u>\$ 1,858.0</u>	<u>\$ (687.6)</u>	<u>\$ 515.9</u>
Total Investment Income					
And Net Gains (Losses)	<u>\$ (2,540.2)</u>	<u>\$ 1,472.1</u>	<u>\$ 2,517.0</u>	<u>\$ (145.4)</u>	<u>\$ 1,584.3</u>
Actuarial Recommended					
Contribution.....	\$ 539.3	\$ 559.2	\$ 581.6	\$ 757.2	\$ 787.5
Percentage of Actuarial					
Recommended Contribution					
Made.....	100.0%	100.0%	100.0%	100.0%	100.0%
Actuarial Accrued					
Liabilities.....	N/A	\$23,495.9	N/A	\$24,862.2	N/A
Actuarial Values of					
Assets.....	N/A	\$14,430.1	N/A	\$13,734.8	N/A
Unfunded Accrued					
Liabilities.....	N/A	\$ 9,065.7	N/A	\$11,127.4	N/A
Market Value of Assets...	\$11,397.1	\$12,273.6 <sup>(f)</sup>	\$14,143.9	\$13,473.7 <sup>(f)</sup>	\$14,480.5
Funded Ratio					
(actuarial value).....	N/A	61.4%	N/A	55.2%	N/A
Funded Ratio					
(market value).....	N/A	52.2%	N/A	54.2%	N/A
Ratio of Actuarial Value					
of Assets to Market					
Value of Assets.....	N/A	117%	N/A	102%	N/A

- (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 (\$1,573,023 during Fiscal Year 2009, \$857,420 during Fiscal Year 2010, \$902,153 during Fiscal Year 2011, \$582,142 during Fiscal Year 2012 and \$361,042 during Fiscal Year 2013). Does not include employee contributions to the Teachers' Retirement Health Insurance Fund.
- (c) Investment Income (exclusive of net realized gains and losses).
- (d) Net realized gain (loss) on shares redeemed.
- (e) Does not include refunds with respect to withdrawals of account balances by inactive members who terminate membership (\$14,691,011 during Fiscal Year 2009, \$12,382,933 during Fiscal Year 2010, \$16,181,894 during Fiscal Year 2011, \$13,831,495 during Fiscal Year 2012 and \$14,658,485 during Fiscal Year 2013).
- (f) 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 Teachers’ Retirement Fund plus amounts required for costs of issuance and up to two years of capitalized interest. The Secretary of the Office of Policy and Management and the State Treasurer subsequently determined that issuance of such bonds would be in the best interests of the State, and in April 2008 the State issued \$2,276.6 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 bonds) are outstanding, there shall be deemed appropriated from the General Fund an amount equal to the annual required contribution to the Teachers’ Retirement Fund, and such amount shall be deposited in the fund in such fiscal year. The amounts of the annual required contributions for each biennial budget shall be based on the actuarial valuation required to be completed by the December 1 prior to the beginning of the next biennial budget. Under Section 8 the State has pledged to and agreed with the holders of any TRF Bonds that, so long as the actuarial evaluation of the Teachers’ Retirement Fund is completed and the certification of the annual contribution amounts is made as required by such Section, no public or special act of the General Assembly shall diminish such required contribution until such bonds, together with interest thereon, are fully met and discharged unless adequate provision is made by law for the protection of the holders of the bonds. Such contributions may be reduced in any biennium, however, if (i) the Governor declares an emergency or the existence of extraordinary circumstances (which may include changes in actuarial methods or accounting standards) in which the provisions of Section 4-85 of the Connecticut General Statutes is invoked, (ii) at least three-fifths of the members of each Chamber of the General Assembly vote to diminish such required contributions during the biennium for which the emergency or extraordinary circumstances are determined, and (iii) the funded ratio of the fund is at least equal to the funded ratio immediately after the sale of the bonds in accordance with the actuarial method used at the time. If such conditions are met, the funding of the annual required actuarial contribution may be diminished, but in no event shall such diminution result in a reduction of the funded ratio of the fund by more than 5% from the funded ratio 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 Teachers’ Retirement Fund is required to contribute 6% of annual salary for the pension benefit. The State’s contribution requirement is determined in accordance with Section 10-183z of the General Statutes, which requires the retirement system to be funded on an actuarial reserve basis.

Eligibility for normal retirement benefits is available at age 60 for those with 20 years of credited 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, 2013 was approximately \$47,500.

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

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

<u>Retirement Date</u>	<u>Adjustments Consistent With Adjustments To:</u>	<u>Minimum Increase</u>	<u>Maximum Increase</u>	<u>Limitation On Maximum Increase Based On Previous Year's Plan Assets Return</u>
Prior to September 1, 1992	National Consumer Price Index for Urban Wage Earners and Clerical Workers	3.0% per annum	5.0% per annum	N/A
On or after September 1, 1992, and became System member before July 1, 2007 <sup>(a)</sup>	Social Security benefits	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 Teachers' Retirement Fund for such member and for payment by the board of education of not less than 50% of the entire cost of such total cost. Any such plan shall specify a maximum number of years to be purchased, not to exceed five. Members must have attained age 50 and be eligible for retirement with the additional purchased service. The amount of service purchased cannot exceed the lesser of five years or one-fifth of the member's credited service.

### **Investment of Pension Funds**

Twelve investment funds serve as the investment medium for the State Employees' Retirement Fund and the Teachers' Retirement Fund. They are the Mutual Equity Fund, the Developed Markets International Stock Fund, the Emerging Markets International Stock Fund, the Core Fixed Income Fund, the Emerging Markets Debt Fund, the High Yield Debt Fund, the Inflation Linked Bond Fund, the Liquidity Investment Fund, the Real Estate Fund, the Private Investment Fund, the Commercial Mortgage Fund, and the Alternative Investment Fund. See also **FINANCIAL PROCEDURES** herein. Set forth below are the percentage allocation of holdings for the State Employees' Retirement Fund and the Teachers' Retirement Fund as of June 30, 2013 in each of these twelve funds.

**TABLE 23**  
**Pension Fund Investment Allocations**  
**As of June 30, 2013**

	<u>State Employees'</u> <u>Retirement Fund</u>	<u>Teachers'</u> <u>Retirement Fund</u>
Mutual Equity Fund .....	24.5%	24.9%
Developed Markets International Stock Fund .....	21.6	21.9
Emerging Markets International Stock Fund .....	9.5	9.3
Core Fixed Income Fund .....	7.5	6.7
Emerging Markets Debt Fund.....	4.6	5.5
High Yield Fund .....	4.0	4.1
Inflation Linked Bonds Fund .....	3.4	3.3
Liquidity Investment Fund.....	5.2	4.0
Real Estate Fund .....	5.5	5.7
Private Investment Fund .....	9.7	10.0
Commercial Mortgage Fund.....	0.0	0.0
Alternative Investment Fund.....	<u>4.5</u>	<u>4.6</u>
	100.0%	100.0%

***Investment Returns***

**Annualized Net Returns on Investment Assets in  
Retirement Funds  
Periods Ending June 30, 2013<sup>(a)</sup>**

	<u>5 Year</u>	<u>10 Year</u>	<u>15 Year</u>	<u>20 Year</u>	<u>25 Year</u>
State Employees'	4.40%	6.89%	5.50%	7.44%	7.87%
Teachers'	4.58%	7.04%	5.61%	7.56%	7.97%

(a) These annualized net returns now fully incorporate the impact of the negative return on investment assets resulting from the downturn in the financial markets during the fall of 2008 through spring of 2009.

## 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, 2013, there were approximately 184 active members of these plans and approximately 177 retired members.

Unclassified employees of the Connecticut State System of Higher Education and the central office staff of the Department of Higher Education are eligible to participate in the Connecticut Alternate Retirement Program. This program is a defined contribution program, and thus the State has no unfunded liability with respect to the program. All member contributions and State appropriations are held in a separate retirement fund by the third party administrator of the plan, who invests the fund's assets allocable to a member at the direction of such member in the investment funds available under the plan. A member may not withdraw funds from the plan unless such member has reached age 55 and has terminated from service, retired or died, provided that any member with less than five years of participation in the plan who is under the age of 55 and terminates from service may rollover such member's entire account into an eligible retirement plan.

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

## Social Security and Other Post-Employment Benefits

### *Social Security*

State employees 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, 2013, approximately 57,888 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, 2013 was \$315.7 million. Of this amount, \$206.8 million was paid from the General Fund and \$13.5 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 \$240.5 million for Social Security coverage for fiscal year ending June 30, 2014. Of this amount, \$224.9 million has been appropriated from the General Fund and \$15.6 million has been appropriated from the Special Transportation Fund.



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

The State provides post-retirement health care and life insurance benefits to all employees who retire from State employment. The State currently finances the cost of such benefits on a pay-as-you-go basis through a transfer of an appropriation from the General Fund to a trust fund established for the payment of post-retirement health care and life insurance benefits. The State has established the trust also 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, 2013, the fair market value of the net assets within the trust totaled \$143.8 million. A portion of the trust contributions are invested in the Combined Investment Funds. See also **note 15** of **Appendix III-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 State will need to make significant General Fund appropriations for post-retirement health care and life insurance benefits in upcoming fiscal years. For fiscal year ending June 30, 2013, General Fund expenditures on post-retirement health care and life insurance benefits were \$587.4 million and \$8.7 million, respectively. For fiscal year ending June 30, 2014, the projected General Fund expenditures on post-retirement health care and life insurance benefits are \$548.7 million and \$8.8 million, respectively. 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 February 20, 2014 (“2014 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 the State Employees Retirement System and other State retirement systems, excluding the Teachers’ Retirement System from The Segal Company which indicated the following as of June 30, 2013:

Actuarial Accrued Liability	\$19,676.3 million	
UAAL	\$19,532.5 million	
Actuarial Value of Assets	\$143.8 million	Based on Market Value at June 30, 2013.
Funded Ratio	0.73%	
Annual Required Contribution	\$1,271.3 million (Fiscal Year 2013) \$1,525.4 million (Fiscal Year 2014) (comprised of normal cost of \$480.6 million, amortization of UAAL of \$999.9 million, and adjustment for timing of \$44.9 million)	Based on a projected unit credit actuarial cost method and level percent-of-payroll amortization over 30 years (with 24 years remaining as of June 30, 2013).

Annual OPEB Cost                      \$1,560.0 million (Fiscal Year 2014)    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 Year 2013, the State contributed 42.68% of the Annual Required Contribution and 41.21% of the Annual OPEB Cost.

The 2014 OPEB Report includes the following assumptions, among others:

- A discount rate of 5.7%
- Payroll growth rate of 3.75% (lowered from 4.00% in prior valuation)
- Medical cost trend rate of 7.0% graded to 5.0% over 5 years
- Drug cost trend rate of 6.0% graded to 5.0% over 5 years
- Dental and part B trend rates of 5.0%
- Projected salary increases of 0.0% 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 \$263 (lowered from \$271 in prior valuation) per participant increasing at 3% per year
- Average premium used to calculate the early retirement premiums was updated to \$10,797
- 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

For Fiscal Years 2009 through 2013, the State paid \$434.6 million, \$527.9 million, \$490.9 million, \$549.1 million and \$587.4 million, respectively, for retirees' health care costs. While not a part of post-employment costs, for Fiscal Years 2009 through 2013, the State paid \$521.9 million, \$525.5 million, \$524.6 million, \$554.5 million and \$597.2 million, respectively, for General Fund eligible employees' health care costs. The State has appropriated \$615.9 million in the General Fund for eligible employees' and \$548.7 million for retirees' health care costs in Fiscal Year 2014.

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

**TABLE 24**

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

	<b>Fiscal Year</b>				
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Retirees Eligible to Receive Benefits .....	38,736	42,556	43,086	44,770 <sup>(a)</sup>	47,510
Retirees Receiving Health Care Benefits.....	38,613	42,383	42,905	44,659	45,092
Retirees Receiving Life Insurance Benefits.....	25,368	27,694	28,017	28,405	28,204
General Fund Appropriations for Retiree Health Care and Life Insurance Benefits (millions) .....	\$458.0	\$541.0	\$595.3 <sup>(b)</sup>	\$574.1 <sup>(c)</sup>	\$596.1 <sup>(d)</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) Of the \$595.3 million appropriated for Fiscal Year 2011, \$490.9 million was expended on retiree health care and life insurance benefits.
- (c) 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.
- (d) The \$591.8 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.

***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. No General Fund appropriations to the Teachers’ Retirement Fund to cover retiree health insurance costs were made for Fiscal Years 2010 and 2011. The State made General Fund appropriations of \$32.3 million and \$34.4 million for Fiscal Years 2012 and 2013, respectively, to subsidize the Teachers’ Retirement Health Insurance Fund. The Governor’s midterm budget adjustments for Fiscal Year 2013, reduced the State’s appropriation from 33% to 25% (\$22.3 million) of the Medicare supplemental health insurance program, 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. 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 dated October 2012 of the State’s liability as of June 30, 2012 with respect to post-retirement health care benefits for members of the Teachers’ Retirement Fund and for retired teachers

who are not members of the Teachers' Retirement Board's health benefit plan from Cavanaugh Macdonald Consulting, LLC. The actuarial liability is determined directly as the present value of benefits accrued to date, where the accrued benefits for each member is the pro-rata portion (based on service to date) of the projected benefit payable. The report indicates an actuarial accrued liability as of June 30, 2012 of \$3,048.3 million on an unfunded basis, based upon certain stated assumptions including a 4.5% earnings assumption and a 30 year amortization period and no valuation assets available to offset the liabilities of the plan. Against these liabilities, as of June 30, 2012 the plan had no present assets for valuation purposes. The actuarial valuation determined a \$180.5 million employer contribution requirement for fiscal year ending June 30, 2013 and \$187.2 million for fiscal year ending June 30, 2014, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions and applying a 4.5% discount rate.

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

**TABLE 25**  
**Teachers' Retirement Health Insurance Fund**  
**(In Thousands)**

	<u>Fiscal Year</u>				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Fund Contribution Attributable To Post- Retirement Medicare Supplement Health Insurance .....	\$ 14,548.2	\$ 2,131.2 <sup>(a)</sup>	\$ 0	\$ 27,886.3	\$ 21,816.2 <sup>(c)</sup>
General Fund Contribution Attributable To Non-Board Health Insurance Cost Subsidy	<u>7,885.2</u>	<u>1,927.6<sup>(a)</sup></u>	<u>0</u>	<u>7,372.7</u>	<u>5,223.9</u>
Total General Fund Contributions .....	\$ 22,433.4	\$ 4,058.9 <sup>(a)</sup>	\$ 0	\$ 35,259.0	\$ 27,040.1
Teacher Contributions (Active and Retired) .....	70,809.5	71,992.7	72,388.4	85,483.4	85,483.6
Investment Income .....	1,137.0	181.0	135.4	99.1	124.5
Federal Drug Subsidy .....	<u>7,061.8</u>	<u>8,049.2</u>	<u>5,312.2</u>	<u>14,227.1</u>	<u>0<sup>(d)</sup></u>
Total Receipts .....	\$101,441.7	\$ 84,281.7	\$ 78,836.0	\$135,068.5	\$112,648.2
Fund expenditures .....	<u>(\$ 85,195.1)</u>	<u>(\$ 91,944.6)</u>	<u>(\$ 91,852.8)</u>	<u>(\$ 96,347.4)</u>	<u>(\$101,450.5)</u>
Fund Balance as of June 30 .....	\$ 73,785.1	\$66,0720.3 <sup>(b)</sup>	\$ 53,055.5	\$ 91,776.6	\$102,974.3

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

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

(c) Includes Retiree Federal Drug Subsidy of \$10,203,832.

(d) Retiree Federal Drug Subsidy amount of \$10,203,832 included in General Fund Contribution Attributable to Post-Retirement Medicare Supplement Health Insurance above.

### **Additional Information**

The audited financial statements for Fiscal Year 2013 which are included as **Appendix III-C** hereto, and in particular notes 11 through 15 and note 17 and the required PERS Supplementary Information of the accompanying Basic Financial Statements, provide additional information about the foregoing retirement systems and their funding. In addition, paragraph B of note 26 of such financial statements identifies a contingent liability of the State to pay pension liabilities of certain persons who are not employees of the State.

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

## 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, and remanded the case with direction to render a declaratory judgment in favor of the plaintiffs. The Court directed the legislature to develop appropriate measures to remedy the racial and ethnic segregation in the Hartford public schools. The Supreme Court also directed the Superior Court to retain jurisdiction of this matter. The 1997 General Assembly enacted P.A. 97-290, An Act Enhancing Educational Choices and Opportunities, in response to the Supreme Court decision.

In December 2000 the plaintiffs filed a motion seeking to have the Superior Court assess the State's compliance with the State Supreme Court's 1996 decision. Before the Court ruled upon that motion the parties reached a settlement agreement, which was deemed approved by the General Assembly and approved by the Superior Court on March 12, 2003. That agreement obliged the State over a four year period to 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. Most recently, the parties negotiated a stipulation that would govern the parties obligations through June 2015. The latest proposed agreement, which establishes a target of 44% of Hartford resident minority students in integrated settings, must be approved during the next general legislative session commencing in February 2014. If the legislature disapproves the settlement agreement, it is null and void, in which case the plaintiffs would be entitled to seek relief to enforce the judgment in the Superior Court, although it is likely that legislative disapproval would lead to further negotiations towards a revised agreement.

*State Employees Bargaining Agent Coalition v. Rowland* is a Federal District Court case originally brought in 2003 in which a purported class of laid off State employees have sued the Governor and the Secretary of the Office of Policy and Management alleging that they were laid off in violation of their constitutional rights. The plaintiffs claim back wages, damages, attorneys' fees and costs. The defendants moved to dismiss the action based on absolute immunity, and that motion was denied on January 18, 2005. The defendants appealed that decision to the U.S. Court of Appeals. On July 10, 2007 the U.S. Court of Appeals remanded the case back to the District Court for trial. The parties subsequently entered into a stipulation of facts and then filed cross-motions for summary judgment on all remaining claims. By order dated May 31, 2013, the Second Circuit sustained the appeal directing that summary judgment be entered in plaintiff's favor on the official capacity claims and remanding for entry of appropriate equitable relief. In addition, the remand order requires that the individual capacity claims against the former Governor and Secretary of the Office of Policy and Management proceed through discovery and eventually trial. The Attorney General filed a petition for writ of certiorari seeking review of the official capacity claims by the United States Supreme Court, as did the individual capacity defendants. A motion to stay the Second Circuit's mandate pending the defendants' petitions for writ of certiorari was granted. Subsequently, the Attorney General withdrew his petition without prejudice to refiling if necessary upon entry of final judgment. The withdrawal was in response to an invitation by the plaintiffs to commence settlement negotiations. The parties

anticipate that further activity in the case and related state court litigation will remain stayed pending settlement discussions. The individual capacity defendant's petition for writ of certiorari remains pending.

The same purported class has brought related state law claims in State Court under the caption *Conboy v. State of Connecticut*. On October 20, 2006 the Superior Court in *Conboy v. State of Connecticut* denied the State's motion to dismiss, and the State has appealed. The appeal has been denied and the case has been remanded to the trial court for further proceedings. By agreement of the parties, proceedings in the state court action have been stayed pending disposition of the federal court action.

*State of Connecticut v. Philip Morris, Inc., et al.* is the action that resulted in the 1998 Master Settlement Agreement ("MSA"), through which Connecticut and fifty-one other states and territories resolved their claims against the major domestic tobacco manufacturers. The Connecticut Superior Court retains continuing jurisdiction over disputes involving the MSA. From 2006 through 2013, the State was engaged in litigation and arbitration against tobacco companies that participate in the MSA regarding the calculation of the companies' payments to the State for the year 2003. A multistate arbitration proceeding regarding the calculation of the 2003 payments was convened in 2010. In 2013, during the course of the arbitration, almost half of the states entered into an agreement with the manufacturers to settle the outstanding Non-Participating Manufacturer Adjustment ("NPM Adjustment") disputes for the years 2003-2014, and to alter some of the ground rules for future NPM Adjustment disputes. Connecticut joined that settlement, which was approved by the arbitration panel, but which was subsequently challenged in the state courts of at least a dozen states that had rejected the settlement. Most of those state court challenges to the settlement are still pending, but to date, no state court has ruled that the settlement is invalid. In theory, a state court could rule that the settlement is invalid and invalidate certain payments made to the states that joined the settlement, to the extent those payments came from a special escrow account known as the Disputed Payments Account. In the case of Connecticut, the total amount of money paid to the State from that account for the years from 2003 to 2013 is roughly \$97 million. In light of the fact that none of the states challenging the settlement has named *any* of the settlement party states as a defendant, it is unlikely that any state court would find that it has jurisdiction to rescind payments made to Connecticut or any other settlement party states from the Disputed Payments Account.

In *Connecticut Coalition for Justice in Education Funding et al. v. Rell, et al.*, brought in Hartford Superior Court in 2005, 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 under 42 USC § 1983, on the grounds that minority students have been disproportionately impacted. The court ruled that the Coalition, as opposed to the other plaintiffs, lacks legal standing to pursue the claims. The plaintiffs sought to replead to overcome the impact of this ruling. The defendants moved to strike the plaintiffs' claims for a "suitable" education under the State Constitution. On September 17, 2007 the Superior Court issued a ruling granting the State's motion to strike three counts of the plaintiffs' complaint. After the Court's ruling, one count of the plaintiffs' complaint remained, alleging that the plaintiffs have been denied substantially equal education opportunity in violation of the State constitution. The State did not move to strike that count. The plaintiffs sought and obtained permission to appeal immediately to the Connecticut Supreme Court. On March 30, 2010 a plurality of the Supreme Court reversed the trial court, ruled that the State Constitution guarantees public school students a right to suitable educational opportunities and remanded the case for a determination of

whether such opportunities are being provided. The Court has established a schedule for discovery and scheduled a trial to commence in 2014 and has dismissed the State's motion to dismiss the operative complaint. The State is seeking to modify the scheduling order, including by extending the trial date currently set for 2014.

**Indian Tribes.** It is possible that claims for land and/or sovereignty over land areas that are part of the State of Connecticut could be brought by 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. Currently, the federal Bureau of Indian Affairs is considering regulations that could give Connecticut tribes previously denied Federal tribal recognition – such as the Schaghticoke Tribal Nation and the Eastern Pequot Tribe – another opportunity to seek it and to do so under relaxed standards.

**Bouchard v. State Employees Retirement Commission** is a state court proceeding representing an administrative appeal from a denial by the State Employees Retirement Commission 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 the State Employees Retirement Commission was required to include a retiree's final prorated longevity payment in their final year salary, for the purpose of calculating retirement benefits. The State Employees Retirement Commission initially interpreted **Longley**, with the exception of the **Longley** plaintiffs, as prospective in application. In April 2009, the State Employees Retirement Commission 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 has been certified as a class action. The class approximates 18,000 retirees. Currently, the matter is in the discovery stage.



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## GOVERNMENTAL ORGANIZATION AND SERVICES

### Introduction

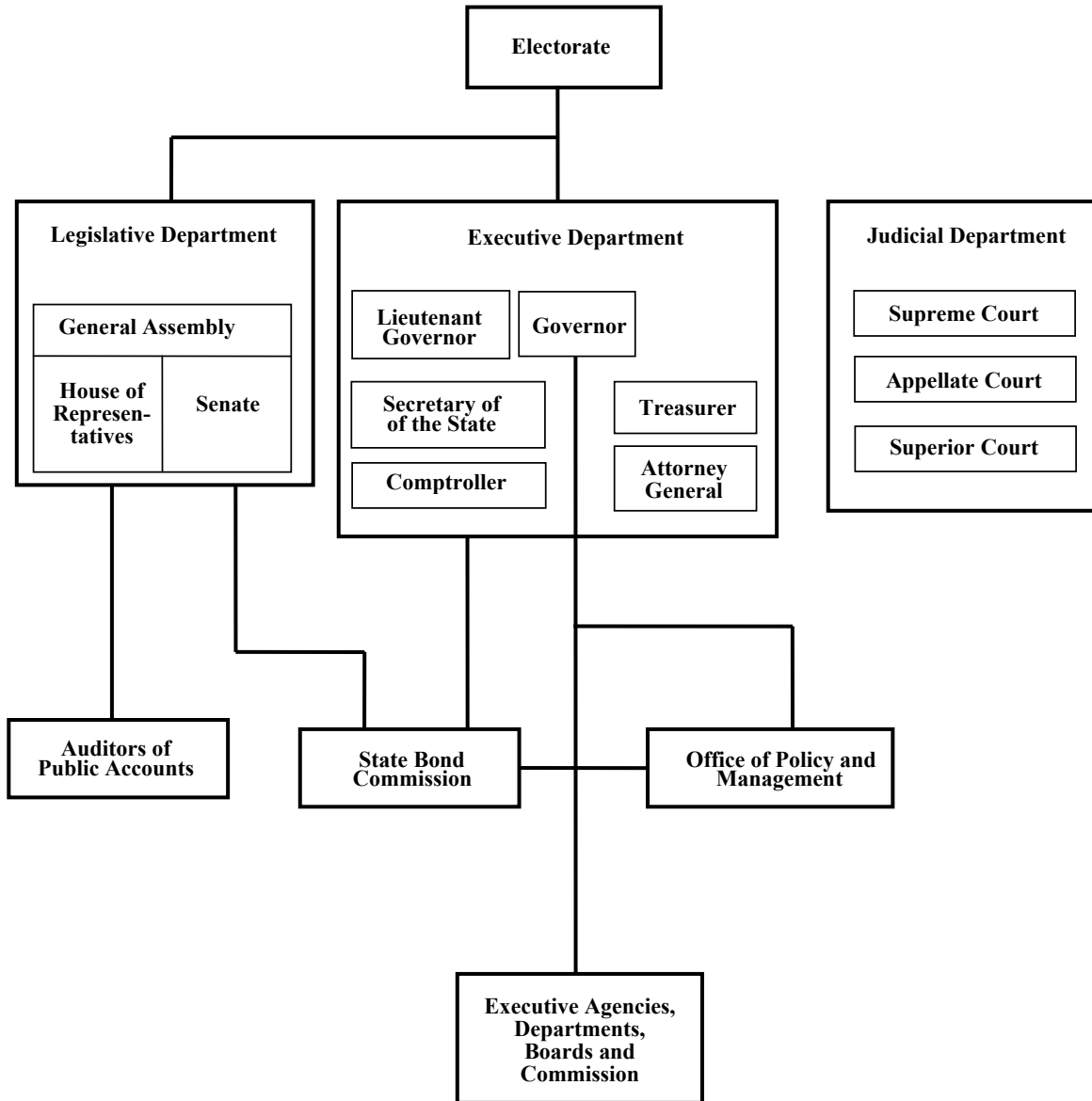
The components and structure of State governmental organization are laid out in the State's Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General 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 2012, and the new members took office in January 2013.

A regular session of the General Assembly is held each year. These sessions run from January through June in odd-numbered years and February through May in even-numbered years. The General Assembly reconvenes for special sessions in general only in emergencies or to consider bills or appropriations vetoed by the Governor. Even-year sessions are supposed to be limited to budgetary, revenue and financial matters, bills and resolutions raised by committees of the General Assembly and certified emergencies.

Two Auditors of Public Accounts, who cannot be of the same political party, are appointed by the General Assembly to four-year terms. The State Auditors are required to make an annual audit of the accounts of the Treasurer and the Comptroller and, biennially or as frequently as they deem necessary, to audit the accounts of each officer, department, commission, board and court of the State government authorized to expend State appropriations. The Auditors are required to report unauthorized, illegal, irregular or unsafe handling or expenditure of State funds or any actual or contemplated breakdown in the safeguarding of any resources of the State promptly upon discovery to the Governor, the State Comptroller, the Attorney General and appropriate legislative agencies. Each budgeted agency of the State must keep its accounts in such form and by such methods as to exhibit facts required by the State Auditors. A full-time staff assists the State Auditors. Employees of the State Auditors are included under the legislative function in **Tables A-2** and **A-3** below.

**Executive Department.** The Governor, Lieutenant Governor, Secretary of the State, Treasurer, Comptroller and Attorney General, whose offices are mandated by the State's Constitution, were elected at the general election in November 2010 for terms beginning in January 2011. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit.

The supreme executive power of the State is vested in the Governor. The Governor has the constitutional responsibility for ensuring that the laws are faithfully executed, giving the General Assembly information on the state of the government, and recommending to the General Assembly such measures as the Governor may deem expedient. The Governor is empowered to veto bills and line items in appropriations bills, but the General Assembly may reconsider and repass such matters upon a two-thirds vote of each house, whereupon such bills or appropriations become law. Broad appointive and investigative powers are conferred upon the Governor by statute. The Lieutenant Governor serves as President of the Senate and becomes Governor in case of the inability of the Governor to exercise the powers and perform the duties of the office.

The Treasurer is primarily responsible for receiving and disbursing all monies belonging to the State, superintending the collection of State taxes and revenues and the investment of State funds, administering certain State trust funds and managing State property. Subject to the approval of the Governor, the Treasurer is authorized, when necessary, to make temporary borrowings evidenced by State obligations. In addition, the State Bond Commission may delegate to the Treasurer the responsibility for determining the terms and conditions and carrying out the issuance of State debt.

The Secretary of the State administers elections, has custody of all public records and documents, and certifies to the Treasurer and the Comptroller the amount and purpose of each appropriation made by the General Assembly.

The Comptroller's primary duties include adjusting and settling public accounts and demands and prescribing the method of keeping and rendering all public accounts. All warrants and orders for the disbursement of public money are registered with the Comptroller. The Comptroller also has authority to require reports from State agencies upon any matter of property or finance and to inspect all records in any public office, and is responsible for examining the amount of all debts and credits of the State. The Comptroller is required to issue monthly reports on the financial condition of the State, which are prepared on a modified cash basis and are not audited.

The Attorney General has general supervision over all legal matters in which the State is an interested party except those legal matters over which prosecuting officers have discretion. The duties of the office include giving advice and, on request, rendering legal opinions to the legislative and executive departments as to questions of law. Among the Attorney General's statutory duties concerning State financial matters are membership on the State Bond Commission, the approval of all State contracts or leases and appearing before any committee of the General Assembly to represent the State's best interests when any measure affecting the State Treasury is pending.

In addition to the constitutionally mandated offices, the General Statutes provide for a number of executive branch agencies, departments and commissions, each of which generally has its own agency head appointed by the Governor, in most cases with the advice and consent of one or both houses of the General Assembly. Of these statutorily established offices, the one most directly related to the fiscal operation and condition of the State is the Office of Policy and Management. The Secretary of the Office of Policy and Management is directly responsible to the Governor for policy development in four major areas: budget and financial management, policy development and planning, management and program evaluation, and intergovernmental policy. The Office of Policy and Management has significant responsibility in preparing the State budget, in assisting the Governor in policy development and in representing the State in most collective bargaining negotiations. It is the duty of the Office of Policy and Management to prepare and furnish to the General Assembly and Comptroller financial and accounting statements relating to the State's financial condition and general accounts, and to examine and assist in the organization, management and policies of departments and institutions supported by the State in order to improve their effectiveness. The Secretary of the Office of Policy and Management, like the Comptroller, is empowered to inspect the financial records and to require reports of State agencies.

Employees of the executive department are included in **Tables A-2** and **A-3** below under all function headings except the legislative and judicial functions. A list of the major executive branch agencies, departments and commissions, by function headings, is found in **Table A-5**.

**Judicial Department.** The State's judicial department consists of three principal trial and appellate courts: the Superior Court, the Appellate Court, and the Supreme Court.

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. By statute, there are 201 authorized Superior Court judges, with approximately 165 sitting judges as of December 1, 2013, each nominated by the Governor and appointed by the General Assembly to eight-year terms.

On July 1, 1983 the Appellate Court was created and the appellate session of the Superior Court was dissolved. The Appellate Court hears appeals from decisions of the Superior Court except for certain matters which are directly appealable to the Supreme Court. There are 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Legislative .....	681	651	680	678	660
General Government.....	3,497	3,312	3,328	3,028	3,064
Regulation and Protection.....	4,373	4,133	4,276	4,084	4,188
Conservation and Development....	1,356	1,306	1,347	1,424	1,367
Health and Hospitals.....	7,551	7,049	6,874	6,534	7,082
Transportation.....	4,029	4,068	3,878	3,646	3,759
Human Services.....	1,913	1,876	1,911	1,923	1,817
Education .....	16,486	16,474	17,217	17,272	16,129
Corrections .....	9,612	9,057	9,020	8,590	8,446
Judicial.....	<u>4,516</u>	<u>4,435</u>	<u>4,454</u>	<u>4,299</u>	<u>4,479</u>
<b>Total</b> .....	54,014	52,361	52,985	51,478	50,991

(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, 2013<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	660					660
General Government	2,777	1	13	146	127	3,064
Regulation and Protection	2,123	588	402	786	289	4,188
Conservation and Development	865		111	56	335	1,367
Health and Hospitals	6,412	3	7		660	7,082
Transportation		2,713		1,046		3,759
Human Services	1,754		9		54	1,817
Education	4,940			11,038	151	16,129
Corrections	8,354			73	19	8,446
Judicial	4,364		67		48	4,479
<b>Total</b>	<b>32,249</b>	<b>3,305</b>	<b>609</b>	<b>13,145</b>	<b>1,683</b>	<b>50,991</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>Percentage of State Employees Represented<sup>(a)</sup></u>	<u>Contract Status, if any</u>
<b><u>Covered by Collective Bargaining</u></b>		
Administrative and Residual (P-5)	5.83%	Contract in place through 6/30/2016
Administrative Clerical (NP-3)	7.15	Contract in place through 6/30/2016
Community Technical Colleges -Counselors/Librarians	0.02	Contract in place through 6/30/2016
Community Technical Colleges-Faculty	0.39	Contract in place through 6/30/2016
Community Colleges-Faculty –10 & 12 Months	1.24	Contract in place through 6/30/2016
Correctional Officers	8.83	Contract in place through 6/30/2016
Correctional Supervisors	0.86	Contract in place through 6/30/2012 <sup>(b)</sup>
Criminal Justice Inspectors A & B	0.14	Contract in place through 6/30/2016
Criminal Justice Residuals	0.25	Contract in place through 6/30/2016
CT Association of Prosecutors	0.48	Contract in place through 6/30/2016
DHE-Professional Employees	0.06	Contract in place through 6/30/2016
Education Administrative (P-3A)	0.49	Contract in place through 6/30/2016
Education Technical (P-3B)	1.28	Contract in place through 6/30/2016
Engineering, Scientific and Technical (P-4)	4.82	Contract in place through 6/30/2016
Health Care Unit-Professional (P-1)	5.92	Contract in place through 6/30/2016
Health Care Unit-Non-Professional (NP-6)	6.17	Contract in place through 6/30/2016
Judicial – Non-Professional	2.74	Contract in place through 6/30/2016
Judicial - Professional	2.57	Contract in place through 6/30/2016
Judicial Marshals	1.36	Contract in place through 6/30/2016
Judicial Supervising Marshals	0.11	Contract in place through 6/30/2013 <sup>(b)</sup>
Protective Services (NP-5)	1.57	Contract in place through 6/30/2016
RCTC Admin	1.01	Contract in place through 6/30/2016
Services/Maintenance (NP-2)	7.48	Contract in place through 6/30/2016
Social Services (P-2)	7.65	Contract in place through 6/30/2016
State Police (NP-1)	2.03	Contract in place through 6/30/2015
State Police Lieutenants & Captains (NP-9)	0.08	Contract in place through 6/30/2016
State University-Faculty	2.89	Contract in place through 6/30/2016
State University- Non-Faculty Professional	1.46	Contract in place through 6/30/2016
Technical Colleges - Administrators	0.13	Contract in place through 6/30/2016
University-Faculty	3.15	Contract in place through 6/30/2016
University-Non-Faculty Professional	3.53	Contract in place through 6/30/2016
University Health Center-Faculty	1.09	Contract in place through 6/30/2016
University Health Center-Non-Faculty Professional	4.49	Contract in place through 6/30/2016
Vocational Schools-Faculty	<u>2.25</u>	Contract in place through 6/30/2016
Total Covered by Collective Bargaining	89.52%	
<b><u>Not Covered by Collective Bargaining</u></b>		
Auditors of Public Accounts	0.23%	Not Applicable
Other Employees	<u>10.25%</u>	Not Applicable
Total Not Covered by Collective Bargaining	<u>10.48%</u>	
<b>Total Full-Time Work Force</b>	<b>100.00%</b>	

(a) Percentage expressed reflects approximately 49,104 filled full-time positions as of June 30, 2013.

(b) Currently in negotiation.

SOURCE: Office of Policy and Management

## Governmental Services

Services provided by the State or financed by State appropriations are classified under one of ten major government function headings or are classified as “non-functional”. These function headings are used for the State’s General Fund and for other funds of the State used to account for appropriated moneys. State agencies, boards, commissions and other bodies are each assigned to one of the function headings for budgeting purposes. The following table shows a breakdown of the government function headings according to the major agencies, boards, commissions and other bodies assigned to them.

**TABLE A-5**  
**Function of Government Headings<sup>(a)(b)</sup>**

<b><u>Legislative</u></b> Legislative Management Auditors of Public Accounts Commission on Aging Commission on the Status of Women Commission on Children Latino and Puerto Rican Affairs Commission African-American Affairs Commission Asian Pacific American Affairs Commission	<b><u>Regulation and Protection</u></b> Department of Emergency Services and Public Protection Department of Motor Vehicles Military Department Department of Banking Insurance Department Office of Consumer Counsel Office of the Health Care Advocate Department of Consumer Protection Department of Labor Commission on Human Rights and Opportunities Office of Protection and Advocacy for Persons with Disabilities Workers’ Compensation Commission	<b><u>Transportation</u></b> Department of Transportation
<b><u>General Government</u></b> Governor’s Office Lieutenant Governor’s Office Secretary of the State Office of Governmental Accountability State Treasurer State Comptroller Department of Revenue Services Office of Policy and Management Department of Veterans’ Affairs Department of Administrative Services Attorney General Division of Criminal Justice	<b><u>Conservation and Development</u></b> Department of Agriculture Department of Energy and Environmental Protection Council on Environmental Quality Department of Economic and Community Development Department of Housing Agricultural Experiment Station	<b><u>Human Services</u></b> Department of Social Services State Department on Aging Soldiers, Sailors, and Marines’ Fund
	<b><u>Health and Hospitals</u></b> Department of Public Health Office of the Chief Medical Examiner Department of Developmental Services Department of Mental Health and Addiction Services Department of Rehabilitation Services	<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
		<b><u>Corrections</u></b> Department of Correction Department of Children and Families
		<b><u>Judicial</u></b> Judicial Department Public Defender Services Commission

(a) In addition to the ten listed government function headings, the State also employs a “non-functional” heading under which are grouped various miscellaneous accounts including debt service and State employee fringe benefit accounts.

(b) Listing of agencies, boards, commissions and similar bodies is as of July 1, 2013.

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 is responsible for directing and coordinating all available resources to protect the life and property of the citizens of Connecticut in the event of a disaster or crisis, including an emergency relating to homeland security. Through the Division of Emergency Management and Homeland Security (DEMHS), the Department directs the preparation of state emergency plans, which are submitted to the Governor for approval. For planning purposes, DEMHS has given priority for preparedness to the following potential scenarios: (i) a Category 3 hurricane hitting the State coast and all of New England, (ii) a large scale terrorist attack in New York City, and (iii) a release of contamination from the Millstone Power Plant. DEMHS 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. Pursuant to the Connecticut General Statutes, the Commissioner of the Department is required to file an annual report each January to the joint standing committee of the General Assembly having cognizance of matters relating to public safety, which report specifies and evaluates statewide emergency management and homeland security activities during the preceding calendar year.

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## STATE ECONOMY

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. Over one quarter of the total population of the United States and more than 50% of the Canadian population live within a 500-mile radius of the State.

**Economic Resources**

**Population Characteristics.** Connecticut had a population count of 3,574,097 in April 2010, an increase of 168,532, or 4.9%, from the 3,405,565 figure of 2000. The State's population growth rate, which exceeded the United States' rate of population growth during the period from 1940 to 1970, slowed substantially and trailed the national average markedly during the past four decades. The following table presents the population trends of Connecticut, New England, and the United States since 1940. Connecticut's population increased 3.8% from 2002 to 2012 versus 3.1% in New England and 9.1% for the nation. The mid-2012 population in Connecticut was estimated at 3,590,347 up 0.1% from a year ago, compared to increases of 0.3% and 0.7% for New England and the United States, respectively. From 2002 to 2012, within New England, only New Hampshire (4.1%) experienced growth higher than Connecticut (3.8%); while Massachusetts (3.6%), Maine (2.6%), Vermont (1.7%) and Rhode Island (-1.5%) all experienced lower 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
2003....	3,484	0.7	14,182	0.4	290,108	0.9
2004....	3,496	0.3	14,207	0.2	292,805	0.9
2005....	3,507	0.3	14,217	0.1	295,517	0.9
2006....	3,517	0.3	14,246	0.2	298,380	1.0
2007....	3,527	0.3	14,279	0.2	301,231	1.0
2008....	3,546	0.5	14,340	0.4	304,094	1.0
2009....	3,562	0.5	14,404	0.4	306,772	0.9
2010....	3,579	0.5	14,465	0.4	309,326	0.8
2011....	3,589	0.3	14,518	0.4	311,583	0.7
2012....	3,592	0.1	14,563	0.3	313,874	0.7
2013....	3,596	0.1	14,619	0.4	316,129	0.7

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

2003-2013 Mid-year estimates. Estimates for New England include the sum of six states – Connecticut, Massachusetts, New Hampshire, Rhode Island, Maine and Vermont.

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

The State is highly urbanized with a 2012 population density of 741 persons per square mile, as compared with 88 for the United States as a whole. Of the eight counties in the State, according to the U.S. Bureau of Census for the 2010 Census count, 75% of the population resides within Fairfield (26%), Hartford (25%), and New Haven (24%) counties.

**Education.** In 2012 Connecticut ranked 3rd in the nation with 16.6% of the state population over the age of 25 holding an advanced degree and 37.1% of the same population holding a college degree or higher.

Connecticut is home to over 45 colleges and universities, including among others: Yale University, Wesleyan 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 2013 Fortune 500: General Electric, United Technologies, Aetna, Xerox, Cigna, Hartford Financial Services, Praxair, Stanley Black & Decker, Terex, Emcor Group, Starwood Hotels & Resorts, Priceline.com, Pitney Bowes, Frontier Communications, and W.R. Berkley. 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 105 weekday departures to 28 non-stop destinations and is served by virtually all the major passenger and cargo air carriers. It is accessible from all areas of the State and western Massachusetts.

Railroad freight service is provided to most major towns and cities in the State, and connections are provided with major eastern railroads as well as direct access to Canadian markets. In addition, Connecticut's proximity to the ports of New York and Boston provides it with access to European and South American export markets. The State's harbors at Bridgeport, New Haven, and New London can accommodate deep draft vessels.

The Connecticut Department of Transportation subsidizes and oversees the operations of both rail commuter services and bus services. The New Haven Line (including the Waterbury, Danbury and New Canaan branch lines) and Shore Line East Line provide commuter rail services for stations between New London and New York City for approximately 40 million passengers per year. The State supports urban transit, commuter express bus, rural transit and Americans with Disabilities Act paratransit services carrying approximately 42 million passengers per year. This service is provided by state-owned CT Transit services in 8 urbanized areas, and by 13 independent urban and rural transit districts. In addition, the Department supports carpooling, vanpooling, telecommuting and other transportation demand management programs statewide.

**Utility Services.** The power grid that supplies electricity to the entire State is owned and operated by both private and municipal electric companies. Transmission lines connect Connecticut with New York, Massachusetts and Rhode Island. These interconnections allow the companies serving Connecticut to meet large or unexpected electric load requirements from resources located outside of Connecticut's boundaries. All electric utilities in the State are members of the New England Power Pool and operate as part of the regional bulk power system, the Regional Transmission Organization for New England. An independent system operator, ISO New England, Inc., operates this regional system.

Legislation passed in 1998 provided for the restructuring of the electric industry in Connecticut. Since July 2000 most consumers in Connecticut can choose an independent electric supplier as their provider of electricity. 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 (Connecticut Light & Power Company 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 are not subject to the 1998 restructuring legislation. These consumers 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 3 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 Clean Energy Finance and Investment Authority (CEFIA) to administer the Clean Energy Fund which is funded by a charge on consumer’s electric bills. Pursuant to legislation, CEFIA’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 Yankee Gas Services Company, 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. Yankee Gas was acquired by Northeast Utilities.

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 AT&T and Verizon New York, Inc. Connecticut also has approximately 105 CLECs certified to provide local exchange services including Comcast Phone of Connecticut, Inc., Cox Connecticut Telecommunication, LLC and Connecticut Telephone and Communications Systems, Inc.

Connecticut is dependent upon oil, including imported oil, for a portion of its energy requirements. This dependence is greatest in the transportation sector. Connecticut also relies on heating oils in both the residential and commercial sectors, and is reliant on residual oils and diesel fuels for the production of electricity. This petroleum dependence can make Connecticut particularly affected by developments in the oil commodity markets. Events that affect the international or domestic production of oil, the domestic and international refining capabilities, or the transportation of petroleum products within the United States or into the New England region can affect Connecticut’s local oil markets.

Although Connecticut is heavily dependent upon petroleum, the State is ranked one of the most efficient states for energy consumption. According to the most recent available data from the Energy Information Administration, an independent agency within the U.S. Department of Energy that collects and analyzes energy data, Connecticut consumed 3.7 thousand British Thermal Units (BTU) per 2005 chained dollar of Gross State Product in 2011, the latest available data, ranking it the most efficient state among the 50 states and 49.3% less than the national average of 7.3 thousand BTU. When compared to the national per person average, Connecticut residents use a moderate amount of energy. Connecticut consumed 206.8 million BTU of energy per person in 2011, ranking it 49<sup>th</sup> among the 50 states and 33.8% less than the national average of 312.6 million BTU.

Connecticut energy prices, including gasoline, natural gas and heating oil, remained high in most of 2013, with the exception of natural gas prices that have fallen to historic lows due to increased supply. The abundance of natural gas resulted from the development of horizontal drilling and hydraulic fracturing in U.S. shale formations. Higher energy prices impact consumer and investment spending as well as economic growth.

### **Economic Performance**

**Personal Income.** Connecticut has a high level of personal income. Historically, the State's average per capita income has been among the highest in the nation. The high per capita income is due to the State's concentration of relatively high paying manufacturing jobs along with a higher portion of residents working in the non-manufacturing sector in such areas as finance, insurance, and real estate, as well as educational services. A concentration of major corporate headquarters located within the State also contributes to the high level of income. In calendar year 2012, per capita personal income in Connecticut equaled \$59,687, 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 2012 indicates that if they were states, five 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. Seven of the State's eight counties would rank within the top twenty. The eighth county, Windham, would rank 34<sup>th</sup> in the nation. The following table shows total and per capita personal income for Connecticut residents during the period from 2003 to 2012 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>
2003	\$152,691	\$43,822	111.9%	134.1%
2004	163,235	46,691	113.0	136.1
2005	171,490	48,900	113.7	136.3
2006	184,956	52,582	114.1	137.9
2007	196,405	55,682	115.1	139.9
2008	198,982	56,121	113.6	137.3
2009	191,313	53,712	111.5	136.5
2010	197,839	55,315	111.9	137.7
2011	207,162	57,758	111.3	136.6
2012	214,297	59,687	111.4	136.5

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> <u>(Current)</u>	<u>New England</u> <u>(Current)</u>	<u>U.S.</u> <u>(Current)</u>	<u>Conn.</u> <u>(Constant)</u>	<u>New England</u> <u>(Constant)</u>	<u>U.S.</u> <u>(Constant)</u>
2003	2.0%	2.8%	3.6%	0.0%	0.8%	1.6%
2004	6.9	5.7	5.9	4.1	2.9	3.1
2005	5.1	4.1	5.6	1.8	0.9	2.3
2006	7.9	7.4	7.3	4.6	4.2	4.1
2007	6.2	5.3	5.4	3.4	2.5	2.7
2008	1.3	2.6	3.7	(0.6)	0.6	1.7
2009	(3.9)	(2.1)	(2.9)	(4.6)	(2.8)	(3.6)
2010	3.4	3.0	2.9	2.2	1.8	1.7
2011	4.7	5.4	6.1	2.7	3.4	4.0
2012	3.4	3.6	4.2	1.7	1.8	2.4

Note—Constant dollars are adjusted for inflation using the GDP deflator.

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

The following table indicates the sources of personal income by place of residence for Connecticut and the United States in 2012.

**TABLE B-4**  
**Sources of Personal Income By Place of Residence**  
**Calendar Year 2012**  
**(In Millions)**

	<u>Conn.</u>	<u>Percent of</u> <u>Total</u>	<u>U.S.</u>	<u>Percent of</u> <u>Total</u>
Wages in Non-manufacturing.....	\$ 94,518	44.1%	\$ 6,184,507	45.0%
Property Income (Div., Rents & Int.).....	45,332	21.2	2,495,206	18.2
Wages in Manufacturing.....	13,509	6.3	735,748	5.4
Transfer Payments less Social Insurance Paid.....	15,959	7.4	1,408,639	10.3
Other Labor Income.....	24,856	11.6	1,678,773	12.2
Proprietor's Income.....	<u>20,123</u>	<u>9.4</u>	<u>1,226,190</u>	<u>8.9</u>
Personal Income — Total.....	\$214,297	100.0%	\$13,729,063	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 2012, the State produced \$229.3 billion worth of goods and services and \$197.2 billion worth of goods and services in 2005 chained dollars.

The following table shows the Gross State Product in current dollars for Connecticut, New England, and the United States.

**TABLE B-5**  
**Gross State Product**  
**(In Millions)**

Calendar Year	Connecticut		New England <sup>(a)</sup>		United States <sup>(b)</sup>	
	\$	Percent Growth	\$	Percent Growth	\$	Percent Growth
2003	174,295	3.2	623,087	3.6	11,512,275	4.8
2004	187,545	7.8	658,372	5.7	12,277,025	6.6
2005	196,304	4.7	685,766	4.2	13,095,425	6.7
2006	209,485	6.7	720,729	5.1	13,857,900	5.8
2007	221,134	5.6	751,779	4.3	14,480,350	4.5
2008	219,450	(0.8)	760,815	1.2	14,720,250	1.7
2009	217,102	(1.1)	758,615	(0.3)	14,417,950	(2.1)
2010	221,767	2.1	785,547	3.6	14,958,300	3.7
2011	225,412	1.6	805,773	2.6	15,533,825	3.8
2012	229,316	1.7	829,745	3.0	16,244,575	4.6

(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 2005 chained dollars.

**TABLE B-6**  
**Gross State Product**  
**(In Millions of 2005 Chained Dollars\*)**

Calendar Year	Connecticut		New England		United States	
	\$	Percent Growth	\$	Percent Growth	\$	Percent Growth
2003	184,469	0.6	658,822	1.6	13,270,025	2.8
2004	193,548	4.9	678,693	3.0	13,774,000	3.8
2005	196,307	1.4	685,766	1.0	14,235,575	3.4
2006	203,431	3.6	699,902	2.1	14,615,200	2.7
2007	208,854	2.7	710,413	1.5	14,876,800	1.8
2008	202,473	(3.1)	704,478	(0.8)	14,833,575	(0.3)
2009	195,237	(3.6)	686,034	(2.6)	14,417,925	(2.8)
2010	197,613	1.2	704,983	2.8	14,779,350	2.5
2011	197,452	(0.1)	712,290	1.0	15,052,375	1.8
2012	197,202	(0.1)	721,137	1.2	15,470,725	2.8

\* 2005 chained dollar series are calculated as the product of the chain-type quantity index and the 2005 current-dollar value of the corresponding series, divided by 100. Figures for the United States 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 2012 Connecticut's production was concentrated in three areas: finance, insurance and real estate (FIRE), services and manufacturing.

Production in these three industries accounted for 69.5% of total production in Connecticut compared to 68.5% in 2005 and 60.0% for the nation in 2012. This demonstrates that Connecticut's economy is more heavily concentrated in a few industries than the nation as a whole and that this concentration has changed little in recent years.

The output contribution of manufacturing, however, has been declining over time as the contributions of FIRE and services have been increasing. The share of production from the manufacturing sector decreased from 12.1% in 2005 to 10.5% in 2012 caused by increased competition with foreign countries and other states. The broadly defined services in the private sector, which excludes industries in agriculture and construction, wholesale and retail trades, but includes industries in information, professional and technical services, health care and education, FIRE, and other services, have increased slightly to 63.2% of the total GSP in 2012 from 60.4% in 2005. The broadly defined services in the private sector increased by 22.2% from 2005 to 2012 compared to 17.0% 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>Sector</b>								
Manufacturing	\$ 23,729	\$ 27,178	\$ 27,397	\$ 26,529	\$ 23,269	\$ 23,752	\$ 22,948	\$ 24,079
Construction <sup>(a)</sup>	7,058	7,540	7,668	6,718	6,056	6,015	6,059	6,236
Agriculture <sup>(b)</sup>	363	320	394	361	328	332	322	314
Utilities <sup>(c)</sup>	6,499	6,885	7,684	7,738	7,686	7,828	8,095	7,798
Wholesale Trade	10,484	11,308	12,013	12,403	11,633	11,931	12,370	12,771
Retail Trade	11,639	11,725	11,891	11,209	11,235	11,467	11,812	12,141
Information	7,740	7,697	8,484	9,144	8,457	8,532	8,927	9,614
Finance <sup>(d)</sup>	59,892	64,194	66,924	64,066	69,004	71,091	71,052	70,378
Services <sup>(e)</sup>	50,930	53,729	57,767	59,244	58,525	60,101	62,629	64,962
Government	<u>17,970</u>	<u>18,909</u>	<u>20,912</u>	<u>22,038</u>	<u>20,909</u>	<u>20,718</u>	<u>21,198</u>	<u>21,023</u>
Total GSP	\$196,307	\$209,485	\$221,134	\$219,450	\$217,102	\$221,767	\$225,412	\$229,316

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 2003 and 2012. Connecticut's nonagricultural employment reached a high in March 2008 of 1,713,000 persons employed, but began declining with the onset of the recession falling to 1,591,800 jobs by February 2010, and has since risen to 1,650,700 by October 2013.

**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
2003	1,644.4	(1.2)%	6,850.3	(1.1)%	130,097.3	(0.3)%
2004	1,649.6	0.3	6,874.6	0.4	131,493.2	1.1
2005	1,662.3	0.8	6,918.6	0.6	133,738.4	1.7
2006	1,680.9	1.1	6,985.9	1.0	136,129.5	1.8
2007	1,698.4	1.0	7,046.1	0.9	137,642.1	1.1
2008	1,699.0	0.0	7,044.7	(0.0)	136,849.0	(0.6)
2009	1,626.3	(4.3)	6,788.3	(3.6)	130,859.3	(4.4)
2010	1,607.8	(1.1)	6,771.5	(0.2)	129,911.1	(0.7)
2011	1,625.1	1.1	6,836.2	1.0	131,499.8	1.2
2012 <sup>(c)</sup>	1,639.2	0.9	6,914.0	1.1	133,737.0	1.7

- (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.
- (c) According to statistics from the Connecticut Department of Labor, the average non-agricultural employment in Connecticut for the first six months of 2013 was 1,646,600.

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 2012. 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 2012**  
**(In Thousands)**

	<u>Connecticut</u>		<u>United States</u>	
	<u>Total</u>	<u>Percent</u>	<u>Total</u>	<u>Percent</u>
Services <sup>(a)</sup>	724.8	44.2%	57,433.4	42.9%
Trade <sup>(b)</sup>	295.6	18.0	25,511.2	19.1
Manufacturing	164.9	10.1	11,920.6	8.9
Government	238.8	14.6	21,914.9	16.4
Finance <sup>(c)</sup>	132.3	8.1	7,785.8	5.8
Information <sup>(d)</sup>	31.2	1.9	2,677.8	2.0
Construction <sup>(e)</sup>	<u>51.7</u>	<u>3.2</u>	<u>6,493.2</u>	<u>4.9</u>
Total <sup>(f)</sup>	1,639.2	100.0%	133,736.9	100.0%

- (a) Covers a considerable variety of activities, including professional, business, education, health care and personal services.
- (b) Includes wholesale and retail trade, transportation, and utilities.
- (c) Includes finance, insurance, and real estate.
- (d) Includes publishing, broadcasting, telecommunications, internet providers, and data processing.
- (e) Includes natural resources and mining.
- (f) Totals may not equal sum of individual categories due to rounding and seasonal statistical data adjustments.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

Recent trends in the State's non-agricultural employment are reflected in the following table. Throughout the last five decades, while manufacturing employment in Connecticut has been steadily declining, employment in non-manufacturing industries has surged. In calendar year 2012, approximately 89.9% 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>
2003	200.0	305.5	650.0	246.0	140.7	39.6	62.7	1,644.4
2004	197.2	308.0	657.1	242.7	139.3	39.0	66.4	1,649.6
2005	195.2	310.6	666.8	243.8	141.1	38.1	66.7	1,662.3
2006	193.5	311.0	681.6	245.9	143.1	37.9	68.0	1,680.9
2007	190.7	311.8	695.6	249.3	143.3	38.4	69.4	1,698.4
2008	187.2	310.0	703.5	252.5	142.1	37.8	66.1	1,699.0
2009	171.2	293.2	687.7	248.3	136.3	34.3	55.3	1,626.3
2010	165.7	289.7	691.7	244.1	134.4	31.7	50.5	1,607.8
2011	166.4	292.9	708.0	240.2	134.1	31.4	52.1	1,625.1
2012	164.9	295.6	724.8	238.8	132.3	31.2	51.7	1,639.2

(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 19<sup>th</sup> in the nation for its dependency on manufacturing wages in Fiscal Year 2012. 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. Connecticut has been successful in diversifying itself away from dependence on just one type of industry. In calendar year 2012 approximately 10.1% of the State's workforce, versus 8.9% for the nation, was employed in the manufacturing sector, down from roughly 50% in the early 1950s.

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

<u>Calendar</u> <u>Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Number</u>	<u>Percent</u> <u>Growth</u>	<u>Number</u>	<u>Percent</u> <u>Growth</u>	<u>Number</u>	<u>Percent</u> <u>Growth</u>
2003	200.0	(5.3)%	765.0	(6.2)%	14,508.8	(4.9)%
2004	197.2	(1.4)	746.9	(2.4)	14,314.8	(1.3)
2005	195.2	(1.0)	733.9	(1.7)	14,225.8	(0.6)
2006	193.5	(0.9)	720.7	(1.8)	14,156.3	(0.5)
2007	190.7	(1.5)	709.3	(1.6)	13,877.7	(2.0)
2008	187.2	(1.9)	691.2	(2.6)	13,403.8	(3.4)
2009	171.2	(8.5)	623.5	(9.8)	11,846.4	(11.6)
2010	165.7	(3.2)	606.2	(2.8)	11,527.9	(2.7)
2011	166.4	0.5	607.5	0.2	11,726.6	1.7
2012	164.9	(0.9)	605.1	(0.4)	11,920.6	1.7

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut State Labor Department

Connecticut has a diverse manufacturing sector, with the construction of transportation equipment (primarily aircraft engines and submarines) being the dominant industry. The State is also a leading producer of military and civilian helicopters. Employment in the transportation equipment sector is followed by fabricated metals, computer and electronics, and machinery for the total number employed in 2012.

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

<u>Calendar</u> <u>Year</u>	<u>Transportation</u> <u>Equipment</u>	<u>Fabricated</u> <u>Metals</u>	<u>Computer &amp;</u> <u>Electronics</u>	<u>Machinery</u>	<u>Other</u> <sup>(a)</sup>	<u>Total</u> <u>Manufacturing</u> <u>Employment</u> <sup>(b)</sup>
2003	43.4	40.9	26.5	18.9	70.4	200.0
2004	43.2	41.1	25.8	18.5	68.6	197.2
2005	43.5	41.1	25.4	18.1	67.1	195.2
2006	43.6	41.1	24.9	18.1	65.9	193.5
2007	43.6	40.4	25.2	18.2	63.3	190.7
2008	44.3	40.1	25.3	17.7	59.8	187.2
2009	43.1	35.2	23.4	16.0	53.6	171.2
2010	42.2	33.6	23.0	15.0	51.6	165.7
2011	42.2	34.4	23.3	14.8	51.9	166.4
2012	42.1	35.1	22.8	14.6	50.3	164.9

(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 2003 at 199,992 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 164,908 in 2012. The total number of manufacturing jobs dropped 35,084, or 17.5%, from its decade high in 2003.

**Exports.** In Connecticut, the export sector of manufacturing has assumed an important role in overall economic growth. According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER), exports of manufacturing products registered at \$16.0 billion in 2012, accounting for 7.0% of Gross State Product. From 2008 to 2012, the State's export of goods grew at an average compound annual rate of 0.9% versus 1.1% 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>2008</u>	<u>2009</u>	<u>Calendar Year</u>			<u>Percent of 2012 Total</u>	<u>Compound Annual Growth Rate 2008-2012</u>
			<u>2010</u>	<u>2011</u>	<u>2012</u>		
<b>A. Manufacturing Products</b>							
Transportation Equipment	\$ 6,500.2	\$ 6,428.2	\$ 6,989.3	\$ 6,866.4	\$ 7,220.4	45.2%	2.7%
Computer & Electronics	1,294.2	1,037.6	1,307.6	1,438.8	1,409.1	8.8	2.1
Machinery, Except Electronics	1,555.8	1,439.0	1,545.0	1,851.8	1,845.1	11.6	4.4
Fabricated Metal Production	622.3	547.3	615.5	672.9	680.6	4.3	2.3
Chemicals	1,575.7	833.4	922.1	913.0	1,026.2	6.4	(10.2)
Misc. Manufacturing	272.4	291.3	252.7	240.0	271.2	1.7	(0.1)
Electrical Equipment	603.4	489.8	604.2	739.5	752.6	4.7	5.7
Plastics & Rubber	251.1	228.7	254.7	310.3	265.6	1.7	1.4
Paper	147.2	169.3	181.7	176.5	148.5	0.9	0.2
Primary Metal Mfg.	509.0	316.6	534.6	568.3	703.9	4.4	8.4
Others	<u>2,052.8</u>	<u>2,197.6</u>	<u>2,821.2</u>	<u>2,431.2</u>	<u>1,638.2</u>	<u>10.3</u>	<u>(5.5)</u>
<b>Total</b>	\$15,384.1	\$13,978.9	\$16,028.8	\$16,209.0	\$15,961.5	100.0%	0.9%
% Growth	11.5%	(9.1)%	14.7%	1.1%	(1.5)%		
<b>B. Gross State Product<sup>(a)</sup></b>	\$219,450	\$217,102	\$221,767	\$225,412	\$229,316		1.1%
Mfg Exports as a % of GSP	7.0%	6.4%	7.2%	7.2%	7.0%		7.0% <sup>(b)</sup>

(a) In millions

(b) Arithmetic mean of 2008 -2012 values.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis  
Massachusetts Institute for Social and Economic Research, University of Massachusetts (MISER)

**Defense Industry.** One important component of the manufacturing sector in Connecticut is the defense industry. Approximately one quarter of the State's manufacturing employees are employed in defense related business. Nonetheless, this sector's significance in the State's economy has declined considerably since the early 1980s. Connecticut had witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State; however, these amounts have been climbing most years since federal



fiscal year 2001. In federal Fiscal Year 2012 Connecticut received \$12.7 billion of prime contract awards. These total awards accounted for 4.0% of national total awards and ranked 7th in total defense dollars awarded and 2<sup>nd</sup> in per capita dollars awarded among the 50 states. In Fiscal Year 2012, Connecticut had \$3,531.8 in per capita defense awards, compared to the national average of \$998.6. 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 5.3% of Gross State Product in Fiscal Year 2012.

Connecticut is a leading producer of aircraft engines and parts, submarines, and helicopters. The largest employers in these industries are United Technologies Corporation, including its Pratt and Whitney Aircraft Division with headquarters in East Hartford, and Sikorsky Aircraft Corporation in Stratford, as well as General Dynamics Corporation's Electric Boat Division in Groton.

The following table provides a historical perspective of defense contract awards for the past ten fiscal years. Defense contracts are awarded in their entirety and multi-year awards are credited in the year they are awarded, thus giving rise to some of the fluctuation.

**TABLE B-14**  
**Defense Contract Awards**

<u>Federal Fiscal Year</u>	<u>Connecticut Total Contract Award (Thousands)</u>	<u>Connecticut Rank Among States Total Awards</u>	<u>Percent Change from Prior Year</u>	
			<u>Connecticut</u>	<u>U.S.</u>
2003	\$ 8,065,771	5 <sup>th</sup>	43.7%	21.4%
2004	8,834,618	5 <sup>th</sup>	9.5	5.1
2005	8,963,788	7 <sup>th</sup>	1.5	16.2
2006	7,664,577	10 <sup>th</sup>	(14.5)	9.5
2007	8,598,585	12 <sup>th</sup>	12.2	14.1
2008	12,226,104	9 <sup>th</sup>	42.2	18.7
2009	11,833,669	9 <sup>th</sup>	(3.2)	(6.8)
2010	11,118,093	8 <sup>th</sup>	(6.0)	(2.4)
2011	12,316,713	7 <sup>th</sup>	10.8	2.0
2012	12,679,098	7 <sup>th</sup>	2.9	(3.5)

SOURCE: United States Department of Defense

**Non-manufacturing.** The non-manufacturing sector is comprised of industries that primarily provide services. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently, and it cannot be inventoried. Consumer demand for services is not as postponable as the purchase of goods, making the flow of demand for services more stable. An economy will therefore generally become more stable as it becomes more service oriented. Over the past several decades the non-manufacturing sector of the State's economy has risen in economic importance, from just over 50% of total State employment in 1950 to approximately 89.9% by 2012. This trend has diluted the State's dependence on manufacturing. From 2003 to 2012, Connecticut had a total loss of 5,208 jobs in non-agricultural employment. During this period total non-manufacturing jobs increased by 29,875, while manufacturing jobs declined by 35,084.

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>
2003	1,444.4	(0.7)%	6,085.3	(0.4)%	115,588.6	0.3%
2004	1,452.4	0.6	6,127.6	0.7	117,178.4	1.4
2005	1,467.1	1.0	6,184.7	0.9	119,512.7	2.0
2006	1,487.4	1.4	6,265.3	1.3	121,973.3	2.1
2007	1,507.7	1.4	6,336.8	1.1	123,764.4	1.5
2008	1,511.9	0.3	6,353.5	0.3	123,445.2	(0.3)
2009	1,455.0	(3.8)	6,164.9	(3.0)	119,012.8	(3.6)
2010	1,442.1	(0.9)	6,165.3	0.0	118,383.2	(0.5)
2011	1,458.6	1.1	6,228.7	1.0	119,773.2	1.2
2012	1,474.3	1.1	6,308.9	1.3	121,816.4	1.7

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 89.9% of the State's employment in the non-manufacturing sector. Connecticut non-manufacturing employment for 2003, 2010, 2011 and 2012 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 2003 and 2012, employment in the service industry expanded by 74,800 workers driving an increase of 29,900 non-manufacturing jobs, amid a time when all other non-manufacturing jobs registered a decrease in jobs. Without the service sector, total non-manufacturing employment would have declined by 44,900 jobs.

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

<u>Industry</u>	<u>Calendar</u> <u>Year</u> <u>2003</u>	<u>Calendar</u> <u>Year</u> <u>2010</u>	<u>Calendar</u> <u>Year</u> <u>2011</u>	<u>Calendar</u> <u>Year</u> <u>2012</u>	<u>Percent</u> <u>Change</u> <u>2011-12</u>	<u>Percent</u> <u>Change</u> <u>2003-12</u>
Construction <sup>(a)</sup>	62.7	50.5	52.1	51.7	(0.8)%	(17.6)%
Information <sup>(b)</sup>	39.6	31.7	31.4	31.2	(0.7)	(21.2)
Trade <sup>(c)</sup>	305.5	289.7	292.9	295.6	0.9	(3.2)
Finance, Insurance & Real Estate Services <sup>(d)</sup>	140.7	134.4	134.1	132.3	(1.4)	(6.0)
Federal Government	650.0	691.7	708.0	724.8	2.4	11.5
State and Local Government	20.8	19.6	18.0	17.7	(1.8)	(15.2)
Total Non-manufacturing Employment <sup>(d)</sup>	<u>225.1</u>	<u>224.5</u>	<u>222.2</u>	<u>221.2</u>	<u>(0.5)</u>	<u>(1.8)</u>
	1,444.4	1,442.1	1,458.6	1,474.3	1.1%	2.1%

(a) Includes natural resources and mining.

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

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

(d) Totals may not agree with detail due to rounding and seasonal statistical data adjustments.

SOURCE: Connecticut State Labor Department

**Retail Trade.** Personal spending on goods and services generally accounts for 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 2013 totaled \$53.4 billion, an increase of 0.3% from Fiscal Year 2012. 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 in Fiscal Year 2012 and 2013. 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 2009 Total		Percent of Fiscal Year 2010 Total		Percent of Fiscal Year 2011 Total		Percent of Fiscal Year 2012 Total		Percent of Fiscal Year 2013 Total		Compound Annual Growth Rate 2009-2013
		Fiscal Year 2009	Fiscal Year 2009 Total	Fiscal Year 2010	Fiscal Year 2010 Total	Fiscal Year 2011	Fiscal Year 2011 Total	Fiscal Year 2012	Fiscal Year 2012 Total	Fiscal Year 2013	Fiscal Year 2013 Total	
441	Motor Vehicle and Parts Dealers	\$ 6,475	14.2%	\$ 6,933	15.8%	\$ 7,610	15.4%	\$ 7,996	15.0%	\$8,393	15.7%	6.7%
442	Furniture and Home Furnishings Stores	1,456	3.2	1,275	2.9	1,221	2.5	1,182	2.2	1,205	2.3	(4.6)
443	Electronics and Appliance Stores	1,595	3.5	1,450	3.3	1,582	3.2	1,748	3.3	1,620	3.0	0.4
444	Building Material and Garden Supply Stores	2,767	6.1	2,727	6.2	2,845	5.8	3,023	5.7	3,028	5.7	2.3
445	Food and Beverage Stores <sup>(b)</sup>	8,927	19.6	7,199	16.5	10,222	20.7	10,799	20.3	11,102	20.8	5.6
446	Health and Personal Care Stores	4,961	10.9	4,920	11.2	5,066	10.2	4,667	8.8	4,413	8.3	(2.9)
447	Gasoline Stations	2,868	6.3	2,974	6.8	3,426	6.9	3,788	7.1	3,790	7.1	7.2
448	Clothing and Clothing Accessories Stores	2,667	5.9	2,700	6.2	2,739	5.5	2,827	5.3	2,920	5.5	2.3
451	Sporting Goods, Hobby, Book and Music Stores	1,052	2.3	995	2.3	1,013	2.0	979	1.8	1,071	2.0	0.4
452	General Merchandise Stores	5,215	11.5	5,210	11.9	5,275	10.7	5,377	10.1	5,439	10.2	1.1
453	Miscellaneous Store Retailers	3,964	8.7	4,036	9.2	4,757	9.6	5,017	9.4	5,163	9.7	6.8
454	Nonstore Retailers	<u>3,508</u>	<u>7.7</u>	<u>3,338</u>	<u>7.6</u>	<u>3,677</u>	<u>7.4</u>	<u>5,809</u>	<u>10.9</u>	<u>5,213</u>	<u>9.8</u>	<u>10.4</u>
	<b>Total<sup>(b)</sup></b>	<b>\$45,455</b>	<b>100.00%</b>	<b>\$43,757</b>	<b>100.00%</b>	<b>\$49,433</b>	<b>100.00%</b>	<b>\$53,209</b>	<b>100.00%</b>	<b>\$53,355</b>	<b>100.00%</b>	<b>4.1</b>
Durables (NAICS 441, 442, 443, 444)		\$12,293	27.0%	\$12,385	28.3%	\$13,258	26.8%	\$13,948	26.2%	\$14,244	26.7%	
Non Durables (all other NAICS)		\$33,162	73.0%	\$31,373	71.7%	\$36,175	73.2%	\$39,261	73.8%	\$39,111	73.3%	

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

(b) Please note that due to a discrepancy in reporting methodology, figures for Food and Beverage Stores from 2009-2010 filed by several large supermarkets appear inconsistent with past reporting practices and thus the above figures may not be reflective of actual trends.

SOURCE: Connecticut Department of Revenue Services

**Unemployment Rates.** The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. Unemployment rates tend to be high during economic slowdowns and low when the economy is expanding. The rate is widely utilized as a proxy for consumer confidence. In general, when the unemployment rate is high consumer spending is lower and vice versa.

After enjoying an extraordinary boom during the late 1990s, Connecticut, as well as the rest of the Northeast and the Nation, experienced an economic slowdown during the recession of the early 2000s. The unemployment rate in the State reached its low of 2.3% in 2000, compared to New England's average of 2.8% and the national average of 4.0%. After climbing to 5.5% in 2003, Connecticut's unemployment rate declined to 4.4% by 2006, but climbed during the most recent recession to 9.1% in 2010. During the subsequent weak

economic recovery, Connecticut's average unemployment rate fell to 8.0% for the first 10 months of 2013 compared to the New England average of 7.1% and the national average of 7.5% for the same period.

The following table compares the unemployment rate averages of Connecticut, New England, and the United States for the calendar years 2004 through 2013.

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

<b>Calendar Year</b>	<b>Unemployment Rate</b>		
	<b>Connecticut</b>	<b>New England</b>	<b>United States</b>
2004	4.9%	4.9%	5.5%
2005	4.9	4.7	5.1
2006	4.4	4.5	4.6
2007	4.6	4.5	4.6
2008	5.6	5.4	5.8
2009	8.2	8.1	9.3
2010	9.3	8.5	9.6
2011	8.9	7.8	8.9
2012	8.3	7.2	8.1
2013 <sup>(a)</sup>	8.0	7.1	7.5

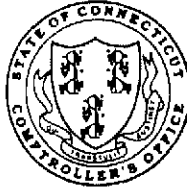
(a) Reflects average for the first ten months. On a preliminary basis, Connecticut's average unemployment rate for December 2013 was 7.4% compared to the national average of 6.7% for the same period. No assurances can be provided that such rates will not change.

SOURCE: Connecticut State Labor Department  
Federal Reserve Bank of Boston  
United States Department of Labor, Bureau of Labor Statistics

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**STATE OF CONNECTICUT  
OFFICE OF THE STATE COMPTROLLER  
55 ELM STREET  
HARTFORD, CONNECTICUT  
06106-1775**

**Kevin Lembo  
State Comptroller**

**Martha Carlson  
Deputy Comptroller**

February 28, 2014

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

Dear Ms. Nappier

I have reviewed the accompanying preliminary general purpose financial statements of the State of Connecticut for the Fiscal Year ended June 30, 2013. The statements and the subsequent Independent Auditors' Report are incorporated within the Comprehensive Annual Report of the State of Connecticut, which is prepared by my office using the guidance of generally accepted accounting principles.

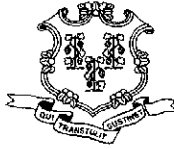
Sincerely,

A handwritten signature in cursive script that reads "Kevin Lembo".

Kevin Lembo  
State Comptroller



STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

JOHN C. GERAGOSIAN

ROBERT M. WARD

INDEPENDENT AUDITORS' REPORT

Governor Dannel P. Malloy  
Members of the General Assembly

**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, 2013, 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 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, Bradley International Airport, Bradley International Airport Parking Facility, and the federal accounts for the Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 63 percent of the assets and 28 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 96 percent of the assets and 96 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, Bradley International Airport Parking Facility, and the federal accounts for the Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 63 percent of the assets and 28 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, Bradley International Airport, Connecticut Development Authority, Capital Region Development Authority, Connecticut Lottery Corporation, Connecticut Resources Recovery Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, Connecticut Innovations Incorporated and the Clean Energy Finance and Investment Authority 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, John Dempsey Hospital, 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, 2013, 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.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress for pension and other post-employment benefit plans and the schedules of employer contributions for pension and other post-employment benefit plans, as listed in the table of contents, 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, which 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.

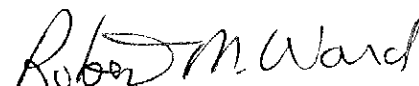
The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, 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 February 28, 2014, 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, 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 – Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2013*, 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



Robert M. Ward  
Auditor of Public Accounts

February 28, 2014  
State Capitol  
Hartford, Connecticut

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is intended to provide readers of the State's financial statements with a narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2013. The information provided here should be read in conjunction with additional information provided in the letter of transmittal and in the basic financial statements.

### **FINANCIAL HIGHLIGHTS**

#### **Government-wide:**

As of June 30, 2013, the State had a combined net position deficit of \$10.5 billion, a decrease of \$106 million when compared to the prior year ending deficit balance. This annual improvement resulted from an increase of \$167 million in the net position of business-type activities, which was offset by a \$61 million increase in the net position deficit of governmental activities.

#### **Fund Level:**

The governmental funds had a total fund balance of \$2.0 billion at year-end. Of this amount, \$3.2 billion represents fund balance that is considered mainly restricted or committed for specific purposes by external constraints or by the Legislature and \$1.2 billion represents unassigned fund balance deficit. This deficit, which belongs to the General Fund, did not change significantly during the fiscal year.

The Enterprise funds had a total net position of \$4.6 billion at year-end, substantially all of which was invested in capital assets or restricted for specific purposes.

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

Total long-term debt was \$29.5 billion for governmental activities at year-end, of which \$19.1 billion was bonded debt.

Total long-term debt was \$2.4 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 intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The government-wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the State's non-fiduciary assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net position changed during the most recent fiscal year. 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).

The government-wide financial statements are intended to distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include legislative, general government, regulation and protection, conservation and development, health and hospitals, transportation, human services, education, libraries, and museums, corrections, and judicial. The business-type activities of the State include the University of Connecticut and Health Center, State Universities, Connecticut Community Colleges, Bradley International Airport, Employment Security, and Clean Water, which are considered major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The government-wide financial statements include not only the State itself (known as the primary government), but also the activities of nine legally separate Component Units for which the State is financially accountable: the Connecticut Housing Finance Authority, the Connecticut Lottery Corporation, the Connecticut Health and Educational Facilities Authority, the Connecticut Higher Education Supplemental Loan Authority, the Connecticut Resources Recovery Authority, Connecticut Innovations, Incorporated, the Capital Region Development Authority, the University of Connecticut Foundation, Incorporated, and the Clean Energy Finance and Investment Authority. Financial information for these Component Units is reported separately from the financial information presented for the primary government itself. Financial information of the individual component units can be found in the basic financial statements following the fund statements, and complete financial statements of the individual component units can be obtained from their respective administrative offices.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund, the Transportation Fund, the Restricted Grants and Accounts Fund, and the Grants and Loan Programs Fund, all of which are considered major funds. Data from other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Fund balance (difference between assets and liabilities) of governmental funds is classified as nonspendable, restricted, and unrestricted (committed, assigned or unassigned).

The State adopts a biennial budget for the General Fund, the Transportation Fund, and other Special Revenue funds. A budgetary comparison statement has been provided for the General Fund and the Transportation Fund to demonstrate compliance with the current fiscal year budgets.

### **Proprietary Funds**

Proprietary funds (Enterprise funds and Internal Service funds) are used to show activities that operate more like those of commercial enterprises. Enterprise funds charge fees for services provided to outside customers. They are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the State's various functions. The State uses Internal Service funds to account for correction industries, information technology, and administrative services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held by the State in a trustee or agency capacity for others. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes information regarding the State's progress on funding its obligation to provide pension and other postemployment benefits to its employees.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also contains the following information.

- Combining Fund Statements and Schedules – Nonmajor funds
- Statistical Section

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

**NET POSITION**

As noted earlier, net position may serve over time as a useful indicator of the State's financial position. During the current fiscal year, the combined net position deficit of the State decreased 1.0 percent to \$10.5 billion. In comparison, last year the combined net position deficit increased 6.1 percent.

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012*	2013	2012*
<b>ASSETS:</b>						
Current and Other Assets	\$ 4,163	\$ 3,944	\$ 3,773	\$ 3,854	\$ 7,936	\$ 7,798
Capital Assets	11,987	10,966	3,809	3,597	15,796	14,563
<b>Total Assets</b>	<b>16,150</b>	<b>14,910</b>	<b>7,582</b>	<b>7,451</b>	<b>23,732</b>	<b>22,361</b>
<b>Deferred Outflows of Resources</b>	<b>18</b>	<b>-</b>	<b>20</b>	<b>-</b>	<b>38</b>	<b>-</b>
<b>LIABILITIES:</b>						
Current Liabilities	3,531	3,498	716	693	4,247	4,191
Long-term Liabilities	27,729	26,443	2,252	2,291	29,981	28,734
<b>Total Liabilities</b>	<b>31,260</b>	<b>29,941</b>	<b>2,968</b>	<b>2,984</b>	<b>34,228</b>	<b>32,925</b>
<b>NET POSITION:</b>						
Net Investment in Capital Assets	5,825	5,305	3,179	2,951	9,004	8,256
Restricted	2,283	1,648	999	1,101	3,282	2,749
Unrestricted	(23,200)	(21,984)	456	415	(22,744)	(21,569)
<b>Total Net Position (Deficit)</b>	<b>\$(15,092)</b>	<b>\$ (15,031)</b>	<b>\$ 4,634</b>	<b>\$ 4,467</b>	<b>\$(10,458)</b>	<b>\$(10,564)</b>

\* Restated for comparative purposes. See Note 23.

The net position deficit of the State's governmental activities increased \$61 million (0.4 percent) to \$15.1 billion during the current fiscal year. Of this amount, \$5.8 billion was invested in capital assets (buildings, roads, bridges, etc.) and \$2.3 billion was restricted for specific purposes, resulting in an unrestricted net position deficit of \$23.2 billion. This deficit is the result of having long-term obligations that are greater than currently available resources. Specifically, the State has recorded the following outstanding long-term obligations which contributed to the deficit; a) general obligation bonds issued in the amount of \$6.3 billion to finance various municipal grant programs (e.g., school construction) and \$2.3 billion issued to finance a contribution to a pension trust fund, and b) other long-term obligations in the amount of \$10.4 billion, which are partially funded or not funded by the State (e.g., net pension and OPEB obligations and compensated absences).

Net position of the State's business-type activities increased \$167 million (3.7 percent) to \$4.6 billion during the current fiscal year. Of this amount, \$3.2 billion was invested in capital assets and \$1.0 billion was restricted for specific purposes, resulting in unrestricted net positions of \$0.4 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, Bradley International Airport, and others).



**CHANGE IN NET POSITION**

Changes in net position for the years ended June 30, 2013 and 2012 were as follows:

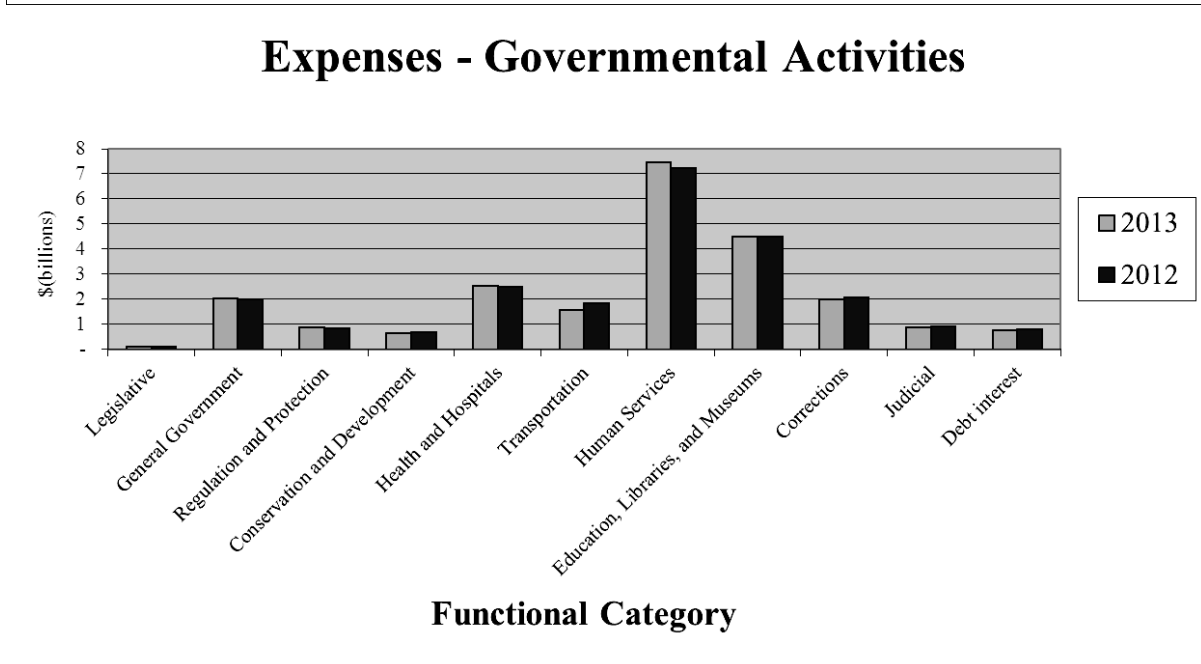
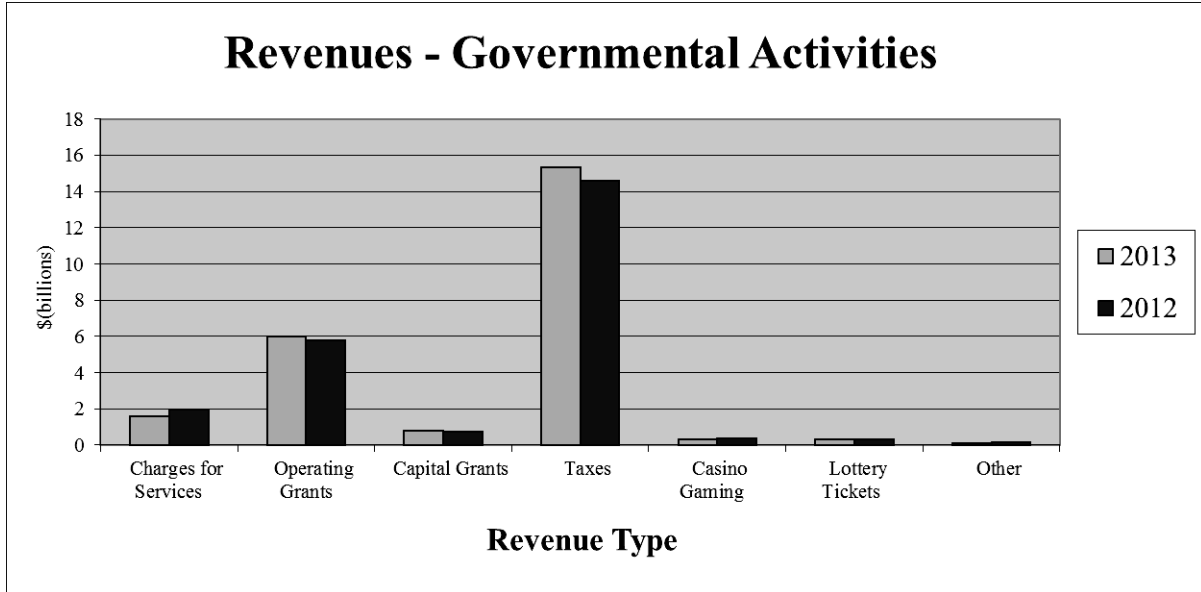
**State of Connecticut's Changes in Net Position  
(Expressed in Millions)**

	Governmental Activities		Business-Type Activities		Total		%change 13-12
	2013	2012*	2013	2012*	2013	2012*	
<b>REVENUES</b>							
Program Revenues							
Charges for Services	\$ 1,576	\$ 1,952	\$ 2,548	\$ 2,535	\$ 4,124	\$ 4,487	-8.1%
Operating Grants and Contributions	5,992	5,771	1,173	1,412	7,165	7,183	-0.3%
Capital Grants and Contributions	768	716	59	18	827	734	12.7%
General Revenues							
Taxes	15,356	14,585	-	-	15,356	14,585	5.3%
Casino Gaming Payments	296	345	-	-	296	345	-14.2%
Lottery Tickets	312	310	-	-	312	310	0.6%
Other	128	140	17	18	145	158	-8.2%
<b>Total Revenues</b>	<b>24,428</b>	<b>23,819</b>	<b>3,797</b>	<b>3,983</b>	<b>28,225</b>	<b>27,802</b>	<b>1.5%</b>
<b>EXPENSES</b>							
Legislative	106	114	-	-	106	114	-7.0%
General Government	2,036	1,988	-	-	2,036	1,988	2.4%
Regulation and Protection	868	853	-	-	868	853	1.8%
Conservation and Development	665	693	-	-	665	693	-4.0%
Health and Hospitals	2,540	2,476	-	-	2,540	2,476	2.6%
Transportation	1,573	1,846	-	-	1,573	1,846	-14.8%
Human Services	7,472	7,223	-	-	7,472	7,223	3.4%
Education, Libraries and Museums	4,490	4,496	-	-	4,490	4,496	-0.1%
Corrections	1,977	2,061	-	-	1,977	2,061	-4.1%
Judicial	894	910	-	-	894	910	-1.8%
Interest and Fiscal Charges	780	816	-	-	780	816	-4.4%
University of Connecticut & Health Center	-	-	1,872	1,802	1,872	1,802	3.9%
State Universities	-	-	666	652	666	652	2.1%
Connecticut Community Colleges	-	-	489	477	489	477	2.5%
Bradley International Airport	-	-	67	64	67	64	4.7%
Employment Security	-	-	1,515	1,823	1,515	1,823	-16.9%
Clean Water	-	-	50	53	50	53	-5.7%
Other	-	-	59	59	59	59	0.0%
<b>Total Expenses</b>	<b>23,401</b>	<b>23,476</b>	<b>4,718</b>	<b>4,930</b>	<b>28,119</b>	<b>28,406</b>	<b>-1.0%</b>
Excess (Deficiency)							
Before Transfers	1,027	343	(921)	(947)	106	(604)	-117.5%
Transfers	(1,088)	(1,228)	1,088	1,228	-	-	0.0%
<b>Increase (Decrease) in Net Position</b>	<b>(61)</b>	<b>(885)</b>	<b>167</b>	<b>281</b>	<b>106</b>	<b>(604)</b>	<b>-117.5%</b>
Net Position (Deficit) -							
Beginning (as restated)	(15,031)	(14,146)	4,467	4,186	(10,564)	(9,960)	6.1%
<b>Net Position (Deficit) - Ending</b>	<b>\$ (15,092)</b>	<b>\$ (15,031)</b>	<b>\$ 4,634</b>	<b>\$ 4,467</b>	<b>\$ (10,458)</b>	<b>\$ (10,564)</b>	<b>-1.0%</b>

\*Restated for comparative purposes. See note 23.

**GOVERNMENTAL ACTIVITIES**

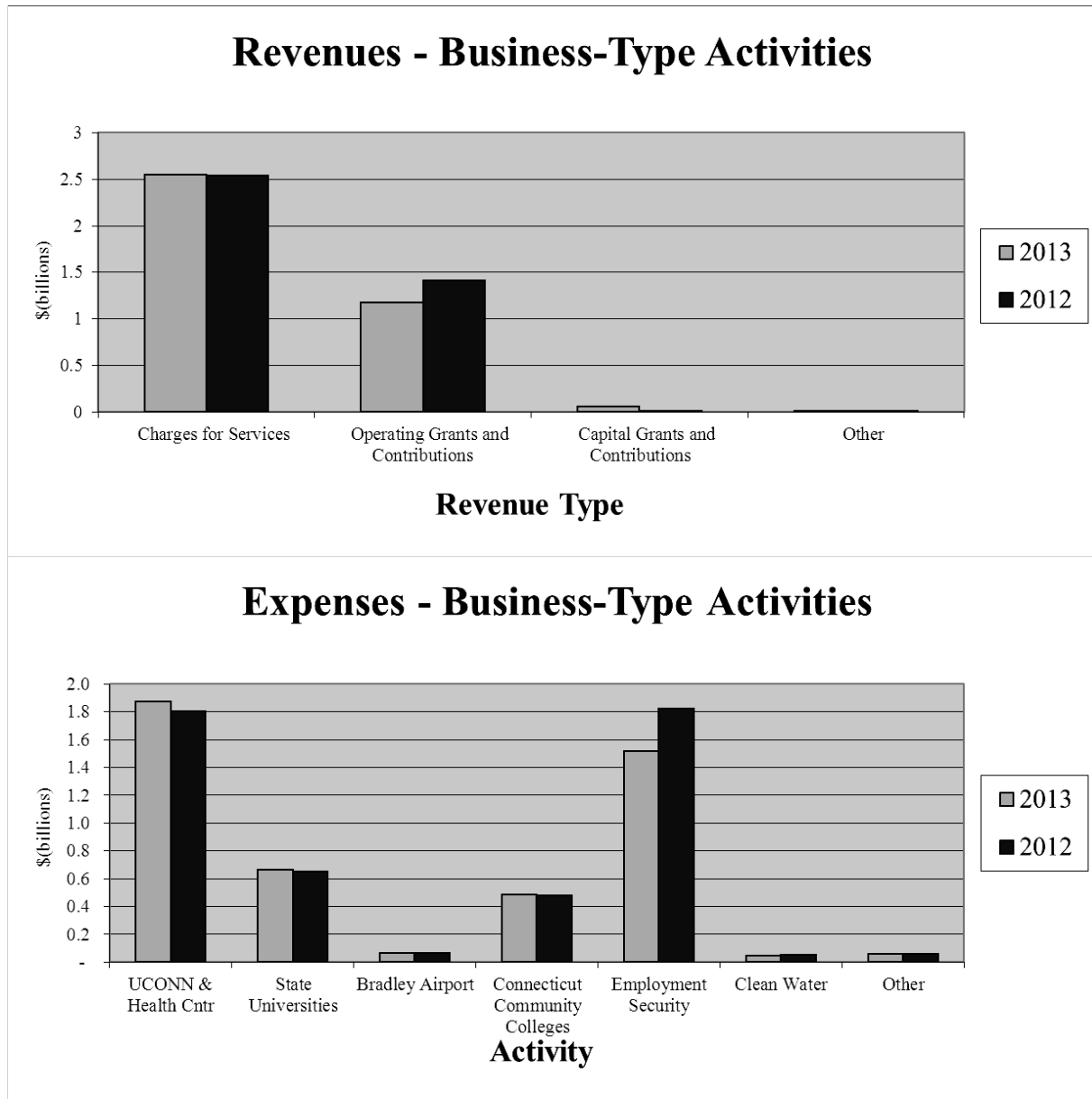
The following charts provide a two-year comparison of governmental activities revenues and expenses.



During the year, total revenues of governmental activities increased 2.6 percent to \$24.4 billion, while total expenses decreased 0.3 percent to \$23.4 billion. In comparison, last year total revenues increased 6.0 percent, while total expenses increased 7.2 percent. The increase in total revenues of \$609 million was due mainly to an increase in taxes of \$771 million or 5.3 percent, particularly in income and inheritance taxes. Although, total revenues exceeded total expenses by \$1,027 million, this excess was reduced by transfers of \$1,088 million, resulting in a decrease in net position of \$61 million.

**BUSINESS-TYPE ACTIVITIES**

The following charts provide a two-year comparison of business-type activities revenues and expenses.



During the year, total revenues of business-type activities decreased 4.7 percent to \$3.8 billion, while total expenses decreased 4.3 percent to \$4.7 billion. In comparison, last year total revenues decreased 3.8 percent, while total expenses decreased 7.3 percent. The decrease in total expenses of \$212 million was due mainly to a decrease in Employment Security expenses of \$308 million or 16.9 percent. Although, total expenses exceeded total revenues by \$921 million, this deficiency was reduced by transfers of \$1,088 million, resulting in an increase in net position of \$167 million.

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

### **Governmental Funds**

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unassigned fund balance serves as a useful measure of the State's net resources available for spending at the end of the fiscal year.

As of June 30, 2013, the State's governmental funds had fund balances of \$1,998 million, an increase of \$307 million over the prior year ending fund balances. Of the total governmental fund balances, \$2,352 million represents fund balance that is considered restricted for specific purposes by external constrains or enabling legislation; \$180 million represents fund balance that is non-spendable; \$690 million represents fund balance that is committed or assigned for specific purposes by the Legislature and \$1,224 million represents unassigned fund balance deficit.

### **General Fund**

The General Fund is the chief operating fund of the State. As of June 30, 2013, the General Fund had a fund balance deficit of \$589 million. Of this amount, \$628 million represents fund balance that is non-spendable or committed for specific purposes by the Legislature, leaving a deficit of \$1,217 million in unassigned fund balance. Total fund balance deficit decreased by \$324 million during the current fiscal year.

### **Debt Service Fund**

As of June 30, 2013, the Debt Service Fund had a fund balance of \$660 million, all of which was restricted. Fund balance decreased by \$43 million during the current fiscal year.

### **Transportation Fund**

As of June 30, 2013, the Transportation Fund had a fund balance of \$229 million. Of this amount, \$31 million was in nonspendable form and \$198 million was restricted or committed for specific purposes. Fund balance increased by \$20 million during the current fiscal year.

### **Restricted Grants and Accounts Fund**

As of June 30, 2013, the Restricted Grants and Accounts Fund had a fund balance of \$359 million, all of which was restricted for specific purposes. Fund balance decreased by \$35 million during the fiscal year.

### **Grant and Loan Programs**

As of June 30, 2013, the Grant and Loan Programs Fund had a fund balance of \$673 million, all of which was restricted for specific purposes. Fund balance increased by \$33 million during the fiscal year.

### **Proprietary Funds**

The State's Proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Accordingly, a discussion of the financial activities of the Proprietary funds has been provided in that section.

### **Fiduciary Funds**

The State maintains Fiduciary funds for the assets of Pension and Other Employee Benefit Trust funds, an Investment Trust fund, and a Private-Purpose Trust fund. As of June 30, 2013, the net positions of the State's Fiduciary funds totaled \$26.9 billion, an increase of \$2.0 billion when compared to the prior year ending net position.

### **Budgetary Highlights-General Fund**

For fiscal year 2013, the General Fund had an estimated budget surplus of \$3 million at the start of the fiscal year. However, due to higher than initially estimated revenues of \$223 million, mainly tax revenues, and budgetary spending adjustments resulting in expenditure savings of \$138 million, the fund had an estimated budget surplus of \$364 million by the end of the fiscal year.

Although actual fund revenues exceeded expenditures by \$379 million, this excess was increased by other financing sources of \$19 million (\$18 million being the net amount of appropriations continued from the previous fiscal year to the next fiscal year), resulting in an actual budget surplus of \$398 million.

Actual revenues were higher than originally budgeted by \$262 million for the fiscal year. This increase resulted mainly from higher than originally budgeted tax revenue of \$144 million, consisting mainly of income and inheritance taxes. Final budgeted appropriations were higher than originally budgeted by \$144 million. This increase resulted mainly from higher than originally budgeted appropriations for human services of \$87 million, particularly Medicaid appropriations.

## **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, 2013 totaled \$15.8 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 \$1.2 billion, due mainly to an increase in governmental activities' capital assets of \$1.0 billion or 9.3 percent.

Major capital asset events for governmental activities during the fiscal year include additions to buildings and infrastructure of \$1.2 billion and depreciation expense of \$956 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	
	2013	2012	2013	2012	2013	2012
Land	\$ 1,666	\$ 1,639	\$ 70	\$ 65	\$ 1,736	\$ 1,704
Buildings	1,889	1,449	2,734	2,512	4,623	3,961
Improvements Other than Buildings	156	167	244	245	399	412
Equipment	77	66	337	352	414	418
Infrastructure	5,200	5,060	-	-	5,200	5,060
Construction in Progress	3,000	2,585	424	423	3,424	3,008
Total	<u>\$ 11,987</u>	<u>\$ 10,966</u>	<u>\$ 3,809</u>	<u>\$ 3,597</u>	<u>\$ 15,796</u>	<u>\$ 14,563</u>

Additional information on the State's capital assets can be found in Note 10 of this report.

### Long-Term Debt -Bonded Debt

At the end of the current fiscal year, the State had total bonded debt of \$20.5 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
	2013	2012	2013	2012	2013	2012
General Obligation Bonds	\$ 14,228	\$ 13,965	\$ -	\$ -	\$ 14,228	\$ 13,965
Transportation Related Bonds	3,462	3,287	-	-	3,462	3,287
Revenue Bonds	-	-	1,377	1,439	1,377	1,439
Long-Term Notes	573	748	-	-	573	748
Premiums and deferred amounts	816	709	89	46	905	755
<b>Total</b>	<b>\$ 19,079</b>	<b>\$ 18,709</b>	<b>\$ 1,466</b>	<b>\$ 1,485</b>	<b>\$ 20,545</b>	<b>\$ 20,194</b>

The State's total bonded debt increased by \$351 million (1.7 percent) during the current fiscal year. This increase resulted mainly from an increase in general obligation bonds of \$263 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 2013, the State had a debt incurring margin of \$4.0 billion.

### Other Long-Term Debt

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

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	Government
	2013	2012	2013	2012*	2013	2012*
Net Pension Obligation	\$ 2,533	\$ 2,496	\$ -	\$ -	\$ 2,533	\$ 2,496
Net OPEB Obligation	6,682	5,756	-	-	6,682	5,756
Compensated Absences	516	542	160	156	676	698
Workers Compensation	588	560	-	-	588	560
Federal Loan Payable	-	-	574	632	574	632
Other	100	113	221	191	321	304
<b>Total</b>	<b>\$ 10,419</b>	<b>\$ 9,467</b>	<b>\$ 955</b>	<b>\$ 979</b>	<b>\$ 11,374</b>	<b>\$ 10,446</b>

\* Restated for comparative purposes. See note 23.

The State's other long-term obligations increased by \$928 million (8.9 percent) during the fiscal year. This increase was due mainly to an increase in the net OPEB obligation (Governmental activities) of \$926 million or 16.1 percent. Additional information on the State's long-term debt can be found in Notes 17 and 18 of this report.

## **Economic Factors and Next Year's Budget**

A national recession that officially commenced in December 2007 produced a pattern of job losses in Connecticut that began in the first half of 2008. These job losses persisted until the start of 2010 and claimed 121,200 payroll positions, which is just over 6 percent of Connecticut's labor force. By the close of Fiscal Year 2013, Connecticut had regained half of the jobs lost to recession. This is a slower pace of recovery than the State had experienced in past post-recession periods. The overall growth rate of the national economy has been slowing over the past several decades, and Connecticut's economy has been following that same slower growth trend. From 1950 through the mid-1980s, there were numerous double-digit periods of volatile growth in U.S Gross Domestic Product (GDP). Since that time, there has been a gradual downward slope in the GDP rate of growth with lower variances between the highs and lows. Likewise, Connecticut's personal income and employment growth rates have been moderating over time. In Connecticut, as in many other states, these economic trends have resulted in higher tax rates and the imposition of tighter budget spending controls. Connecticut has kept its tax rates competitive with other states in the region.

The national economy as measured by real GDP grew at a moderate rate of just under 2 percent on an averaged quarterly basis during Fiscal Year 2013. Growth was especially slow during the middle half of Fiscal Year 2013, but improved significantly in the final quarter with growth of 2.5 percent. The national economy has posted growth in excess of 3 percent in the first half of the new fiscal year and the outlook is for continued moderate growth.

At the end of Fiscal Year 2013, Connecticut's personal income was growing at a quarterly annualized rate of better than 5 percent. However, the fiscal year also posted quarters of negative state income growth. Personal income in Connecticut grew at a rate of 0.8 percent (annualized rate of 3.2 percent) between the second and third quarters of 2013. This ranked Connecticut 37<sup>th</sup> nationally in income growth.

Connecticut added 10,500 jobs in Fiscal Year 2013. Job growth in calendar year 2013 exceeded the pace set in 2012. At this writing, the State has been averaging just below 1,000 job additions per month. The strongest employment sector in the State has been education and health services followed by construction. The weakest job sector has continued to be manufacturing. Job losses have also been recorded in financial activities and government.

Fiscal Year 2014 was initially budgeted with a General Fund surplus of just over \$4 million. At this writing, the State is anticipating a General Fund surplus in excess of \$500 million. The primary reason for surplus growth is better than expected estimated income tax payments. A strong stock market in 2013 has produced the higher tax receipts.

## **CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have any questions about this report, please contact the State Comptroller's Office at 1-860-702-3350.

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***Basic  
Financial  
Statements***

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*Connecticut*

**Statement of Net Position**

June 30, 2013

(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>				
Current Assets:				
Cash and Cash Equivalents	\$ 708,012	\$ 606,893	\$ 1,314,905	\$ 221,398
Deposits with U.S. Treasury	-	217,511	217,511	-
Investments	110,126	56,714	166,840	399,493
Receivables, (Net of Allowances)	2,278,669	727,023	3,005,692	95,015
Due from Primary Government	-	-	-	7,220
Inventories	49,884	14,715	64,599	6,644
Restricted Assets	-	48,451	48,451	1,815,989
Internal Balances	(209,038)	209,038	-	-
Other Current Assets	15,496	36,763	52,259	4,744
Total Current Assets	<u>2,953,149</u>	<u>1,917,108</u>	<u>4,870,257</u>	<u>2,550,503</u>
Noncurrent Assets:				
Cash and Cash Equivalents	-	326,204	326,204	-
Due From Component Units	27,068	-	27,068	-
Investments	-	55,137	55,137	197,625
Receivables, (Net of Allowances)	439,936	846,677	1,286,613	179,664
Restricted Assets	660,113	597,399	1,257,512	4,231,321
Capital Assets, (Net of Accumulated Depreciation)	11,986,810	3,808,981	15,795,791	399,938
Other Noncurrent Assets	82,783	30,100	112,883	21,264
Total Noncurrent Assets	<u>13,196,710</u>	<u>5,664,498</u>	<u>18,861,208</u>	<u>5,029,812</u>
Total Assets	<u>16,149,859</u>	<u>7,581,606</u>	<u>23,731,465</u>	<u>7,580,315</u>
<b>Deferred Outflows of Resources</b>				
Accumulated Decrease in Fair Value of Hedging Derivatives	17,576	20,454	38,030	202,181
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	734,467	272,668	1,007,135	81,125
Due to Component Units	7,219	-	7,219	-
Due to Other Governments	141,981	8,730	150,711	-
Current Portion of Long-Term Obligations	1,769,576	168,279	1,937,855	357,271
Amount Held for Institutions	-	-	-	507,778
Unearned Revenue	21,933	230,411	252,344	1,385
Medicaid Liability	518,853	-	518,853	-
Liability for Escheated Property	266,524	-	266,524	-
Other Current Liabilities	70,500	35,729	106,229	66,380
Total Current Liabilities	<u>3,531,053</u>	<u>715,817</u>	<u>4,246,870</u>	<u>1,013,939</u>
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	27,728,358	2,252,208	29,980,566	4,785,342
Total Noncurrent Liabilities	<u>27,728,358</u>	<u>2,252,208</u>	<u>29,980,566</u>	<u>4,785,342</u>
Total Liabilities	<u>31,259,411</u>	<u>2,968,025</u>	<u>34,227,436</u>	<u>5,799,281</u>
<b>Net Position</b>				
Net Investment in Capital Assets	5,824,691	3,178,740	9,003,431	242,646
Restricted For:				
Transportation	136,659	-	136,659	-
Debt Service	628,388	18,781	647,169	59,545
Federal Grants and Other Accounts	349,380	-	349,380	-
Capital Projects	286,293	156,489	442,782	-
Grant and Loan Programs	686,250	-	686,250	-
Clean Water and Drinking Water Projects	-	638,501	638,501	-
Bond Indenture Requirements	-	2,112	2,112	985,150
Loans	-	3,263	3,263	-
Permanent Investments or Endowments:				
Expendable	-	-	-	102,723
Nonexpendable	102,586	12,234	114,820	306,230
Other Purposes	93,344	168,150	261,494	43,546
Unrestricted (Deficit)	<u>(23,199,567)</u>	<u>455,765</u>	<u>(22,743,802)</u>	<u>243,375</u>
Total Net Position (Deficit)	<u>\$ (15,091,976)</u>	<u>\$ 4,634,035</u>	<u>\$ (10,457,941)</u>	<u>\$ 1,983,215</u>

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

## Statement of Activities

For The Fiscal Year Ended June 30, 2013

(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	\$ 106,349	\$ 2,618	\$ -	\$ -
General Government	2,036,173	526,137	89,571	-
Regulation and Protection	868,187	606,854	296,699	-
Conservation and Development	665,365	64,468	14,231	-
Health and Hospitals	2,540,349	74,398	185,071	-
Transportation	1,572,755	70,872	-	767,793
Human Services	7,471,625	47,195	4,783,357	-
Education, Libraries, and Museums	4,490,144	42,101	500,960	-
Corrections	1,976,657	9,471	112,878	-
Judicial	893,860	131,442	9,636	-
Interest and Fiscal Charges	779,515	-	-	-
Total Governmental Activities	<u>23,400,979</u>	<u>1,575,556</u>	<u>5,992,403</u>	<u>767,793</u>
Business-Type Activities:				
University of Connecticut & Health Center	1,872,131	1,070,641	221,663	11,675
State Universities	666,417	368,480	58,443	39,939
Connecticut Community Colleges	488,496	105,023	109,438	-
Bradley International Airport	67,353	63,828	-	7,109
Employment Security	1,514,674	852,214	734,518	-
Clean Water	50,194	25,350	39,081	-
Other	58,989	62,852	9,677	-
Total Business-Type Activities	<u>4,718,254</u>	<u>2,548,388</u>	<u>1,172,820</u>	<u>58,723</u>
Total Primary Government	<u>\$ 28,119,233</u>	<u>\$ 4,123,944</u>	<u>\$ 7,165,223</u>	<u>\$ 826,516</u>
<b>Component Units</b>				
Connecticut Housing Finance Authority (12-31-12)	\$ 209,712	\$ 194,644	\$ -	\$ -
Connecticut Lottery Corporation	1,134,983	1,122,777	-	-
Other	314,487	230,274	16,843	30,905
Total Component Units	<u>\$ 1,659,182</u>	<u>\$ 1,547,695</u>	<u>\$ 16,843</u>	<u>\$ 30,905</u>
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				
Contributions to Endowments				
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.

*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>
\$ (103,731)	\$ -	\$ (103,731)	\$ -
(1,420,465)	-	(1,420,465)	-
35,366	-	35,366	-
(586,666)	-	(586,666)	-
(2,280,880)	-	(2,280,880)	-
(734,090)	-	(734,090)	-
(2,641,073)	-	(2,641,073)	-
(3,947,083)	-	(3,947,083)	-
(1,854,308)	-	(1,854,308)	-
(752,782)	-	(752,782)	-
(779,515)	-	(779,515)	-
<u>(15,065,227)</u>	<u>-</u>	<u>(15,065,227)</u>	<u>-</u>
-	(568,152)	(568,152)	-
-	(199,555)	(199,555)	-
-	(274,035)	(274,035)	-
-	3,584	3,584	-
-	72,058	72,058	-
-	14,237	14,237	-
-	13,540	13,540	-
-	<u>(938,323)</u>	<u>(938,323)</u>	<u>-</u>
<u>(15,065,227)</u>	<u>(938,323)</u>	<u>(16,003,550)</u>	<u>-</u>
-	-	-	(15,068)
-	-	-	(12,206)
-	-	-	<u>(36,465)</u>
-	-	-	<u>(63,739)</u>
7,743,804	-	7,743,804	-
558,287	-	558,287	-
3,953,768	-	3,953,768	-
2,327,754	-	2,327,754	-
693,444	-	693,444	-
79,000	-	79,000	-
296,396	-	296,396	-
123,745	-	123,745	-
312,100	-	312,100	-
3,942	16,742	20,684	46,877
-	-	-	48,414
<u>(1,088,125)</u>	<u>1,088,125</u>	<u>-</u>	<u>-</u>
<u>15,004,115</u>	<u>1,104,867</u>	<u>16,108,982</u>	<u>95,291</u>
(61,112)	166,544	105,432	31,552
<u>(15,030,864)</u>	<u>4,467,491</u>	<u>(10,563,373)</u>	<u>1,951,663</u>
<u>\$ (15,091,976)</u>	<u>\$ 4,634,035</u>	<u>\$ (10,457,941)</u>	<u>\$ 1,983,215</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 94.

*Connecticut*

**Balance Sheet**  
**Governmental Funds**  
 June 30, 2013  
 (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	\$ -	\$ -	\$ 171,897	\$ 5,570	\$ 335,064	\$ 184,465	\$ 696,996
Investments	2,944	-	-	-	-	107,182	110,126
Securities Lending Collateral	-	-	-	-	-	15,334	15,334
Receivables:							
Taxes, Net of Allowances	1,330,477	-	42,612	-	-	-	1,373,089
Accounts, Net of Allowances	276,577	-	7,735	17,721	13,131	15,465	330,629
Loans, Net of Allowances	3,419	-	-	12,565	310,735	113,217	439,936
From Other Governments	325,392	-	-	236,491	-	7,868	569,751
Interest	-	1,134	47	-	-	-	1,181
Other	-	-	-	-	-	39	39
Due from Other Funds	26,181	-	1,134	306,549	44,765	502,128	880,757
Due from Component Units	27,068	-	-	-	-	-	27,068
Inventories	15,502	-	30,683	-	-	-	46,185
Restricted Assets	-	660,113	-	-	-	-	660,113
Total Assets	<u>\$ 2,007,560</u>	<u>\$ 661,247</u>	<u>\$ 254,108</u>	<u>\$ 578,896</u>	<u>\$ 703,695</u>	<u>\$ 945,698</u>	<u>\$ 5,151,204</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts Payable and Accrued Liabilities	\$ 284,406	\$ -	\$ 22,922	\$ 186,452	\$ 10,107	\$ 61,086	\$ 564,973
Due to Other Funds	903,450	1,134	-	2,092	24	180,516	1,087,216
Due to Component Units	-	-	-	190	7,029	-	7,219
Due to Other Governments	124,609	-	-	17,372	-	-	141,981
Unearned Revenue	443,567	-	2,643	13,331	13,065	23,559	496,165
Medicaid Liability	518,853	-	-	-	-	-	518,853
Liability For Escheated Property	266,524	-	-	-	-	-	266,524
Securities Lending Obligation	-	-	-	-	-	15,334	15,334
Other Liabilities	54,773	-	-	392	-	-	55,165
Total Liabilities	<u>2,596,182</u>	<u>1,134</u>	<u>25,565</u>	<u>219,829</u>	<u>30,225</u>	<u>280,495</u>	<u>3,153,430</u>
<b>Fund Balances</b>							
Nonspendable:							
Inventories/Long-Term Receivables	45,990	-	30,683	-	-	-	76,673
Permanent Fund Principal	-	-	-	-	-	102,712	102,712
Restricted For:							
Debt Service	-	660,113	-	-	-	-	660,113
Transportation Programs	-	-	121,360	-	-	-	121,360
Federal Grant and State Programs	-	-	-	359,067	-	-	359,067
Grants and Loans	-	-	-	-	662,870	-	662,870
Other	-	-	-	-	-	548,705	548,705
Committed For:							
Continuing Appropriations	90,950	-	-	-	-	-	90,950
Budget Reserve Fund	270,689	-	-	-	-	-	270,689
Future Budget Years	220,800	-	-	-	-	-	220,800
Budgetary Transfer to General Fund on FY 2014	-	-	76,500	-	-	-	76,500
Assigned To:							
Grants and Loans	-	-	-	-	10,600	-	10,600
Other	-	-	-	-	-	20,316	20,316
Unassigned	(1,217,051)	-	-	-	-	(6,530)	(1,223,581)
Total Fund Balances	<u>(588,622)</u>	<u>660,113</u>	<u>228,543</u>	<u>359,067</u>	<u>673,470</u>	<u>665,203</u>	<u>1,997,774</u>
Total Liabilities and Fund Balances	<u>\$ 2,007,560</u>	<u>\$ 661,247</u>	<u>\$ 254,108</u>	<u>\$ 578,896</u>	<u>\$ 703,695</u>	<u>\$ 945,698</u>	<u>\$ 5,151,204</u>

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, 2013

(Expressed in Thousands)

Total Fund Balance - Governmental Funds \$ 1,997,774

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	3,615,871	
Equipment	2,184,276	
Infrastructure	13,653,034	
Other Capital Assets	5,155,894	
Accumulated Depreciation	<u>(12,662,250)</u>	11,946,825

Debt issue costs are recorded as expenditures in the funds. However, these costs are deferred (reported as other assets) and amortized over the life of the bonds in the Statement of Net Position. 82,783

Some of the state's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 474,527

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. 47,269

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 17).

Net Pension Obligation	(2,533,254)	
Net OPEB Obligation	(6,682,308)	
Worker's Compensation	(587,652)	
Capital Leases	(38,218)	
Compensated Absences	(513,709)	
Claims and Judgments	<u>(43,522)</u>	(10,398,663)

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 17).

Bonds and Notes Payable	(18,263,468)	
Unamortized Premiums	(996,394)	
Less: Deferred Loss on Refundings	180,876	
Accrued Interest Payable	<u>(163,505)</u>	<u>(19,242,491)</u>

Net Position of Governmental Activities \$ (15,091,976)

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

*Connecticut*

**Statement of Revenues, Expenditures, and  
Changes in Fund Balances  
Governmental Funds  
For The Fiscal Year Ended June 30, 2013  
(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>Revenues</b>							
Taxes	\$ 14,621,403	\$ -	\$ 773,600	\$ -	\$ -	\$ -	\$ 15,395,003
Licenses, Permits, and Fees	246,479	-	316,887	14,777	-	38,989	617,132
Tobacco Settlement	-	-	-	-	-	123,745	123,745
Federal Grants and Aid	4,404,671	-	12,415	2,246,040	-	97,070	6,760,196
Lottery Tickets	312,100	-	-	-	-	-	312,100
Charges for Services	36,294	-	67,305	-	9	14	103,622
Fines, Forfeits, and Rents	54,275	-	19,340	-	-	937	74,552
Casino Gaming Payments	296,396	-	-	-	-	-	296,396
Investment Earnings (Loss)	(2,100)	(5,372)	540	1,163	3,187	5,624	3,042
Interest on Loans	-	-	-	-	-	58	58
Miscellaneous	165,220	-	6,960	513,011	7,282	112,027	804,500
Total Revenues	<u>20,134,738</u>	<u>(5,372)</u>	<u>1,197,047</u>	<u>2,774,991</u>	<u>10,478</u>	<u>378,464</u>	<u>24,490,346</u>
<b>Expenditures</b>							
Current:							
Legislative	106,783	-	-	2,852	-	-	109,635
General Government	883,553	-	6,354	439,431	598,409	68,289	1,996,036
Regulation and Protection	401,286	-	87,053	201,184	12,158	181,382	883,063
Conservation and Development	191,440	-	-	153,079	217,835	105,949	668,303
Health and Hospitals	2,249,178	-	-	211,403	7,511	4,050	2,472,142
Transportation	-	-	723,137	776,239	8,886	-	1,508,262
Human Services	6,656,541	-	390	538,496	7,384	11,185	7,213,996
Education, Libraries, and Museums	3,691,779	-	-	512,477	16,936	5,127	4,226,319
Corrections	1,930,364	-	-	20,634	4,803	2,488	1,958,289
Judicial	829,453	-	-	18,319	-	45,504	893,276
Capital Projects	-	-	-	-	-	757,001	757,001
Debt Service:							
Principal Retirement	1,201,548	313,735	-	-	-	-	1,515,283
Interest and Fiscal Charges	596,328	153,872	7,157	123,713	2,973	4,200	888,243
Total Expenditures	<u>18,738,253</u>	<u>467,607</u>	<u>824,091</u>	<u>2,997,827</u>	<u>876,895</u>	<u>1,185,175</u>	<u>25,089,848</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,396,485</u>	<u>(472,979)</u>	<u>372,956</u>	<u>(222,836)</u>	<u>(866,417)</u>	<u>(806,711)</u>	<u>(599,502)</u>
<b>Other Financing Sources (Uses)</b>							
Bonds Issued	-	-	-	-	894,852	907,438	1,802,290
Premiums on Bonds Issued	-	32,827	-	-	42,884	141,084	216,795
Transfers In	133,889	430,772	98,916	210,599	4,000	75,022	953,198
Transfers Out	(1,212,011)	(3,863)	(452,272)	(22,567)	(41,911)	(308,699)	(2,041,323)
Refunding Bonds Issued	-	194,890	-	-	-	-	194,890
Payment to Refunded Bond Escrow Agent	-	(224,910)	-	-	-	-	(224,910)
Capital Lease Obligations	3,556	-	-	-	-	-	3,556
Total Other Financing Sources (Uses)	<u>(1,074,566)</u>	<u>429,716</u>	<u>(353,356)</u>	<u>188,032</u>	<u>899,825</u>	<u>814,845</u>	<u>904,496</u>
Net Change in Fund Balances	<u>321,919</u>	<u>(43,263)</u>	<u>19,600</u>	<u>(34,804)</u>	<u>33,408</u>	<u>8,134</u>	<u>304,994</u>
Fund Balances (Deficit) - Beginning	(912,421)	703,376	208,931	393,871	640,062	657,069	1,690,888
Change in Reserve for Inventories	1,880	-	12	-	-	-	1,892
Fund Balances (Deficit) - Ending	<u>\$ (588,622)</u>	<u>\$ 660,113</u>	<u>\$ 228,543</u>	<u>\$ 359,067</u>	<u>\$ 673,470</u>	<u>\$ 665,203</u>	<u>\$ 1,997,774</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, 2013

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds	\$	304,994
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	(1,802,290)	
Refunding Bonds Issued	(194,890)	
Premium on Bonds Issued	(216,795)	(2,213,975)
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	1,515,283	
Payments to Refunded Bond Escrow Agent (\$5,367 reported in debt service)	230,277	
Capital Lease Payments	8,097	1,753,657
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		
		(3,556)
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	1,982,664	
Depreciation Expense	(949,828)	
Retirements	(21,259)	1,011,577
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 purchases exceeded consumption of inventories.		
		1,892
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:		
Decrease in Accrued Interest	6,600	
Decrease in Interest Accreted on Capital Appreciation Debt	7,780	
Amortization of Bond Premium	119,323	
Amortization of Loss on Debt Refundings	(29,633)	
Decrease in Compensated Absences Liability	26,360	
Increase in Workers Compensation Liability	(28,106)	
Decrease in Claims and Judgments Liability	1,420	
Increase in Net Pension Obligation	(37,065)	
Increase in Net OPEB Obligation	(926,578)	(859,899)
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.		
		(62,351)
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.		
		7,259
Debt issue costs are recorded as expenditures in the governmental funds. However, these costs are amortized over the life of the bonds in the Statement of Activities. In the current year, these amounts are:		
Debt Issue Costs Payments	8,546	
Amortization of Debt Issue Costs	(9,256)	(710)
Change in Net Position of Governmental Activities	\$	(61,112)

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

**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - Non-GAAP Budgetary Basis**  
**General and Transportation Funds**

For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	<b>General Fund</b>			<b>Variance with Final Budget positive (negative)</b>
	<b>Budget</b>		<b>Actual</b>	
	<b>Original</b>	<b>Final</b>		
<b>Revenues</b>				
Budgeted:				
Taxes, Net of Refunds	\$ 14,408,165	\$ 14,510,400	\$ 14,552,684	\$ 42,284
Casino Gaming Payments	336,200	296,400	296,396	(4)
Licenses, Permits, and Fees	258,821	262,100	262,068	(32)
Other	308,198	346,700	343,465	(3,235)
Federal Grants	3,629,044	3,733,900	3,733,910	10
Refunds of Payments	(50,000)	(74,000)	(74,016)	(16)
Operating Transfers In	398,200	408,600	418,552	9,952
Operating Transfers Out	(61,800)	(61,800)	(61,800)	-
Transfer from the Resources of the General Fund	(83,659)	(56,300)	(66,228)	(9,928)
Transfer Out - Transportation Strategy Board	-	-	-	-
Total Revenues	<u>19,143,169</u>	<u>19,366,000</u>	<u>19,405,031</u>	<u>39,031</u>
<b>Expenditures</b>				
Budgeted:				
Legislative	76,677	77,357	66,533	10,824
General Government	620,136	624,132	593,367	30,765
Regulation and Protection	256,341	275,847	261,787	14,060
Conservation and Development	140,825	141,732	133,083	8,649
Health and Hospitals	1,837,970	1,855,201	1,801,952	53,249
Transportation	-	-	-	-
Human Services	5,907,886	5,995,496	5,931,567	63,929
Education, Libraries, and Museums	4,399,409	4,404,570	4,328,894	75,676
Corrections	1,450,944	1,479,295	1,408,761	70,534
Judicial	544,995	546,752	534,512	12,240
Non Functional	4,151,574	4,129,697	3,965,211	164,486
Total Expenditures	<u>19,386,757</u>	<u>19,530,079</u>	<u>19,025,667</u>	<u>504,412</u>
Appropriations Lapsed	<u>116,349</u>	<u>396,839</u>	<u>-</u>	<u>(396,839)</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>(127,239)</u>	<u>232,760</u>	<u>379,364</u>	<u>146,604</u>
<b>Other Financing Sources (Uses)</b>				
Prior Year Appropriations Carried Forward	130,351	130,351	130,351	-
Appropriations Continued to Fiscal Year 2014	-	-	(112,402)	(112,402)
Miscellaneous Adjustments	-	724	722	(2)
Total Other Financing Sources (Uses)	<u>130,351</u>	<u>131,075</u>	<u>18,671</u>	<u>(112,404)</u>
Net Change in Fund Balance	<u>\$ 3,112</u>	<u>\$ 363,835</u>	<u>398,035</u>	<u>\$ 34,200</u>
Budgetary Fund Balances - July 1			134,575	
Changes in Reserves			<u>(17,950)</u>	
Budgetary Fund Balances - June 30			<u>\$ 514,660</u>	

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

*Connecticut*

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**Transportation Fund**

<b>Budget</b>		<b>Actual</b>	<b>Variance with Final Budget positive (negative)</b>
<b>Original</b>	<b>Final</b>		
\$ 765,500	\$ 768,100	\$ 773,575	\$ 5,475
-	-	-	-
371,300	372,500	371,767	(733)
6,000	3,100	4,138	1,038
13,100	12,400	12,416	16
(3,400)	(3,200)	(3,154)	46
102,659	95,245	95,245	-
(6,500)	(6,500)	(6,500)	-
-	-	-	-
(15,000)	(15,000)	(15,000)	-
<u>1,233,659</u>	<u>1,226,645</u>	<u>1,232,487</u>	<u>5,842</u>
-	-	-	-
7,335	7,335	6,272	1,063
67,181	67,181	52,893	14,288
-	-	-	-
-	-	-	-
579,943	582,412	553,792	28,620
210	210	210	-
-	-	-	-
-	-	-	-
-	-	-	-
630,616	628,147	600,877	27,270
<u>1,285,285</u>	<u>1,285,285</u>	<u>1,214,044</u>	<u>71,241</u>
<u>11,000</u>	<u>29,933</u>	<u>-</u>	<u>(29,933)</u>
-	-	-	-
<u>(40,626)</u>	<u>(28,707)</u>	<u>18,443</u>	<u>47,150</u>
41,615	41,615	41,615	-
-	-	(41,308)	(41,308)
-	47	47	-
<u>41,615</u>	<u>41,662</u>	<u>354</u>	<u>(41,308)</u>
<u>\$ 989</u>	<u>\$ 12,955</u>	<u>18,797</u>	<u>\$ 5,842</u>
		187,431	
		(307)	
		<u>\$ 205,921</u>	

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## ***Proprietary Fund Financial Statements***

### ***Major Funds:***

#### ***University of Connecticut and Health Center:***

This fund is used to account for the operations of the University of Connecticut a comprehensive institution of higher education, which includes the University of Connecticut Health Center and John Dempsey Hospital.

#### ***State Universities:***

This fund is used to account for the operations of the State University System which consist of four universities: Central, Eastern, Southern, and Western.

#### ***Connecticut Community Colleges:***

This fund is used to account for the operations of the State community colleges system, which consists of twelve regional community colleges.

#### ***Bradley International Airport:***

The airport is owned by the State of Connecticut and is operated by the Bureau of Aviation and Ports of the State of Connecticut, Department of Transportation and the Board of Directors of the Airport. In 1982, the State issued the Airport, 1982 series Revenue Bonds in the aggregate principal amount of \$100,000,000 and established the Airport as an enterprise fund. The State also donated in the same year capital assets having a net book value of \$33.3 million to the enterprise fund.

#### ***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 116.

**Statement of Net Position**

**Proprietary Funds**

June 30, 2013

(Expressed in Thousands)

	<b>Business-Type Activities</b>			
	<b>Enterprise Funds</b>			
	<b>University of Connecticut &amp; Health Center</b>	<b>State Universities</b>	<b>Connecticut Community Colleges</b>	<b>Bradley International Airport</b>
<b>Assets</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 289,584	\$ 178,566	\$ 79,111	\$ 18,270
Deposits with U.S. Treasury	-	-	-	-
Investments	649	56,065	-	-
Receivables:				
Accounts, Net of Allowances	129,650	181,467	10,059	5,820
Loans, Net of Allowances	1,838	3,647	-	-
Interest	-	-	-	-
From Other Governments	-	3,178	-	2,811
Due from Other Funds	81,584	27,510	118,897	-
Inventories	14,715	-	-	-
Restricted Assets	41,030	-	-	7,421
Other Current Assets	32,086	3,578	203	892
Total Current Assets	<u>591,136</u>	<u>454,011</u>	<u>208,270</u>	<u>35,214</u>
Noncurrent Assets:				
Cash and Cash Equivalents	1,438	130,706	-	-
Investments	10,614	28,155	-	-
Receivables:				
Loans, Net of Allowances	10,374	8,873	359	-
Restricted Assets	400	-	-	133,588
Capital Assets, Net of Accumulated Depreciation	1,872,472	958,677	657,917	290,755
Other Noncurrent Assets	2,502	155	-	9,897
Total Noncurrent Assets	<u>1,897,800</u>	<u>1,126,566</u>	<u>658,276</u>	<u>434,240</u>
Total Assets	<u>2,488,936</u>	<u>1,580,577</u>	<u>866,546</u>	<u>469,454</u>
<b>Deferred Outflows of Resources</b>				
Accumulated Decrease in Fair Value of Hedging Derivatives	-	-	-	20,454
<b>Liabilities</b>				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	154,178	46,456	39,757	8,286
Due to Other Funds	10,889	3,610	-	4,674
Due to Other Governments	-	-	-	-
Current Portion of Long-Term Obligations	58,732	20,684	3,871	5,955
Unearned Revenue	30,230	194,600	3,563	2,018
Other Current Liabilities	23,269	12,167	293	-
Total Current Liabilities	<u>277,298</u>	<u>277,517</u>	<u>47,484</u>	<u>20,933</u>
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	323,489	317,519	36,861	153,809
Total Noncurrent Liabilities	<u>323,489</u>	<u>317,519</u>	<u>36,861</u>	<u>153,809</u>
Total Liabilities	<u>600,787</u>	<u>595,036</u>	<u>84,345</u>	<u>174,742</u>
<b>Net Position (Deficit)</b>				
Net Investment in Capital Assets	1,557,181	822,230	657,917	149,648
Restricted For:				
Debt Service	7,279	-	-	6,994
Clean and Drinking Water Projects	-	-	-	-
Capital Projects	64,245	-	-	92,244
Nonexpendable Purposes	11,902	312	20	-
Bond Indentures	-	-	-	2,112
Loans	3,263	-	-	-
Other Purposes	22,645	36,416	109,089	-
Unrestricted (Deficit)	221,634	126,583	15,175	64,168
Total Net Position (Deficit)	<u>\$ 1,888,149</u>	<u>\$ 985,541</u>	<u>\$ 782,201</u>	<u>\$ 315,166</u>

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



*Connecticut*

<b>Business-Type Activities</b>				<b>Governmental</b>
<b>Enterprise Funds</b>				<b>Activities</b>
<b>Employment Security</b>	<b>Clean Water</b>	<b>Other Funds</b>	<b>Total</b>	<b>Internal Service Funds</b>
\$ 2,509	\$ 1,822	\$ 37,031	\$ 606,893	\$ 11,016
217,511	-	-	217,511	-
-	-	-	56,714	-
187,885	-	7,821	522,702	173
-	169,071	10,286	184,842	-
-	5,461	277	5,738	-
6,681	312	759	13,741	-
570	-	-	228,561	4,324
-	-	-	14,715	3,699
-	-	-	48,451	-
-	-	4	36,763	162
<u>415,156</u>	<u>176,666</u>	<u>56,178</u>	<u>1,936,631</u>	<u>19,374</u>
-	152,217	41,843	326,204	-
-	16,368	-	55,137	-
-	768,667	58,404	846,677	-
-	388,756	74,655	597,399	-
-	-	29,160	3,808,981	39,985
-	16,124	1,422	30,100	-
-	1,342,132	205,484	5,664,498	39,985
<u>415,156</u>	<u>1,518,798</u>	<u>261,662</u>	<u>7,601,129</u>	<u>59,359</u>
-	-	-	20,454	-
9	11,583	12,399	272,668	1,716
350	-	-	19,523	7,370
8,730	-	-	8,730	-
-	70,603	8,434	168,279	96
-	-	-	230,411	295
-	-	-	35,729	-
<u>9,089</u>	<u>82,186</u>	<u>20,833</u>	<u>735,340</u>	<u>9,477</u>
<u>574,312</u>	<u>739,823</u>	<u>106,395</u>	<u>2,252,208</u>	<u>2,613</u>
<u>574,312</u>	<u>739,823</u>	<u>106,395</u>	<u>2,252,208</u>	<u>2,613</u>
<u>583,401</u>	<u>822,009</u>	<u>127,228</u>	<u>2,987,548</u>	<u>12,090</u>
-	-	(8,236)	3,178,740	39,984
-	-	4,508	18,781	-
-	527,824	110,677	638,501	-
-	-	-	156,489	-
-	-	-	12,234	-
-	-	-	2,112	-
-	-	-	3,263	-
-	-	-	168,150	-
(168,245)	168,965	27,485	455,765	7,285
<u>\$ (168,245)</u>	<u>\$ 696,789</u>	<u>\$ 134,434</u>	<u>\$ 4,634,035</u>	<u>\$ 47,269</u>

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

For The Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut & Health Center	State Universities	Connecticut Community Colleges	Bradley International Airport
<b>Operating Revenues</b>				
Charges for Sales and Services	\$ 908,540	\$ 348,042	\$ 97,187	\$ 47,629
Assessments	-	-	-	-
Federal Grants, Contracts, and Other Aid	179,366	43,540	91,086	-
State Grants, Contracts, and Other Aid	25,898	11,836	15,535	-
Private Gifts and Grants	42,805	3,067	2,817	-
Interest on Loans	-	-	-	-
Other	110,687	17,664	4,853	-
Total Operating Revenues	<u>1,267,296</u>	<u>424,149</u>	<u>211,478</u>	<u>47,629</u>
<b>Operating Expenses</b>				
Salaries, Wages, and Administrative	1,586,193	582,715	420,951	43,604
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	124,078	54,976	27,436	17,671
Other	152,403	20,945	40,109	-
Total Operating Expenses	<u>1,862,674</u>	<u>658,636</u>	<u>488,496</u>	<u>61,275</u>
Operating Income (Loss)	<u>(595,378)</u>	<u>(234,487)</u>	<u>(277,018)</u>	<u>(13,646)</u>
<b>Nonoperating Revenue (Expenses)</b>				
Interest and Investment Income	968	1,138	145	270
Interest and Fiscal Charges	(9,457)	(7,781)	-	(6,078)
Other - Net	25,008	2,774	2,983	16,199
Total Nonoperating Revenues (Expenses)	<u>16,519</u>	<u>(3,869)</u>	<u>3,128</u>	<u>10,391</u>
Income (Loss) Before Capital Contributions, Grants, and Transfers	<u>(578,859)</u>	<u>(238,356)</u>	<u>(273,890)</u>	<u>(3,255)</u>
Capital Contributions	11,675	39,939	-	7,109
Federal Capitalization Grants	-	-	-	-
Transfers In	521,827	294,832	274,389	10,483
Transfers Out	-	-	-	-
Change in Net Position	(45,357)	96,415	499	14,337
Total Net Position (Deficit) - Beginning (as restated)	<u>1,933,506</u>	<u>889,126</u>	<u>781,702</u>	<u>300,829</u>
Total Net Position (Deficit) - Ending	<u>\$ 1,888,149</u>	<u>\$ 985,541</u>	<u>\$ 782,201</u>	<u>\$ 315,166</u>

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

*Connecticut*

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<b>Business-Type Activities</b>				<b>Governmental</b>
<b>Enterprise Funds</b>				<b>Activities</b>
<b>Employment Security</b>	<b>Clean Water</b>	<b>Other Funds</b>	<b>Totals</b>	<b>Internal Service Funds</b>
\$ -	\$ -	\$ 23,010	\$ 1,424,408	\$ 53,106
848,220	-	37,482	885,702	-
719,898	-	-	1,033,890	-
14,620	-	-	67,889	-
-	-	-	48,689	-
-	17,660	1,535	19,195	-
3,994	-	825	138,023	88
<u>1,586,732</u>	<u>17,660</u>	<u>62,852</u>	<u>3,617,796</u>	<u>53,194</u>
-	858	18,832	2,653,153	39,188
1,514,674	-	-	1,514,674	-
-	-	30,908	30,908	-
-	-	1,215	225,376	6,297
-	10,113	1,770	225,340	-
<u>1,514,674</u>	<u>10,971</u>	<u>52,725</u>	<u>4,649,451</u>	<u>45,485</u>
<u>72,058</u>	<u>6,689</u>	<u>10,127</u>	<u>(1,031,655)</u>	<u>7,709</u>
-	13,096	1,125	16,742	3
-	(39,223)	(5,676)	(68,215)	-
-	7,690	(588)	54,066	(453)
-	(18,437)	(5,139)	2,593	(450)
<u>72,058</u>	<u>(11,748)</u>	<u>4,988</u>	<u>(1,029,062)</u>	<u>7,259</u>
-	-	-	58,723	-
-	39,081	9,677	48,758	-
-	989	-	1,102,520	-
(3,665)	-	(10,730)	(14,395)	-
68,393	28,322	3,935	166,544	7,259
(236,638)	668,467	130,499	4,467,491	40,010
<u>\$ (168,245)</u>	<u>\$ 696,789</u>	<u>\$ 134,434</u>	<u>\$ 4,634,035</u>	<u>\$ 47,269</u>

## Statement of Cash Flows

## Proprietary Funds

For the Fiscal Year Ended June 30, 2013

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut & Health Center	State Universities	Connecticut Community Colleges	Bradley International Airport
<b>Cash Flows from Operating Activities</b>				
Receipts from Customers	\$ 890,645	\$ 337,010	\$ 95,679	\$ 47,207
Payments to Suppliers	(521,251)	(169,812)	(80,784)	(24,378)
Payments to Employees	(1,118,928)	(427,166)	(349,147)	(17,871)
Other Receipts (Payments)	320,644	84,519	74,553	-
Net Cash Provided by (Used in) Operating Activities	(428,890)	(175,449)	(259,699)	4,958
<b>Cash Flows from Noncapital Financing Activities</b>				
Proceeds from Bonds Payable	-	-	-	-
Retirement of Bonds and Annuities Payable	-	-	-	-
Interest on Bonds and Annuities Payable	-	-	-	-
Transfers In	405,340	217,440	226,192	10,483
Transfers Out	-	-	-	-
Other Receipts (Payments)	29,024	5,050	13,095	-
Net Cash Flows from Noncapital Financing Activities	434,364	222,490	239,287	10,483
<b>Cash Flows from Capital and Related Financing Activities</b>				
Additions to Property, Plant, and Equipment	(238,476)	(93,894)	(13,174)	(11,875)
Proceeds from Capital Debt	-	34,060	-	-
Principal Paid on Capital Debt	(61,905)	(16,211)	-	(14,245)
Interest Paid on Capital Debt	(52,254)	(10,300)	-	(6,106)
Transfer In	161,241	75,673	47,473	-
Federal Grant	-	-	-	-
Capital Contributions	-	-	-	5,182
Other Receipts (Payments)	5,875	(293)	(28,187)	31,316
Net Cash Flows from Capital and Related Financing Activities	(185,519)	(10,965)	6,112	4,272
<b>Cash Flows from Investing Activities</b>				
Proceeds from Sales and Maturities of Investments	-	40,703	-	-
Purchase of Investment Securities	(21)	(69,993)	-	(7,360)
Interest on Investments	990	340	153	263
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	2,061	-	-	-
Net Cash Flows from Investing Activities	3,030	(28,950)	153	(7,097)
Net Increase (Decrease) in Cash and Cash Equivalents	(177,015)	7,126	(14,147)	12,616
Cash and Cash Equivalents - Beginning of Year	509,467	302,146	93,258	136,855
Cash and Cash Equivalents - End of Year	\$ 332,452	\$ 309,272	\$ 79,111	\$ 149,471
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</b>				
Operating Income (Loss)	\$ (595,378)	\$ (234,487)	\$ (277,018)	\$ (13,646)
Adjustments not Affecting Cash:				
Depreciation and Amortization	124,078	54,976	27,436	17,671
Other	94,060	35	(10,830)	-
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	(16,534)	(7,661)	(3,226)	(422)
(Increase) Decrease in Due from Other Funds	-	-	-	-
(Increase) Decrease in Inventories and Other Assets	(10,056)	(272)	2,488	-
Increase (Decrease) in Accounts Payables & Accrued Liabilities	(25,060)	11,732	1,451	1,355
Increase (Decrease) in Due to Other Funds	-	228	-	-
Total Adjustments	166,488	59,038	17,319	18,604
Net Cash Provided by (Used In) Operating Activities	\$ (428,890)	\$ (175,449)	\$ (259,699)	\$ 4,958
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>				
Cash and Cash Equivalents - Current	\$ 289,584	\$ 178,566		\$ 18,270
Cash and Cash Equivalents - Noncurrent	1,438	130,706		-
Cash and Cash Equivalents - Restricted	41,430	-		131,201
	\$ 332,452	\$ 309,272		\$ 149,471

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

*Connecticut*

<b>Business-Type Activities</b>				<b>Governmental</b>	
<b>Enterprise Funds</b>				<b>Activities</b>	
<b>Employment Security</b>	<b>Clean Water</b>	<b>Other</b>	<b>Totals</b>	<b>Internal Service Funds</b>	
\$ 855,456	\$ 89,165	\$ 65,869	\$ 2,381,031	\$ 51,876	
-	(10,113)	(8,136)	(814,474)	(21,848)	
-	(714)	(11,247)	(1,925,073)	(12,390)	
(849,282)	(124,531)	(35,379)	(529,476)	245	
<u>6,174</u>	<u>(46,193)</u>	<u>11,107</u>	<u>(887,992)</u>	<u>17,883</u>	
-	192,685	1,445	194,130	-	
-	(70,578)	(6,942)	(77,520)	-	
-	(33,057)	(5,381)	(38,438)	-	
-	-	-	859,455	-	
(3,665)	(4,533)	(10,730)	(18,928)	-	
-	(128,961)	(12,566)	(94,358)	(453)	
<u>(3,665)</u>	<u>(44,444)</u>	<u>(34,174)</u>	<u>824,341</u>	<u>(453)</u>	
-	-	(63)	(357,482)	(15,644)	
-	-	-	34,060	-	
-	-	-	(92,361)	-	
-	-	-	(68,660)	-	
-	-	-	284,387	-	
-	57,472	9,228	66,700	-	
-	-	-	5,182	-	
-	-	-	8,711	-	
<u>-</u>	<u>57,472</u>	<u>9,165</u>	<u>(119,463)</u>	<u>(15,644)</u>	
-	-	-	40,703	-	
-	-	-	(77,374)	-	
-	13,242	1,143	16,131	3	
-	21,330	-	21,330	-	
-	(3,121)	11,968	10,908	-	
<u>-</u>	<u>31,451</u>	<u>13,111</u>	<u>11,698</u>	<u>3</u>	
2,509	(1,714)	(791)	(171,416)	1,789	
-	3,536	37,822	1,083,084	9,227	
<u>\$ 2,509</u>	<u>\$ 1,822</u>	<u>\$ 37,031</u>	<u>\$ 911,668</u>	<u>\$ 11,016</u>	
\$ 72,058	\$ 6,689	\$ 10,127	\$ (1,031,655)	\$ 7,709	
-	-	1,215	225,376	6,297	
-	-	-	83,265	-	
(12,790)	(52,882)	(937)	(94,452)	(124)	
1,478	-	-	1,478	(1,105)	
-	-	(758)	(8,598)	292	
(57,706)	-	1,460	(66,768)	4,814	
3,134	-	-	3,362	-	
<u>(65,884)</u>	<u>(52,882)</u>	<u>980</u>	<u>143,663</u>	<u>10,174</u>	
<u>\$ 6,174</u>	<u>\$ (46,193)</u>	<u>\$ 11,107</u>	<u>\$ (887,992)</u>	<u>\$ 17,883</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 124

Agency Funds, page 130

## Statement of Fiduciary Net Position

### Fiduciary Funds

June 30, 2013

(Expressed in Thousands)

	<b>Pension &amp; Other Employee Benefit Trust Funds</b>	<b>Investment Trust Fund External Investment Pool</b>	<b>Private- Purpose Trust Fund Escheat Securities</b>	<b>Agency Funds</b>	<b>Total</b>
<b>Assets</b>					
Cash and Cash Equivalents	\$ 170,815	\$ -	\$ -	\$ 108,279	\$ 279,094
Receivables:					
Accounts, Net of Allowances	26,298	-	-	9,590	35,888
From Other Governments	347	-	-	-	347
From Other Funds	8,689	-	-	4,233	12,922
Interest	467	932	-	8	1,407
Investments (See Note 4)	25,837,449	866,233	-	-	26,703,682
Inventories	-	-	-	13	13
Securities Lending Collateral	2,500,243	-	-	-	2,500,243
Other Assets	-	76	998	370,253	371,327
Total Assets	<u>28,544,308</u>	<u>867,241</u>	<u>998</u>	<u>\$ 492,376</u>	<u>29,904,923</u>
<b>Liabilities</b>					
Accounts Payable and Accrued Liabilities	15,448	136	-	\$ 60,235	75,819
Securities Lending Obligation	2,500,243	-	-	-	2,500,243
Due to Other Funds	5,803	-	-	6,653	12,456
Funds Held for Others	-	-	-	425,488	425,488
Total Liabilities	<u>2,521,494</u>	<u>136</u>	<u>-</u>	<u>\$ 492,376</u>	<u>3,014,006</u>
<b>Net Position</b>					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	25,757,326	-	-		25,757,326
Other Employee Benefits (Note 15)	265,488	-	-		265,488
Individuals, Organizations, and Other Governments	-	867,105	998		868,103
Total Net Position	<u>\$ 26,022,814</u>	<u>\$ 867,105</u>	<u>\$ 998</u>		<u>\$ 26,890,917</u>

*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, 2013

(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	\$ 567,226	\$ -	\$ -	\$ 567,226
State	2,431,310	-	-	2,431,310
Municipalities	116,397	-	-	116,397
Total Contributions	3,114,933	-	-	3,114,933
Investment Income	2,807,525	1,926	-	2,809,451
Less: Investment Expense	(86,710)	(255)	-	(86,965)
Net Investment Income	2,720,815	1,671	-	2,722,486
Escheat Securities Received	-	-	16,346	16,346
Pool's Share Transactions	-	13,073	-	13,073
Other	2,675	-	-	2,675
Total Additions	5,838,423	14,744	16,346	5,869,513
<b>Deductions</b>				
Administrative Expense	3,669	-	-	3,669
Benefit Payments and Refunds	3,855,819	-	-	3,855,819
Escheat Securities Returned or Sold	-	-	16,714	16,714
Distributions to Pool Participants	-	1,671	-	1,671
Other	529	-	(141)	388
Total Deductions	3,860,017	1,671	16,573	3,878,261
Change in Net Position Held In Trust For:				
Pension and Other Employee Benefits	1,978,406	-	-	1,978,406
Individuals, Organizations, and Other Governments	-	13,073	(227)	12,846
Net Position - Beginning	24,044,408	854,032	1,225	24,899,665
Net Position - Ending	\$ 26,022,814	\$ 867,105	\$ 998	\$ 26,890,917

*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.

#### ***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 134.

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## Statement of Net Position Component Units

June 30, 2013

(Expressed in Thousands)

<b>Assets</b>	<b>Connecticut Housing Finance Authority (12-31-12)</b>	<b>Connecticut Lottery Corporation</b>	<b>Other Component Units</b>	<b>Total</b>
<b>Current Assets:</b>				
Cash and Cash Equivalents	\$ -	\$ 11,164	\$ 210,234	\$ 221,398
Investments	-	18,449	381,044	399,493
Receivables:				
Accounts, Net of Allowances	-	34,498	29,599	64,097
Loans, Net of Allowances	-	-	26,372	26,372
Other	-	2,809	1,737	4,546
Due From Primary Government	-	-	7,220	7,220
Restricted Assets	1,262,966	-	553,023	1,815,989
Inventories	-	-	6,644	6,644
Other Current Assets	-	2,283	2,461	4,744
Total Current Assets	<u>1,262,966</u>	<u>69,203</u>	<u>1,218,334</u>	<u>2,550,503</u>
<b>Noncurrent Assets:</b>				
Investments	-	128,584	69,041	197,625
Accounts, Net of Allowances	-	-	31,615	31,615
Loans, Net of Allowances	-	-	148,049	148,049
Restricted Assets	4,135,034	-	96,287	4,231,321
Capital Assets, Net of Accumulated Depreciation	3,276	1,685	394,977	399,938
Other Noncurrent Assets	-	5,264	16,000	21,264
Total Noncurrent Assets	<u>4,138,310</u>	<u>135,533</u>	<u>755,969</u>	<u>5,029,812</u>
Total Assets	<u>5,401,276</u>	<u>204,736</u>	<u>1,974,303</u>	<u>7,580,315</u>
<b>Deferred Outflows of Resources</b>				
Accumulated Decrease in Fair Value of Hedging				
Derivatives	200,205	-	1,976	202,181
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Accounts Payable and Accrued Liabilities	26,171	17,036	37,918	81,125
Current Portion of Long-Term Obligations	306,370	19,141	31,760	357,271
Unearned Revenue	-	722	663	1,385
Amount Held for Institutions	-	-	507,778	507,778
Other Liabilities	26,429	34,791	5,160	66,380
Total Current Liabilities	<u>358,970</u>	<u>71,690</u>	<u>583,279</u>	<u>1,013,939</u>
<b>Noncurrent Liabilities:</b>				
Noncurrent Portion of Long-Term Obligations	4,284,160	129,290	371,892	4,785,342
Total Noncurrent Liabilities	<u>4,284,160</u>	<u>129,290</u>	<u>371,892</u>	<u>4,785,342</u>
Total Liabilities	<u>4,643,130</u>	<u>200,980</u>	<u>955,171</u>	<u>5,799,281</u>
<b>Net Position</b>				
Net Investment in Capital Assets	3,276	1,685	237,685	242,646
Restricted:				
Debt Service	-	-	59,545	59,545
Bond Indentures	985,150	-	-	985,150
Expendable Endowments	-	-	102,723	102,723
Nonexpendable Endowments	-	-	306,230	306,230
Other Purposes	-	5,830	37,716	43,546
Unrestricted (Deficit)	(30,075)	(3,759)	277,209	243,375
Total Net Position	<u>\$ 958,351</u>	<u>\$ 3,756</u>	<u>\$ 1,021,108</u>	<u>\$ 1,983,215</u>

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

## Statement of Activities

### Component Units

For The Fiscal Year Ended June 30, 2013

(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 (12/31/12)	\$ 209,712	\$ 194,644	\$ -	\$ -
Connecticut Lottery Corporation	1,134,983	1,122,777	-	-
Other Component Units	<u>314,487</u>	<u>230,274</u>	<u>16,843</u>	<u>30,905</u>
Total Component Units	<u>\$ 1,659,182</u>	<u>\$ 1,547,695</u>	<u>\$ 16,843</u>	<u>\$ 30,905</u>

General Revenues:  
 Investment Income  
 Contributions to Endowments  
 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.*

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

<b>Connecticut Housing Finance Authority (12-31-12)</b>	<b>Connecticut Lottery Corporation</b>	<b>Other Component Units</b>	<b>Totals</b>
\$ (15,068)	\$ -	\$ -	\$ (15,068)
-	(12,206)	-	(12,206)
-	-	(36,465)	(36,465)
<u>(15,068)</u>	<u>(12,206)</u>	<u>(36,465)</u>	<u>(63,739)</u>
15,698	8,401	22,778	46,877
-	-	48,414	48,414
<u>15,698</u>	<u>8,401</u>	<u>71,192</u>	<u>95,291</u>
630	(3,805)	34,727	31,552
<u>957,721</u>	<u>7,561</u>	<u>986,381</u>	<u>1,951,663</u>
<u>\$ 958,351</u>	<u>\$ 3,756</u>	<u>\$ 1,021,108</u>	<u>\$ 1,983,215</u>

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## Notes to the Financial Statements

### June 30, 2013

#### Note 1 Summary of Significant Accounting Policies

##### a. Basis of Presentation

The accompanying financial statements of the State of Connecticut have been prepared in conformity with generally accepted accounting principles as prescribed in pronouncements of the Governmental Accounting Standards Board, except for the financial statements of the University of Connecticut Foundation, Incorporated (a component unit). Those statements are prepared according to generally accepted accounting principles as prescribed in pronouncements of the Financial Accounting Standards Board.

##### b. Reporting Entity

For financial reporting purposes, the State's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, departments, bureaus, commissions, and component units that are considered an integral part of the State's legal entity. Component units are legally separate organizations for which the State is financially accountable. Financial accountability exists if (1) the State appoints a voting majority of the organization's governing board, and (2) 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, 2012.

##### *Connecticut Resources Recovery Authority (CRRRA)*

CRRRA is responsible for implementing the State Solid Waste Management Plan by determining the location of and constructing solid waste management projects; owning, operating, and maintaining waste management projects; or making provisions for operation and maintenance by contracting with private industry.

##### *Connecticut Higher Education Supplemental Loan Authority (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. In fiscal year 2013, CHESLA became 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.

##### *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. In fiscal year 2013, the Connecticut Development Authority, a component unit reported in prior years, was merged into this corporation.

##### *Clean Energy Finance and Investment Authority (CEFIA)*

CEFIA was created to develop programs 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*

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

CHFA, CRRRA, CHESLA, CHEFA, 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 CEFIA 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.

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.

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.

***State Universities*** - This fund is used to account for the operations of the State University System which consists of four universities: Central, Eastern, Southern, and Western.

***Connecticut Community Colleges*** – This fund is used to account for the operations of the State community colleges system, which consists of twelve regional community colleges.

***Bradley International Airport*** - This fund is used to account for the financial activities of the Bradley International Airport, which is owned and operated by the State.

**Employment Security** - This fund is used to account for unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

**Clean Water** - This fund is used to account for resources used to provide loans to municipalities to finance waste water treatment facilities.

In addition, the State reports the following fund types:

**Internal Service Funds** - These funds account for goods and services provided to other agencies of the State on a cost-reimbursement basis. These goods and services include prisoner-built office furnishings, information services support, telecommunications, printing, and other services.

**Pension (and Other Employee Benefits) Trust Funds** - These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans and other employee benefits plans. These plans are discussed more fully in Notes 11, 12, and 14.

**Investment Trust Fund** - This fund accounts for the external portion of the State's Short-Term Investment Fund, an investment pool managed by the State Treasurer.

**Private-Purpose Trust Fund** - This fund accounts for escheat securities held in trust for individuals by the State Treasurer.

**Agency Funds** - These funds account for deposits, investments, and other assets held by the State as an agent for inmates and patients of State institutions, insurance companies, municipalities, and private organizations.

**d. Measurement Focus and Basis of Accounting**

**Government-wide, Proprietary, and Fiduciary Fund Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Taxes and casino gaming payments are recognized as revenues in the period when the underlying exchange transaction has occurred. Grants and similar items are recognized as revenues in the period when all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the State's enterprise and internal service funds are charges to customers for sales and services, assessments, and intergovernmental revenues. Operating expenses for enterprise and internal service funds include salaries, wages, and administrative expenses, unemployment compensation, claims paid, and depreciation expense. All revenues and expenses not meeting this

definition are reported as nonoperating revenues and expenses.

**Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers taxes and other revenues to be available if the revenues are collected within 45 days after year-end. Exceptions to this policy are federal grant revenues, which are considered to be available if collection is expected within 12 months after year-end, and licenses and fees which are recognized as revenues when the cash is collected. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general-long term debt and acquisitions under capital leases are reported as other financing sources.

**e. Budgeting Process**

By statute, the Governor must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for the following funds: the General Fund, the Transportation Fund, the Mashantucket Pequot Fund, the Workers' Compensation Administration Fund, the Banking Fund, the Consumer Counsel and Public Utility Control Fund, the Insurance Fund, the Criminal Injuries Fund, the Soldiers, Sailors, and Marines Fund, and the Regional Market Operations Fund. Under the State Constitution, the Governor has the power to veto any part of the itemized appropriations bill and to accept the remainder of the bill. However, the General Assembly may separately reconsider and repass the disapproved items by a two-thirds majority vote of both the Senate and the House.

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because the level of legal control is more detailed than reflected in the CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

The Governor has the power under Connecticut statute to modify budgetary allotment requests for the administration, operation and maintenance of a budgeted agency. However, the modification cannot exceed 3 percent of the fund or 5 percent of the appropriation amount. Modifications beyond those limits, but not in excess of 5 percent of the total funds

require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

All funds, except fiduciary funds, use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carryforwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Carryforward appropriations are reported as reservations of the fund balance in the financial statements.

The budget is prepared on a “modified cash” basis of accounting under which revenues are recognized when received, except for certain taxes which are recognized when earned. Tax revenues recognized when earned include the following: sales and use, personal income, corporation, public service corporations, petroleum companies, cigarettes, alcoholic beverages, gasoline, special motor fuel, and motor carrier road. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the adopted budget is presented in the financial statements for the General and Transportation funds. During the 2013 fiscal year, the original adopted budget was adjusted by the General Assembly and the Finance Advisory Committee.

**f. Assets and Liabilities**

***Cash and Cash Equivalents (see Note 4)***

In addition to petty cash and bank accounts, this account includes cash equivalents – short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents 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 4)***

Investments include Equity in Combined Investment Funds and other investments. Equity in Combined Investment Funds is reported at fair value based on the funds’ current share price. Other investments are reported at fair value, except for the following investments which are reported at cost or amortized cost:

- Nonparticipating interest-earning investment contracts.
- Money market investments that mature within one year or less at the date of their acquisition.
- Investments of the External Investment Pool fund (an Investment Trust fund).

The fair value of other investments is determined based on quoted market prices except for:

- The fair value of State bonds held by the Clean Water and Drinking Water funds (Enterprise funds) which is estimated using a comparison of other State bonds.
- The fair value of 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, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, railways, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the State as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year, except for the University of Connecticut which uses an initial individual cost of more than \$5,000. 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:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements Other than Buildings	10-20
Machinery and Equipment	5-30
Infrastructure	20-28

***Securities Lending Transactions (see Note 4)***

Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the participant funds based on their equity in the Combined Investment Funds.

***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 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. In the fund financial statements, this liability also represents revenues considered measurable but not available during the current period.

***Long-term Obligations***

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net 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 other noncurrent assets and amortized over the term of the related debt. Other significant long-term obligations include the net pension and OPEB obligations, compensated absences, workers’ compensation claims, and federal loans. In the fund financial statements, governmental fund types recognize bond premiums and bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as

other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Capital Appreciation Bonds***

Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the government-wide statement of net 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.

Pursuant to Special Act No. 09-06, the General Assembly enacted an Early Retirement Incentive Program in order to mitigate the deficit of the General Fund of the State. Under the provisions of this program, any employee participating in the program shall be eligible for payment of accrued sick days and for the balance of unused vacation leave in accordance with the existing rules as stated above, except for one modification. The modification provides that the balance of any compensated absences shall be paid in three equal annual installments beginning during fiscal year ending June 30, 2013.

***g. 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. Starting in fiscal year 2013, 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. 19.

**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 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. Food Stamps**

Food stamps distributed to recipients during the year are recognized as both an expenditure and a revenue in the governmental fund financial statements.

**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 4). Pool income is determined based on distributions made to the pool’s participants.

**l. Use of Estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Note 2 Budgetary vs. GAAP Basis of Accounting**

The following is a reconciliation of the net change in fund balances as reported in the budgetary and GAAP basis of accounting statements of revenues, expenditures, and changes in fund balances (amounts in thousands):

	General Fund	Transportation Fund
Net change in fund balances (budgetary basis)	\$ 398,035	\$ 18,797
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	(113,228)	(4,653)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	87,877	9,897
Salaries and Fringe Benefits Payable	(32,816)	(2,720)
Increase (Decrease) in Continuing Appropriations	(17,949)	(307)
Fund Reclassification-Bus Operations	-	(1,414)
Net change in fund balances (GAAP basis)	\$ 321,919	\$ 19,600

The major differences between the budgetary (legal) and the GAAP (generally accepted accounting principles) basis of accounting as reconciled above are as follows:

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis).
3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as committed fund balance.

**Note 3 Nonmajor Fund Deficits**

The following funds have deficit fund/net position balances at June 30, 2013, none of which constitutes a violation of statutory provisions (amounts in thousands).

**Capital Projects**

Transportation	\$ 718
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**Enterprise**

Bradley Parking Garage	\$ 28,155
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## Connecticut

### Note 4 Cash Deposits and Investments

According to GASB Statement No. 40, "Deposit and Investment Risk Disclosures", the State needs to make certain disclosures about deposit and investment risks that have the potential to result in losses. Thus, the following deposit and investment risks are discussed in this note:

**Interest Rate Risk** - the risk that changes in interest rates will adversely affect the fair value of an investment.

**Credit Risk** - the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

**Concentration of Credit Risk** - the risk of loss attributed to the magnitude of an investment in a single issuer.

**Custodial Credit Risk (deposits)** - the risk that, in the event of a bank failure, the State's deposits may not be recovered.

**Foreign Currency Risk** - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

#### Primary Government

The State Treasurer is the chief fiscal officer of State government and is responsible for the prudent management and investment of monies of State funds and agencies as well as monies of pension and other trust funds. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. Currently, the State Treasurer manages one Short-Term Investment Fund, one Medium-Term Investment Fund, and twelve Combined Investment Funds.

#### Short-Term Investment Fund (STIF)

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, 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, 2013, 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	\$ 2,011,330	\$ 1,988,865	\$ 22,465
Bank Commercial Paper	325,000	325,000	-
US Gov. Guaranteed or Insured	50,156	50,156	-
Government Money Market Funds	205,737	205,737	-
Repurchase Agreements	100,000	100,000	-
<b>Total Investments</b>	<b>\$ 2,692,223</b>	<b>\$ 2,669,758</b>	<b>\$ 22,465</b>

#### Interest Rate Risk

The STIF's policy for managing interest rate risk is to limit investment to a very short weighted average maturity, not to exceed 90 days, and to comply with Standard and Poor's requirement that the weighted average maturity not to exceed 60 days. As of June 30, 2013, the weighted average maturity of the STIF was 44 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 20 percent of the overall portfolio. For purposes of the fund's weighted average maturity calculation, variable-rate securities are calculated using their rate reset date. Because these securities reprice frequently to prevailing market rates, interest rate risk is substantially reduced. As of June 30, 2013, the amount of STIF's investments in variable-rate securities was \$995 million.

#### Credit Risk

The STIF's policy for managing credit risk is to invest in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations.

As of June 30, 2013, 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			
		AAA	AA	A	Unrated
Federal Agency Securities	\$ 2,011,329	\$ -	\$ 2,011,329	\$ -	\$ -
Bank Commercial Paper	325,000	-	-	325,000	-
U.S. Government Guaranteed & Insured Securities	50,157	-	20,157	-	30,000
Government Money Market Funds	205,737	205,737	-	-	-
Repurchase Agreements	100,000	-	-	100,000	-
<b>Total Investments</b>	<b>\$ 2,692,223</b>	<b>\$ 205,737</b>	<b>\$ 2,031,486</b>	<b>\$ 425,000</b>	<b>\$ 30,000</b>

#### Concentration of Credit Risk

STIF reduces its exposure to this risk by requiring that not more than 10 percent of its portfolio be invested in securities of any one issuer, except for overnight or two-business day repurchase agreements and U.S. government and agency securities. As of June 30, 2013, STIF's investments in any one issuer that represents more than 5 percent of total investments

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were as follows (amounts in thousands):

Investment Issuer	Amortized Cost
Federal Farm Credit Bank	\$ 652,415
Federal Home Loan Bank	\$ 568,923
Fannie Mae	\$ 398,696
Freddie Mac	\$ 391,295
U.S. Bank	\$ 325,000
Morgan Stanley	\$ 205,737

### **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, 2013, \$1,509,000 of the bank balance of STIF's deposits of \$1,780,000 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 1,089,110
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	419,890
Total	<u>\$ 1,509,000</u>

### **Short-Term Plus Investment Fund (STIF Plus)**

STIF Plus is a money market and short-term bond investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF Plus in U.S. government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers' acceptance, repurchase agreements, asset-backed securities, and investment fund comprised of authorized securities. STIF Plus's investments are reported at fair value on the fund's statement of net position.

For financial reporting purposes, STIF Plus is considered to be an internal investment pool and is not reported in the accompanying financial statements. Instead, investments in STIF Plus by participant funds are reported as other investments in the government-wide and fund financial statements.

As of June 30, 2013, STIF Plus had the following investments and maturities (amount in thousands):

Investment Type	Short-Term Plus Investment Fund	
	Fair Value	Investment Maturities (in years) Less Than 1
Asset Backed Securities	\$ 2,841	\$ 2,841
Money Market Government Fund	1	1
Total Investments	<u>\$ 2,842</u>	<u>\$ 2,842</u>

### **Interest Rate Risk**

STIF Plus's policy for managing this risk is to perform, on a quarterly basis, an interest rate sensitivity analysis on the duration and the market value of the portfolio to determine the potential effect of a 200 basis point movement in interest rates. As of June 30, 2013, the weighted average maturity of STIF Plus was 43 days. In addition, STIF Plus is allowed to invest in floating-rate debt securities. For purposes of the fund's weighted average maturity calculation, variable-rate securities are calculated using their rate reset date. Because these securities reprise frequently to prevailing market rates, interest rate risk is substantially reduced. As of June 30, 2013, STIF Plus's investment in variable-rate securities was \$2.8 million.

### **Credit Risk**

The STIF Plus manages its credit risk by investing only in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations. As of June 30, 2013, STIF Plus's investments were rated by Standard and Poor's as follows (amounts in thousands):

Investment Type	Short-Term Plus Investment Fund				
	Fair Value	Quality Rating			
		AAA	A	CCC	D
Asset Backed Securities	\$ 2,841	\$ 1,132	\$ 867	\$ 723	\$ 119
Money Market Government Fund	1	-	1	-	-
Total	<u>\$ 2,842</u>	<u>\$ 1,132</u>	<u>\$ 868</u>	<u>\$ 723</u>	<u>\$ 119</u>

### **Concentration of Credit Risk**

STIF Plus's policy for managing this risk is to limit the amount it may invest in any single corporate entity or federal agency to 5 percent and 15 percent, respectively, at the time of purchase. As of June 30, 2013, STIF Plus' investments in any one issuer that represents more than 5 percent of total investments were as follows (amounts in thousands):

Investment Issuer	Fair Value
Argent Securities, Inc.	\$ 1,132
Granite Master Issuer Plc.	\$ 867
Indymac INBD Mortgage Loan Trust	\$ 407
Citigroup Mortgage Loan Trust	\$ 316

### **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 internal investment pools and are not reported in the accompanying financial statements. Instead, investments in the CIFS by participant funds are reported as equity in the CIFS in the government-wide and fund financial statements.



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As of June 30, 2013, the amount of equity in the CIFS reported in the financial statements was as follows (amounts in thousands):

	Primary Government		
	Governmental	Business-Type	Fiduciary
	Activities	Activities	Funds
Equity in the CIFS	\$ 102,712	\$ 649	\$ 25,837,449
Other Investments	7,414	56,065	866,233
Total Investments-Current	\$ 110,126	\$ 56,714	\$ 26,703,682

As of June 30, 2013, the CIFS had the following investments and maturities (amounts in thousands):

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Cash Equivalents	\$ 1,497,963	\$ 1,152,548	\$ 24,359	\$ 45,982	\$ 275,074
Asset Backed Securities	142,566	6,689	111,630	20,580	3,667
Government Securities	2,686,838	182,297	1,165,019	715,711	623,811
Government Agency Securities	577,237	2,829	45,462	17,370	511,576
Mortgage Backed Securities	205,486	-	33,848	10,270	161,368
Corporate Debt	1,942,072	87,411	594,454	1,006,861	253,346
Convertible Debt	41,827	957	12,449	5,812	22,609
Mutual Fund	519,845	-	-	-	519,845
Total Debt Investments	7,613,834	\$ 1,432,731	\$ 1,987,221	\$ 1,822,586	\$ 2,371,296
Common Stock	12,871,698				
Preferred Stock	92,692				
Real Estate Investment Trust	287,650				
Mutual Fund	405,729				
Limited Liability Corporation	1,033				
Trusts	946				
Limited Partnerships	4,638,923				
Total Investments	\$ 25,912,505				

### Interest Rate Risk

CIFS' investment managers are given full discretion to manage their portion of CIFS' assets within their respective guidelines and constraints. The guidelines and constraints require each manager to maintain a diversified portfolio at all times. In addition, each core manager is required to maintain a target duration that is similar to its respective benchmark which is typically the Barclays Aggregate-an intermediate duration index.

### Credit Risk

The CIFS minimizes exposure to this risk in accordance with a comprehensive investment policy statement, as developed by the Office of the Treasurer and the State's Investment Advisory Council, which provides policy guidelines for the CIFS and includes an asset allocation plan. The asset allocation plan's main objective is to maximize investment returns over the long term at an acceptable level of risk. As of June 30, 2013, 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	Mutual Fund
Aaa	\$ 1,131,891	\$ -	\$ 75,882	\$ 233,974	\$ 552,435	\$ 114,878	\$ 154,722	\$ -	\$ -
Aa	204,506	-	5,749	81,755	-	14,187	102,815	-	-
A	339,688	-	6,464	143,820	-	9,750	179,654	-	-
Baa	834,480	-	424	460,031	-	870	371,330	1,825	-
Ba	305,406	-	-	45,974	-	-	252,640	6,792	-
B	611,467	-	-	64,025	-	-	542,331	5,111	-
Caa	188,526	-	-	2,004	-	-	186,522	-	-
Ca	7,350	-	-	-	-	-	7,350	-	-
MIG	8,771	-	-	8,771	-	-	-	-	-
Prime 1	209,502	205,000	4,502	-	-	-	-	-	-
Government fixed not rated	1,671,286	-	-	1,646,485	24,801	-	-	-	-
Not Rated	2,100,961	1,292,963	49,546	-	-	65,800	144,709	28,098	519,845
	\$ 7,613,834	\$ 1,497,963	\$ 142,567	\$ 2,686,839	\$ 577,236	\$ 205,485	\$ 1,942,073	\$ 41,826	\$ 519,845

## Connecticut

### 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, 2013, CIFS' foreign deposits and investments were as follows (amounts in thousands):

Foreign Currency	Combined Investment Funds										
	Fixed Income Securities							Equities			
	Total	Cash	Cash Equivalent Collateral	Government Securities	Mutual Funds	Corporate Debt	Convertible Securities	Asset Backed	Common Stock	Preferred Stock	Real Estate Investment Trust
Argentine Peso	\$ 286	\$ 286	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Australian Dollar	381,317	2,963	-	20,495	-	61,674	-	-	275,040	-	21,145
Brazilian Real	241,752	520	-	73,731	-	7,067	-	-	124,351	36,083	-
Canadian Dollar	64,463	420	-	-	-	-	-	-	64,043	-	-
Chilean Peso	1,992	1,478	-	514	-	-	-	-	-	-	-
China Yuan Renminbi	835	47	-	788	-	-	-	-	-	-	-
Colombian Peso	17,595	-	-	10,500	-	7,095	-	-	-	-	-
Czech Koruna	10,364	-	-	-	-	-	-	-	10,364	-	-
Danish Krone	58,297	131	-	-	-	2,435	-	-	55,731	-	-
Egyptian Pound	6,200	107	-	-	-	-	-	-	6,093	-	-
Euro Currency	1,671,003	5,115	4	99,502	-	39,754	528	1,121	1,480,090	35,471	9,418
Ghana Cedi	338	-	-	-	-	338	-	-	-	-	-
Hong Kong Dollar	566,451	873	-	-	-	-	-	-	562,963	-	2,615
Hungarian Forint	29,994	3	-	15,515	-	-	-	-	14,476	-	-
Iceland Krona	2	2	-	-	-	-	-	-	-	-	-
Indian Rupee	(856)	-	-	-	-	1,807	-	(2,663)	-	-	-
Indonesian Rupiah	116,864	-	-	25,155	-	6,443	-	-	85,266	-	-
Israeli Shekel	11,578	392	-	-	-	-	-	-	11,186	-	-
Japanese Yen	1,170,201	4,349	-	29,020	-	-	-	-	1,127,916	-	8,916
Kenyan Shilling	64	-	-	-	-	-	-	-	64	-	-
Malaysian Ringgit	105,543	237	-	42,435	-	-	-	-	62,871	-	-
Mexican Peso	119,941	112	-	65,637	-	1,641	-	-	47,275	-	5,276
Moroccan Dirham	125	-	-	-	-	-	-	-	125	-	-
New Romanian Leu	2,817	23	-	2,794	-	-	-	-	-	-	-
New Russian Rubel	54,776	805	-	40,343	-	13,628	-	-	-	-	-
New Taiwan Dollar	(15)	6	-	-	-	-	-	(21)	-	-	-
New Zealand Dollar	66,384	361	-	51,330	-	3,293	-	-	11,400	-	-
Nigerian Naira	7,509	256	-	1,683	-	5,458	-	-	112	-	-
Norwegian Krone	52,225	477	-	-	-	-	-	-	51,748	-	-
Peruvian Nuevo Sol	3,727	-	-	3,727	-	-	-	-	-	-	-
Philippine Peso	53,025	77	-	-	-	-	-	-	52,948	-	-
Polish Zloty	101,370	805	-	65,640	-	-	-	-	34,925	-	-
Pound Sterling	1,093,838	4,299	-	280	444	2,583	-	-	1,078,887	-	7,345
Singapore Dollar	102,898	643	-	-	-	-	-	-	97,051	-	5,204
South African Rand	110,181	1,046	-	38,483	-	649	-	(103)	70,106	-	-
South Korean Won	278,939	274	-	-	-	-	-	(49)	275,024	3,690	-
Sri Lanka Rupee	2,910	-	-	-	-	2,910	-	-	-	-	-
Swedish Krona	158,194	39	-	-	-	-	-	-	158,155	-	-
Swiss Franc	386,277	846	-	-	-	-	-	-	385,431	-	-
Thailand Baht	156,361	259	-	25,976	86	-	-	-	130,040	-	-
Turkish Lira	121,534	2	-	40,846	-	141	-	-	80,545	-	-
Ukraine Hryvna	1,063	-	-	-	-	1,063	-	-	-	-	-
Uruguayan Peso	7,742	-	-	7,742	-	-	-	-	-	-	-
Vietnam Dong	2,635	-	-	-	-	2,635	-	-	-	-	-
	<u>\$ 7,338,739</u>	<u>\$ 27,253</u>	<u>\$ 4</u>	<u>\$ 662,136</u>	<u>\$ 530</u>	<u>\$ 160,614</u>	<u>\$ 528</u>	<u>\$ (1,715)</u>	<u>\$ 6,354,226</u>	<u>\$ 75,244</u>	<u>\$ 59,919</u>

### Derivatives

As of June 30, 2013, the CIFS held the following derivative Investments (amounts in thousands):

Derivative Investments	Fair Value
Asset Backed Securities	\$ 142,566
Mortgage Backed Securities	65,664
Collateralized Mortgage Obligations	139,780
TBA's	115,909
Interest Only Securities	1,050
Options	14
Adjustable Rate Securities	<u>658,512</u>
Total	<u>\$ 1,123,495</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, 2013, the fair value of contracts to buy and contracts to sell was \$6,144.6 million and \$6,125.9 million, respectively.

**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, 2013, the CIFS had deposits with a bank balance of \$42.3 million which was uninsured and uncollateralized.

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

**Other Investments**

As of June 30, 2013, the State had other investments and maturities as follows (amounts in thousands):

Investment Type	Other Investments				
	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
State Bonds	\$ 27,986	\$ -	\$ 1,596	\$ 26,390	\$ -
U.S. Government and Agency Securities	315,495	83,144	32,837	197,431	2,083
Guaranteed Investment Contracts	225,526	-	52,823	90,837	81,866
Money Market Funds	8,270	8,270	-	-	-
Total Debt Investments	577,277	\$ 91,414	\$ 87,256	\$ 314,658	\$ 83,949
Endowment Pool	10,464				
Limited Partnership	150				
Total Investments	\$ 587,891				

**Credit Risk**

As of June 30, 2013, other debt investments were rated by Standard and Poor's as follows (amounts in thousands):

Investment Type	Other Investments			
	Fair Value	Quality Ratings		
		AA	A	Unrated
State Bonds	\$ 27,986	\$ 27,986	\$ -	\$ -
U.S. Government and Agency Securities	246,190	246,190	-	-
Guaranteed Investment Contracts	225,526	38,315	187,211	-
Money Market Funds	8,270	-	-	8,270
Total	\$ 507,972	\$ 312,491	\$ 187,211	\$ 8,270

**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, 2013, \$555,039

of the bank balance of the Primary Government of \$559,449 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 31,555
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	523,484
Total	<u>\$ 555,039</u>

**Component Units**

The Connecticut Housing Finance Authority (CHFA) and the Connecticut Lottery Corporation (CLC) reported the following investments and maturities as of 12-31-12 and 6-30-13, respectively (amounts in thousands):

Investment Type	Major Component Units				
	Fair Value	Investment Maturities (in years)			
		Less Than 1	1-5	6-10	More Than 10
Collateralized Mortgage Obligations	\$ 1,011	\$ -	\$ -	\$ -	\$ 1,011
Fidelity Funds	7,589	7,589	-	-	-
GNMA Program Assets	668,013	-	-	-	668,013
Mortgage Backed Securities	1,342	14	46	126	1,156
Municipal Bonds	14,739	-	-	-	14,739
U.S. Government Agency Securities	958	-	-	-	958
Structured Securities	566	-	-	-	566
Fidelity Tax Exempt Fund	5,484	5,484	-	-	-
Total Debt Investments	699,702	\$ 13,087	\$ 46	\$ 126	\$ 686,443
Annuity Contracts	147,032				
Total Investments	<u>\$ 846,734</u>				

The CHFA and the CLC own 82.6 percent and 17.4 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.

## Connecticut

### **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 12-31-12 as follows (amounts in thousands):

Investment Type	Component Units		Quality Ratings	
	Fair Value	CCC	D	Unrated
Collateralized Mortgage Obligations	\$ 1,011	\$ 1,011	\$ -	\$ -
Fidelity Tax Exempt Fund	5,484	-	-	5,484
Municipal Bonds	14,739	-	-	14,739
Structured Securities	566	-	566	-
Total	<u>\$ 21,800</u>	<u>\$ 1,011</u>	<u>\$ 566</u>	<u>\$ 20,223</u>

### **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, 2012, the Authority had no investments in any one issuer that represents 5 percent or more of total investments, other than investments guaranteed by the U.S. Government (GNMA Program Assets), 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' master custodian is authorized to lend available securities to authorized broker-dealers and banks subject to a formal loan agreement.

During the year, the master custodian lent certain securities and received cash or other collateral as indicated on the Securities Lending Authorization Agreement. The master custodian did not have the ability to pledge or sell collateral securities received absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities.

According to the Agreement, the master custodian has an obligation to indemnify the funds in the event any borrower

failed to return the loaned securities or pay distributions thereon. There were no such failures during the fiscal year that resulted in a declaration and notice of Default of the Borrower. During the fiscal year, the funds and the borrowers maintained the right to terminate all securities lending transactions upon notice. The cash collateral received on each loan was invested in an individual account known as the State of Connecticut Collateral Investment Trust. At year end, the funds had no credit exposure to borrowers because the value of the collateral held and the market value of securities on loan were \$2,716.3 million and \$2,634.3 million, respectively.

Under normal circumstances, the average duration of collateral investments is managed so that it will not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. If any of these limits is exceeded for any 3-day period, the Trustee shall take certain actions. At year end, the average duration of the collateral investments was 15.07 days; the average duration of the loans was unknown, although it is assumed to remain at 1 day.

### **Note 5 Receivables-Current**

As of June 30, 2013, current receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	\$ 1,513,207	\$ -	\$ -
Accounts	1,100,315	616,383	64,815
Loans-Current Portion	-	184,842	28,693
Other Governments	570,069	13,741	-
Interest	1,181	5,738	4,546
Other (1)	3,846	-	-
Total Receivables	3,188,618	820,704	98,054
Allowance for Uncollectibles	(909,949)	(93,681)	(3,039)
Receivables, Net	<u>\$ 2,278,669</u>	<u>\$ 727,023</u>	<u>\$ 95,015</u>

(1) Includes a reconciling amount of \$3,807 million from fund financial statements to government-wide financial statements.

### **Note 6 Taxes Receivable**

Taxes receivable consisted of the following as of June 30, 2013 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	\$ 703,767	\$ -	\$ 703,767
Income Taxes	355,249	-	355,249
Corporations	33,930	-	33,930
Gasoline and Special Fuel	-	42,855	42,855
Various Other	377,407	-	377,407
Total Taxes Receivable	1,470,353	42,855	1,513,208
Allowance for Uncollectibles	(139,876)	(243)	(140,119)
Taxes Receivable, Net	<u>\$ 1,330,477</u>	<u>\$ 42,612</u>	<u>\$ 1,373,089</u>

**Connecticut**

**Note 7 Receivables-Noncurrent**

Noncurrent receivables for the primary government and its component units, as of June 30, 2013, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Accounts	\$ -	\$ -	\$ 31,615
Loans	452,346	849,756	157,888
Total Receivables	452,346	849,756	189,503
Allowance for Uncollectibles	(12,410)	(3,079)	(9,839)
Receivables, Net	\$ 439,936	\$ 846,677	\$ 179,664

The Clean Water fund (business-type activities) loans funds to qualified municipalities for planning, design, and construction of water quality projects. These loans are payable over a 20 year period at an annual interest rate of 2 percent and are secured by the full faith and credit or revenue pledges of the municipalities, or both. At year end, the noncurrent portion of loans receivable was \$768.7 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 \$102.7 million.

**Note 8 Restricted Assets**

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2013, restricted assets were comprised of the following (amounts in thousands):

	Cash & Cash		Loans, Net		Restricted Assets
	Equivalents	Investments	of Allowances	Other	
<b>Governmental Activities:</b>					
Debt Service	\$ 660,113	\$ -	\$ -	\$ -	\$ 660,113
Total - Governmental Activities	\$ 660,113	\$ -	\$ -	\$ -	\$ 660,113
<b>Business-Type Activities:</b>					
Bradley International Airport	\$ 131,201	\$ 7,421	\$ -	\$ 2,387	\$ 141,009
UConn/Health Center	41,430	-	-	-	41,430
Clean Water	139,770	248,986	-	-	388,756
Other Proprietary	52,277	22,378	-	-	74,655
Total - Business-Type Activities	\$ 364,678	\$ 278,785	\$ -	\$ 2,387	\$ 645,850
<b>Component Units:</b>					
CHFA	\$ 521	\$ 1,778,099	\$ 3,491,877	\$ 127,503	\$ 5,398,000
Other Component Units	98,568	542,282	-	8,460	649,310
Total - Component Units	\$ 99,089	\$ 2,320,381	\$ 3,491,877	\$ 135,963	\$ 6,047,310

**Note 9 Current Liabilities**

**a. Accounts Payable and Accrued Liabilities**

As of June 30, 2013, accounts payable and accrued liabilities consisted of the following (amounts in thousands):

	Vendors	Salaries and			Total Payables & Accrued Liabilities
		Benefits	Interest	Other	
<b>Governmental Activities:</b>					
General	\$ 136,989	\$ 147,417	\$ -	\$ -	\$ 284,406
Transportation	15,270	7,652	-	-	22,922
Restricted Accounts	178,328	8,124	-	-	186,452
Grants and Loans	3,959	89	-	6,059	10,107
Other Governmental	55,650	5,436	-	-	61,086
Internal Service	936	721	-	59	1,716
Reconciling amount from fund financial statements to government-wide financial statements	-	-	163,505	4,273	167,778
Total - Governmental Activities	\$ 391,132	\$ 169,439	\$ 163,505	\$ 10,391	\$ 734,467
<b>Business-Type Activities:</b>					
UConn/Health Center	\$ 67,738	\$ 59,067	\$ -	\$ 27,373	\$ 154,178
State Universities	11,182	33,307	1,967	-	46,456
Other Proprietary	16,167	22,299	13,587	19,981	72,034
Total - Business-Type Activities	\$ 95,087	\$ 114,673	\$ 15,554	\$ 47,354	\$ 272,668
<b>Component Units:</b>					
CHFA	\$ -	\$ -	\$ 18,542	\$ 7,629	\$ 26,171
Connecticut Lottery Corporation	1,330	2,655	2,809	10,242	17,036
Other Component Units	4,344	-	1,068	32,506	37,918
Total - Component Units	\$ 5,674	\$ 2,655	\$ 22,419	\$ 50,377	\$ 81,125

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### Note 10 Capital Assets

Capital asset activity for the year was as follows (amounts in thousands):

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
<b>Governmental Activities</b>				
Capital Assets not being Depreciated:				
Land	\$ 1,639,097	\$ 48,570	\$ 21,258	\$ 1,666,409
Construction in Progress	<u>2,585,281</u>	<u>1,407,630</u>	<u>993,407</u>	<u>2,999,504</u>
Total Capital Assets not being Depreciated	4,224,378	1,456,200	1,014,665	4,665,913
Other Capital Assets:				
Buildings	3,303,574	530,828	218,375	3,616,027
Improvements Other than Buildings	480,180	13,063	2,735	490,508
Equipment	2,109,441	362,386	159,769	2,312,058
Infrastructure	<u>13,023,800</u>	<u>629,234</u>	<u>-</u>	<u>13,653,034</u>
Total Other Capital Assets at Historical Cost	18,916,995	1,535,511	380,879	20,071,627
Less: Accumulated Depreciation For:				
Buildings	1,854,939	90,398	218,375	1,726,962
Improvements Other than Buildings	313,330	24,324	2,735	334,919
Equipment	2,043,520	351,615	159,769	2,235,366
Infrastructure	<u>7,963,700</u>	<u>489,783</u>	<u>-</u>	<u>8,453,483</u>
Total Accumulated Depreciation	12,175,489	956,120	380,879	12,750,730
Other Capital Assets, Net	<u>6,741,506</u>	<u>579,391</u>	<u>-</u>	<u>7,320,897</u>
Governmental Activities, Capital Assets, Net	<u>\$ 10,965,884</u>	<u>\$ 2,035,591</u>	<u>\$ 1,014,665</u>	<u>\$ 11,986,810</u>

\* Depreciation expense was charged to functions as follows:

<b>Governmental Activities:</b>	
Legislative	\$ 6,158
General Government	45,162
Regulation and Protection	39,790
Conservation and Development	16,246
Health and Hospitals	15,832
Transportation	709,802
Human Services	2,628
Education, Libraries and Museums	47,360
Corrections	44,091
Judicial	22,763
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	
	<u>6,288</u>
<b>Total Depreciation Expense</b>	<u>\$ 956,120</u>

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements</b>	<b>Ending Balance</b>
<b>Business-Type Activities</b>				
Capital Assets not being Depreciated:				
Land	\$ 64,709	\$ 5,109	\$ 150	\$ 69,668
Construction in Progress	<u>423,430</u>	<u>205,576</u>	<u>204,838</u>	<u>424,168</u>
Total Capital Assets not being Depreciated	488,139	210,685	204,988	493,836
Capital Assets being Depreciated:				
Buildings	4,163,937	358,169	8,683	4,513,423
Improvements Other Than Buildings	551,434	21,185	1,793	570,826
Equipment	<u>980,593</u>	<u>58,968</u>	<u>34,363</u>	<u>1,005,198</u>
Total Other Capital Assets at Historical Cost	5,695,964	438,322	44,839	6,089,447
Less: Accumulated Depreciation For:				
Buildings	1,651,805	133,820	6,454	1,779,171
Improvements Other Than Buildings	306,938	20,799	495	327,242
Equipment	<u>630,665</u>	<u>69,211</u>	<u>31,987</u>	<u>667,889</u>
Total Accumulated Depreciation	2,589,408	223,830	38,936	2,774,302
Other Capital Assets, Net	<u>3,106,556</u>	<u>214,492</u>	<u>5,903</u>	<u>3,315,145</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 3,594,695</u>	<u>\$ 425,177</u>	<u>\$ 210,891</u>	<u>\$ 3,808,981</u>

### Component Units

Capital assets of the component units consisted of the following as of June 30, 2013 (amounts in thousands):

Land	\$ 29,032
Buildings	346,521
Improvements other than Buildings	3,477
Machinery and Equipment	446,052
Construction in Progress	<u>2,254</u>
Total Capital Assets	827,336
Accumulated Depreciation	<u>427,398</u>
Capital Assets, Net	<u>\$ 399,938</u>

**Note 11 State Retirement Systems**

The State sponsors three major public employee retirement systems: the State Employees' Retirement System (SERS)-consisting of Tier I (contributory), Tier II (noncontributory) Tier IIA (contributory) and Tier III (contributory), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS).

The State Comptroller's Retirement Division under the direction of the Connecticut State Employees Retirement Division administers SERS and JRS. The Teachers' Retirement Board administers TRS. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for SERS, TRS, and JRS are presented in Note No. 13.

**Plan Descriptions and Funding Policy**

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

	SERS 6/30/2012	TRS 6/30/2012	JRS 6/30/2012
Retirees and beneficiaries receiving benefits	43,887	32,294	239
Terminated plan members entitled to but not yet receiving benefits	1,561	1,609	2
Active plan members	47,868	49,808	204
Total	<u>93,316</u>	<u>83,711</u>	<u>445</u>

**State Employees' Retirement System**

**Plan Description**

SERS is a single-employer defined-benefit pension plan covering substantially all of the State full-time employees who are not eligible for another State sponsored retirement plan. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and the State, and other plan provisions are described in Sections 5-152 to 5-192 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

**Funding Policy**

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Tier I Plan B regular and Hazardous Duty members are required to contribute 2 percent and 4 percent of their annual salary, respectively, up to the Social Security Taxable Wage Base plus 5 percent above that level; Tier I Plan C members are required to contribute 5 percent of their annual salary; Tier II Plan Hazardous Duty members are required to contribute 4 percent of their annual salary; Tier IIA and Tier III Plans regular and Hazardous Duty members are required to contribute 2 percent and 5 percent of their annual salary, respectively. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

**Teachers' Retirement System**

**Plan Description**

TRS is a single-employer defined-benefit pension plan covering any teacher, principal, superintendent, or supervisor engaged in service of public schools in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183pp of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

**Funding Policy**

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

**Judicial Retirement System**

**Plan Description**

JRS is a single-employer defined-benefit pension plan covering any appointed judge or compensation commissioner in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 51-49 to 51-51 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

**Funding Policy**

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

**Annual Pension Cost and Net Pension Obligation**

The State's annual pension cost and net pension obligation for each plan for the current year were as follows (amounts in thousands)

	SERS	TRS	JRS
Annual required contribution	\$ 1,059,652	\$ 787,536	\$ 16,006
Interest on net pension obligation	244,717	(42,725)	2,689
Adjustment to annual required contribution	(219,938)	54,236	(3,454)
Annual pension cost	1,084,431	799,047	15,241
Contributions made	1,058,113	787,536	16,006
Increase (decrease) in net pension obligation	26,318	11,511	(765)
Net pension obligation (asset) beginning of year	2,966,249	(502,643)	32,584
Net pension obligation (asset) end of year	<u>\$ 2,992,567</u>	<u>\$ (491,132)</u>	<u>\$ 31,819</u>

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Three-year trend information for each plan is as follows (amounts in thousands):

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation/(asset)
SERS	2011	\$ 999,261	82.6%	\$ 2,913,694
	2012	\$ 978,898	94.6%	\$ 2,966,249
	2013	\$ 1,084,431	97.6%	\$ 2,992,567
TRS	2011	\$ 576,460	100.7%	\$ (498,593)
	2012	\$ 753,196	100.5%	\$ (502,643)
	2013	\$ 799,047	98.6%	\$ (491,132)
JRS	2011	\$ 16,534	0%	\$ 31,983
	2012	\$ 15,696	96.2%	\$ 32,584
	2013	\$ 15,241	105.0%	\$ 31,819

### Funded Status and Funding Progress

The following is funded status information for each plan as of June 30, 2012 the most recent actuarial valuation date (amounts in millions):

	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SERF	\$ 9,745	\$ 23,019	\$ 13,274	42.3%	\$ 3,355	395.7%
TRF	\$ 13,735	\$ 24,862	\$ 11,127	55.2%	\$ 3,653	304.7%
JRF	\$ 175	\$ 320	\$ 145	54.7%	\$ 30	477.9%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### Actuarial Methods and Assumptions

The following is information as of the most recent actuarial valuation:

	<u>SERF</u>	<u>TRF</u>	<u>JRS</u>
Valuation Date	6/30/2012	6/30/2012	6/30/12
Actuarial Cost Method	Projected unit credit	Entry Age	Projected unit credit
Amortization Method	Level percent of payroll, closed	Level percent closed	Level percent of payroll, closed
Remaining Amortization Period	19 Years	22.4 years	19 Years
Asset Valuation Method	5-year smoothed actuarial value	4-year smoothed market	5-year smoothed actuarial value
Actuarial Assumptions:			
Investment Rate of Return	8.00%	8.5%	8.00%
Projected Salary Increases	4.00%-20.00%	3.75%-7.0%	4.75%
Includes inflation at	3.75%	3.0%	0.00%
Cost-of-Living Adjustments	2.3%-3.6%	2.0%-3.0%	2.30-4.75%

### 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 \$35.4 million and \$16.9 million, respectively.

### Note 12 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets of the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). The State makes no contribution to and has only a fiduciary responsibility for these funds. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for CMERS and CPJERS are presented in Note No. 13.

### Plan Descriptions and Contribution Information

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

	<u>CMERS</u> <u>7/1/2012</u>	<u>CPJERS</u> <u>12/31/2011</u>
Retirees and beneficiaries receiving benefits	6,095	342
Terminated plan members entitled to but not receiving benefits	703	32
Active plan members	8,711	330
Total	<u>15,509</u>	<u>704</u>
Number of participating employers	191	1

### Connecticut Municipal Employees' Retirement System Plan Description

CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

### Contributions

Plan members are required to contribute 2.25 percent to 5.0 percent of their annual salary. Participating municipalities are required to contribute at an actuarial determined rate. The participating municipalities fund administrative costs of the plan.

### Connecticut Probate Judges and Employees' Retirement System

#### Plan Description

CPJERS is a single-employer defined benefit pension plan that covers judges and employees of probate courts in the State. Plan benefits, cost-of-living adjustments, required contributions of plan members and the probate court system, and other plan provisions are described in Chapters 45a-34 to 45a-56 of General statutes. The plan provides



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retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

**Contributions**

Plan members are required to contribute 1.0 percent to 3.75 percent of their annual salary. The probate court system is required to contribute at an actuarial determined rate. Administrative costs of the plan are funded by the probate court system.

**Note 13 Pension Trust Funds Financial Statements**

The financial statements of the pension trust funds are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. State contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment income and related expenses of the Combined Investment Funds are allocated ratably to the pension trust funds based on each fund's equity in the Combined Investment Funds.

**Statement of Fiduciary Net Position (000's)**

	State Employees'	State Teachers'	Judicial	Connecticut Municipal Employees'	Probate Judges'	Other	Total
<b>Assets</b>							
Cash and Cash Equivalents	\$ -	\$ -	\$ 18	\$ 22,996	\$ -	\$ 279	\$ 23,293
Receivables:							
Accounts, Net of Allowances	5,840	11,588	8	8,858	4	-	26,298
From Other Governments	-	347	-	-	-	-	347
From Other Funds	10	2	-	1	-	-	13
Interest	196	255	2	13	1	-	467
Investments	9,179,573	14,453,544	168,327	1,828,132	81,893	1,272	25,712,741
Securities Lending Collateral	887,939	1,390,000	17,116	186,402	8,692	167	2,490,316
Total Assets	<u>10,073,558</u>	<u>15,855,736</u>	<u>185,471</u>	<u>2,046,402</u>	<u>90,590</u>	<u>1,718</u>	<u>28,253,475</u>
<b>Liabilities</b>							
Accounts Payable and Accrued Liabilities	30	-	-	-	-	-	30
Securities Lending Obligation	887,939	1,390,000	17,116	186,402	8,692	167	2,490,316
Due to Other Funds	2,970	2,833	-	-	-	-	5,803
Total Liabilities	<u>890,939</u>	<u>1,392,833</u>	<u>17,116</u>	<u>186,402</u>	<u>8,692</u>	<u>167</u>	<u>2,496,149</u>
<b>Net Position</b>							
Held in Trust For Employee Pension Benefits	9,182,619	14,462,903	168,355	1,860,000	81,898	1,551	25,757,326
Total Net Position	<u>\$ 9,182,619</u>	<u>\$ 14,462,903</u>	<u>\$ 168,355</u>	<u>\$ 1,860,000</u>	<u>\$ 81,898</u>	<u>\$ 1,551</u>	<u>\$ 25,757,326</u>

**Statement of Changes in Fiduciary Net Position (000's)**

	State Employees'	State Teachers'	Judicial	Connecticut Municipal Employees'	Probate Judges'	Other	Total
<b>Additions</b>							
Contributions:							
Plan Members	\$ 164,000	\$ 274,880	\$ 1,520	\$ 13,163	\$ 200	\$ 38	\$ 453,801
State Municipalities	1,058,113	787,536	16,006	-	-	-	1,861,655
Total Contributions	<u>1,222,113</u>	<u>1,062,430</u>	<u>17,526</u>	<u>129,492</u>	<u>200</u>	<u>38</u>	<u>2,431,799</u>
Investment Income	1,012,054	1,607,248	15,316	163,267	7,510	55	2,805,450
Less: Investment Expenses	(31,259)	(49,642)	(473)	(5,043)	(232)	(1)	(86,650)
Net Investment Income	<u>980,795</u>	<u>1,557,606</u>	<u>14,843</u>	<u>158,224</u>	<u>7,278</u>	<u>54</u>	<u>2,718,800</u>
Other	-	1,118	-	715	842	-	2,675
Total Additions	<u>2,202,908</u>	<u>2,621,154</u>	<u>32,369</u>	<u>288,431</u>	<u>8,320</u>	<u>92</u>	<u>5,153,274</u>
<b>Deductions</b>							
Administrative Expense	717	-	31	-	-	-	748
Benefit Payments and Refunds	1,487,694	1,640,387	20,902	115,008	4,501	1	3,268,493
Other	519	-	-	-	-	-	519
Total Deductions	<u>1,488,930</u>	<u>1,640,387</u>	<u>20,933</u>	<u>115,008</u>	<u>4,501</u>	<u>1</u>	<u>3,269,760</u>
Changes in Net Position	713,978	980,767	11,436	173,423	3,819	91	1,883,514
<b>Net Position Held in Trust For Employee Pension Benefits:</b>							
Beginning of Year	8,468,641	13,482,136	156,919	1,686,577	78,079	1,460	23,873,812
End of Year	<u>\$ 9,182,619</u>	<u>\$ 14,462,903</u>	<u>\$ 168,355</u>	<u>\$ 1,860,000</u>	<u>\$ 81,898</u>	<u>\$ 1,551</u>	<u>\$ 25,757,326</u>

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**Note 14 Other Postemployment Benefits (OPEB)**

The State sponsors two defined benefit OPEB plans: the State Employee OPEB Plan (SEOPEBP) and the Retired Teacher Healthcare Plan (RTHP). SEOPEBP is administered by the State Comptroller (Healthcare Policy and Benefit Division), and RTHP is administered by the Teachers' Retirement Board. None of these plans issues stand-alone financial statements. However, financial statements for these plans are presented in Note No. 15.

**State Employee OPEB Plan**

**Plan Description**

SEOPEBP is a single-employer defined benefit OPEB plan that covers retired employees of the State who are receiving benefits from any State-sponsored retirement system, except the Teachers' Retirement System and the Municipal Employees' Retirement System. The plan provides healthcare and life insurance benefits to eligible retirees and their spouses. Plan benefits, required contributions of plan 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, 2013 (date of the latest actuarial valuation), the plan had 67,593 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, 2012 (date of the latest actuarial valuation), the plan had 35,215 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	\$ 1,271,279	\$ 180,460
Interest on Net OPEB Obligation	295,680	25,576
Adjustment to Annual Required Contribution	<u>(250,347)</u>	<u>(26,416)</u>
Annual OPEB Cost	1,316,612	179,620
Contributions Made	<u>542,615</u>	<u>27,040</u>
Increase in net OPEB Obligation	773,997	152,580
Net OPEB Obligation - Beginning of Year	<u>5,187,369</u>	<u>568,362</u>
Net OPEB Obligation - End of Year	<u>\$ 5,961,366</u>	<u>\$ 720,942</u>

In addition, other related information for each plan for the past three fiscal years was as follows (amounts in thousands):

	<u>Fiscal</u>	<u>Annual</u>	<u>Percentage of</u>	<u>Net</u>
	<u>Year</u>	<u>OPEB</u>	<u>Annual OPEB</u>	<u>OPEB</u>
		<u>Cost</u>	<u>Cost Contributed</u>	<u>Obligation</u>
SEOPEBP				
2013	\$	1,316,612	41.2%	\$ 5,961,366
2012	\$	1,220,577	44.3%	\$ 5,187,369
2011	\$	1,165,510	46.7%	\$ 4,508,054
RTHP				
2013	\$	179,620	15.1%	\$ 720,942
2012	\$	165,955	29.8%	\$ 568,362
2011	\$	167,368	3.2%	\$ 451,893

**Funded Status and Funding Progress**

The following is funded status information for the SEOPEBP and the RTHP as of June 30, 2013 and 2012, respectively, date of the latest actuarial valuations (amounts in million):

	Actuarial	Actuarial	Unfunded	Funded	Covered	UAAAL as a
	Value of	Accrued	AAL	Ratio	Payroll	Percentage of
	Assets	Liability (AAL)	(UAAAL)	Ratio	Payroll	Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
SEOPEBP	\$143.8	\$ 19,676.3	\$ 19,532.5	0.7%	\$ 3,539.7	551.8%
RTHP	\$0	\$ 3,048.3	\$ 3,048.3	0.0%	\$ 3,652.5	83.5%

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.

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### 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	6-30-13	6-30-12
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	24 Years	26 Years
Asset Valuation Method	Market Value of Assets	Market Value of Assets
Actuarial Assumptions:		
Investment Rate of Return	5.70%	4.5% (includes 3% inflation rate)
Projected Salary Increases	3.75%	3.75%-7.00% (includes 3% inflation rate)
Healthcare Inflation Rate	7.00% graded to 5.00% over 5 years	7% Initial, 5% Ultimate

### Other OPEB Plan

The State acts solely as the administrator and custodian of the assets of the Policemen and Firemen Survivors' Benefit Fund (PFSBF). The State makes no contribution to and has only a fiduciary responsibility for this fund. The fund does not issue stand-alone financial statements. However, financial statements for this fund are presented in Note No. 15.

### Plan Description

PFSBF is a cost-sharing multiple-employer defined benefit OPEB plan that covers policemen and firemen of participating municipalities in the State. As of June 30, 2012 there were 9 municipalities participating in the plan with a total membership of 598 active members. The plan provides survivor benefits upon the death of an active or retired member of the fund to his spouse and dependent children. Plan benefits, contribution requirements of plan members and participant municipalities, and other plan provisions are described in Sections 7-323a to 7-323i of the General Statutes.

### Contributions

Plan members are required to contribute one percent of their annual salary. Participating municipalities are required to contribute at an actuarially determined rate. Administrative costs of the plan are financed by participating municipalities.

### Note 15 OPEB Trust 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'	Retired Teachers'	Policemen and Firemen	Total
<b>Assets</b>				
Cash and Cash Equivalents	\$ 43,756	\$ 103,766	\$ -	\$ 147,522
Receivables:				
From Other Funds	6,658	2,018	-	8,676
Investments	100,732	-	23,976	124,708
Securities Lending Collateral	6,274	-	3,653	9,927
<b>Total Assets</b>	<b>157,420</b>	<b>105,784</b>	<b>27,629</b>	<b>290,833</b>
<b>Liabilities</b>				
Accounts Payable and Accrued Liabilit	7,338	8,080	-	15,418
Securities Lending Obligation	6,274	-	3,653	9,927
<b>Total Liabilities</b>	<b>13,612</b>	<b>8,080</b>	<b>3,653</b>	<b>25,345</b>
<b>Net Position</b>				
Held in Trust For Other				
Postemployment Benefits	143,808	97,704	23,976	265,488
<b>Total Net Position</b>	<b>\$ 143,808</b>	<b>\$ 97,704</b>	<b>\$ 23,976</b>	<b>\$ 265,488</b>

#### Statement of Changes in Fiduciary Net Position (000's)

	State Employees'	Retired Teachers'	Policemen, Firemen, and Survivors' Benefit	Total
<b>Additions</b>				
Contributions:				
Plan Members	\$ 27,504	\$ 85,450	\$ 471	\$ 113,425
State	542,615	27,040	-	569,655
Municipalities	-	-	54	54
<b>Total Contributions</b>	<b>570,119</b>	<b>112,490</b>	<b>525</b>	<b>683,134</b>
Investment Income (Loss)	(56)	125	2,006	2,075
Less: Investment Expenses	2	-	(62)	(60)
<b>Net Investment Income</b>	<b>(54)</b>	<b>125</b>	<b>1,944</b>	<b>2,015</b>
<b>Total Additions</b>	<b>570,065</b>	<b>112,615</b>	<b>2,469</b>	<b>685,149</b>
<b>Deductions</b>				
Administrative Expense	-	2,921	-	2,921
Benefit Payments and Refunds	485,969	100,311	1,046	587,326
Other	5	5	-	10
<b>Total Deductions</b>	<b>485,974</b>	<b>103,237</b>	<b>1,046</b>	<b>590,257</b>
Changes in Net Position	84,091	9,378	1,423	94,892
<b>Net Position Held in Trust For</b>				
<b>Other Postemployment Benefits:</b>				
Beginning of Year	59,717	88,326	22,553	170,596
End of Year	\$ 143,808	\$ 97,704	\$ 23,976	\$ 265,488

**Note 16 Capital and Operating Leases**

***State as Lessor***

The State leases building space, land, and equipment to private individuals. The minimum future lease revenues for the next five years and thereafter are as follows (amounts in thousands):

2014	\$ 26,993
2015	28,088
2016	28,371
2017	27,439
2018	20,723
Thereafter	<u>97,300</u>
Total	<u>\$ 228,914</u>

Contingent revenues for the year ended June 30, 2013, were \$112 thousand.

***State as Lessee***

Obligations under capital and operating leases as of June 30, 2013, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2014	\$ 58,431	\$ 11,031
2015	44,926	6,563
2016	79,625	4,975
2017	11,465	3,770
2018	3,230	3,375
2019-2023	8,517	9,500
2024-2028	-	6,118
2029-2033	-	3,650
Total minimum lease payments	<u>\$ 206,194</u>	48,982
Less: Amount representing interest costs		<u>10,764</u>
Present value of minimum lease payments		<u>\$ 38,218</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, 2013, were \$58.4 million.

***Lease/Lease Back Transaction***

On September 30, 2003 the State executed a U.S. Lease-to-Service Contract of Rolling Stock Agreement (Agreement) whereby the state entered into a head lease of certain rolling stock consisting of rail coaches and locomotives to statutory trusts established for the benefit of three equity investors. Simultaneously, the State executed sublease agreements to lease back the rolling stock in order to allow the State to have continued use of the property. The terms of the head leases are for periods ranging from 40 years to 67 years, expiring through March 2071, while the subleases have terms ranging from 18 years to 28 years, expiring through January 2032. At the end of the respective sublease terms, the State will have the option to purchase the statutory trusts' interest in the rolling stock for an aggregate fixed price.

Proceeds from the prepayment of the head lease rents were paid to debt payment undertakers and custodians in amounts sufficient, together with investment earning thereon, to provide for all future obligations of the State under the sublease agreements and the end of lease term purchase options. Although it is remote that the State will be required to make any additional payments under the sublease, the State is and shall remain liable for all of its obligations under the subleases. The aggregate remaining commitment under the subleases totaled approximately \$58 million at June 30, 2013.

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.

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**Note 17 Long-Term Debt**

The following is a summary of changes in long-term debt of the primary government for the year ended June 30, 2013, (amounts in thousands):

<b>Governmental Activities</b>	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2013</b>	<b>Amounts due within one year</b>
<b>Bonds:</b>					
General Obligation	\$ 13,964,576	\$ 1,369,790	\$ 1,106,138	\$ 14,228,228	\$ 1,032,033
Transportation	3,287,340	627,390	452,855	3,461,875	290,615
	17,251,916	1,997,180	1,558,993	17,690,103	1,322,648
Plus/(Less) premiums and deferred amounts	708,874	202,915	96,271	815,518	91,780
<b>Total Bonds</b>	<b>17,960,790</b>	<b>2,200,095</b>	<b>1,655,264</b>	<b>18,505,621</b>	<b>1,414,428</b>
<b>Long-Term Notes</b>	<b>747,935</b>	<b>-</b>	<b>174,570</b>	<b>573,365</b>	<b>182,705</b>
<b>Other L/T Liabilities: <sup>1</sup></b>					
Net Pension Obligation	2,496,190	2,067,874	2,030,810	2,533,254	-
Net OPEB Obligation	5,755,731	1,496,233	569,656	6,682,308	-
Compensated Absences	542,102	10,037	36,426	515,713	47,476
Workers' Compensation	559,546	129,268	101,162	587,652	100,303
Capital Leases	42,759	3,556	8,097	38,218	9,225
Claims and Judgments	44,942	13,943	15,363	43,522	15,439
Liability on Interest Rate Swaps	24,956	-	7,380	17,576	-
Contracts Payable & Other	705	-	-	705	-
<b>Total Other Liabilities</b>	<b>9,466,931</b>	<b>3,720,911</b>	<b>2,768,894</b>	<b>10,418,948</b>	<b>172,443</b>
<b>Governmental Activities Long-Term Liabilities</b>					
	<b>\$ 28,175,656</b>	<b>\$ 5,921,006</b>	<b>\$ 4,598,728</b>	<b>\$ 29,497,934</b>	<b>\$ 1,769,576</b>
<sup>1</sup> In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
<b>Business-Type Activities</b>					
Revenue Bonds	\$ 1,439,345	\$ 284,210	\$ 346,857	\$ 1,376,698	\$ 108,757
Plus/(Less) premiums, discounts and deferred amounts	46,362	40,911	(1,531)	88,804	988
<b>Total Revenue Bonds</b>	<b>1,485,707</b>	<b>325,121</b>	<b>345,326</b>	<b>1,465,502</b>	<b>109,745</b>
Compensated Absences	156,082	33,668	29,704	160,046	50,997
Federal Loans Payable	632,026	154,057	211,771	574,312	-
Other	329,086	53,595	162,054	220,627	7,537
<b>Total Other Liabilities</b>	<b>1,117,194</b>	<b>241,320</b>	<b>403,529</b>	<b>954,985</b>	<b>58,534</b>
<b>Business-Type Long-Term Liabilities</b>	<b>\$ 2,602,901</b>	<b>\$ 566,441</b>	<b>\$ 748,855</b>	<b>\$ 2,420,487</b>	<b>\$ 168,279</b>

The liability for claims and judgments (Governmental Activities) includes a pollution remediation liability of approximately \$37.2 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.

As of June 30, 2013, long-term debt of component units consisted of the following (amounts in thousands):

<b>Long-Term Debt</b>	<b>Balance June 30, 2013</b>	<b>Amounts due within year</b>
Bonds Payable	\$ 4,475,108	\$ 283,880
Escrow Deposits	205,807	39,540
Closure of Landfills	49,276	14,214
Due to State	27,069	-
Other	385,353	19,637
<b>Total</b>	<b>\$ 5,142,613</b>	<b>\$ 357,271</b>

**Note 18 Long-Term Notes and Bonded Debt**

**a. Economic Recovery Notes**

Public Act 09-2 authorized the issuance of \$915.8 million of General Obligation Economic Recovery Notes in December, 2009. The notes funded a major part of the deficit in the State's general fund as reported by the Comptroller to the Governor for the fiscal year ended June 30, 2009.

Economic recovery notes outstanding at June 30, 2013 were \$573.4 million. The notes mature on various dates through 2016 and bear interest rates from 2.5% to 5.0%. Future amounts needed to pay principal and interest on economic

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recovery notes outstanding at June 30, 2013, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2014	\$ 182,705	\$ 25,723	\$ 208,428
2015	191,280	17,147	208,427
2016	199,380	9,043	208,423
Total	<u>\$ 573,365</u>	<u>\$ 51,913</u>	<u>\$ 625,278</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, 2013, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2014-2032	1.50-5.632%	\$ 1,970,766	\$ 700,140
School Construction	2014-2033	2.00-5.750%	4,812,690	84,346
Municipal & Other				
Grants & Loans	2014-2032	0.45-6.398%	1,083,784	742,734
Housing Assistance	2014-2031	1.13-5.460%	207,095	150,550
Elimination of Water				
Pollution	2014-2027	3.10-5.09%	206,431	240,208
General Obligation				
Refunding	2014-2025	1.00-5.50%	3,485,486	-
Pension Obligation	2014-2032	4.20-6.27%	2,276,578	-
Miscellaneous	2014-2038	3.00-6.00%	111,520	561,246
			14,154,350	<u>\$ 2,479,224</u>
Accretion-Various Capital Appreciation Bonds			73,878	
		Total	<u>\$ 14,228,228</u>	

Future amounts needed to pay principal and interest on general obligation bonds outstanding at June 30, 2013, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,032,033	\$ 664,007	\$ 1,696,040
2015	1,006,493	610,791	1,617,284
2016	974,244	567,993	1,542,237
2017	929,638	526,311	1,455,949
2018	922,387	487,359	1,409,746
2019-2023	3,978,578	1,957,956	5,936,534
2024-2028	3,138,612	1,194,584	4,333,196
2029-2033	2,161,760	278,337	2,440,097
2034-2038	9,440	1,587	11,027
2039-2043	1,165	35	1,200
Total	<u>\$ 14,154,350</u>	<u>\$ 6,288,960</u>	<u>\$ 20,443,310</u>

**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, 2013, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Infrastructure				
Improvements	2014-2033	2.00-5.740%	\$ 3,461,875	\$ 2,744,521
			3,461,875	<u>\$ 2,744,521</u>
Accretion-Various Capital Appreciation Bonds			-	
		Total	<u>\$ 3,461,875</u>	

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2013, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2014	\$ 290,615	\$ 162,703	\$ 453,318
2015	251,275	150,268	401,543
2016	227,705	139,468	367,173
2017	210,070	129,253	339,323
2018	212,925	119,248	332,173
2019-2023	994,585	448,739	1,443,324
2024-2028	833,590	222,341	1,055,931
2029-2033	441,110	42,233	483,343
	<u>\$ 3,461,875</u>	<u>\$ 1,414,253</u>	<u>\$ 4,876,128</u>

**Variable-Rate Demand Bonds**

As of June 30, 2013, variable-rate demand bonds included in bonded debt were as follows (amounts in thousands):

Bond Type	Outstanding Principal	Issuance Year	Maturity Year
General Obligation	\$ 10,000	1997	2014
Total	<u>\$ 10,000</u>		

The State entered into various remarketing and standby bond purchase agreements with certain brokerage firms and banks upon the issuance of the bonds.

The bonds were issued bearing a weekly interest rate, which is determined by the State's remarketing agents. The State has the option of changing at any time the weekly interest rate on the bonds to another interest rate, such as a flexible rate or a daily rate. Bonds bearing interest at the weekly rate are subject to purchase at the option of the bondholder at a

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purchase price equal to principal plus accrued interest, if any, on a minimum seven days' notice of tender to the State's agent. In addition, the bonds are subject to mandatory purchase upon (1) conversion from the weekly interest rate to another interest rate and (2) substitution or expiration of the standby bond purchase agreements. The State's remarketing agent is responsible for using its best efforts to remarket bonds properly tendered for purchase by bondholders from time to time. The State is required to pay the remarketing agents a quarterly fee of .05 percent per annum of the outstanding principal amount of the bonds.

The standby bond purchase agreements require the banks to purchase any unremarketed bonds bearing the weekly interest rate for a price not to exceed the amount of bond principal and accrued interest, if any. The State is required to pay the banks a quarterly fee ranging from .11 percent to .15 percent per annum of the outstanding principal amount of the bonds plus interest. These fees would be increased if the credit rating for the bond insurers were to be downgraded, suspended, or withdrawn. The 1997 GO series standby bond purchase agreement expires in the year 2014.

The agreement could be terminated at an earlier date if certain termination events described in the agreements were to occur.

### c. Primary Government – Business–Type Activities Revenue Bonds

Revenue bonds are those bonds that are paid out of resources pledged in the enterprise funds and component units.

Enterprise funds' revenue bonds outstanding at June 30, 2013, were as follows (amounts in thousands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Uconn	2013-2030	1.5-5.5%	\$ 131,465
State Universities	2013-2017	2.0-6.0%	281,893
Clean Water	2013-2031	1.0-5.0%	743,360
Drinking Water	2013-2028	2.0-5.0%	41,030
Bradley International Airport	2013-2033	[1]	141,555
Bradley Parking Garage	2013-2024	6.5-6.6%	37,395
Total Revenue Bonds			1,376,698
Plus/(Less) premiums, discounts and deferred amounts:			
Uconn			15,994
State Universities			5,771
Clean Water			67,066
Bradley International Airport			(2,244)
Other			2,217
Revenue Bonds, net			<u>\$ 1,465,502</u>

[1] variable percent of one month LIBOR

The University of Connecticut has issued student fee revenue bonds to finance the costs of buildings, improvements and renovations to certain revenue-generating capital projects. Revenues used for payments on the bonds are derived from various fees charged to students.

The Connecticut State University System has issued revenue bonds that finance the costs of auxiliary enterprise buildings,

improvements and renovations to certain student housing related facilities. Revenues used for payments on the bonds are derived from various fees charged to students.

Bradley International Airport periodically issues revenue bonds to finance the cost of improvements to the airport. These bonds are secured by and are payable solely from revenues generated by the airport and other receipts, funds or monies pledged in the bond indenture. As of June 30, 2013, 2011 Bradley International Airport Refunding Bonds in the amount of \$141.6 million were outstanding.

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, 2013, \$37.4 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, 2013, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2014	\$ 108,757	\$ 55,487	\$ 164,244
2015	108,703	51,237	159,940
2016	112,595	46,490	159,085
2017	96,313	42,279	138,592
2018	90,205	38,431	128,636
2019-2023	407,915	137,733	545,648
2024-2028	296,170	58,494	354,664
2029-2033	145,280	12,476	157,756
2034-2038	10,760	303	11,063
Total	<u>\$ 1,376,698</u>	<u>\$ 442,930</u>	<u>\$ 1,819,628</u>

### d. Component Units

Component units' revenue bonds outstanding at June 30, 2013, were as follows (amounts in thousands):

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Housing Finance Authority	2013-2055	0.10-9.36%	\$ 4,186,602
CT Higher Education Supplemental Loan Authority	2013-2035	1.70-7.00%	167,660
CT Regional Development Authority	2013-2035	2.50-7.00%	94,805
UConn Foundation	2013-2029	1.90-5.00%	26,030
CT Innovations Inc.	2013-2020	4.75-5.25%	8,705
Total Revenue Bonds			4,483,802
Plus/(Less) premiums, discounts, and deferred amounts:			
CHFA			(9,209)
CHESLA			840
CRDA			(325)
Revenue Bonds, net			<u>\$ 4,475,108</u>

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Revenue bonds issued by the component units do not constitute a liability or debt of the State. The State is only contingently liable for those bonds as discussed below.

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 \$8.7 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, 2012, bonds outstanding under the bond resolution, the indenture, and other bond resolutions were \$3,715.8 million, \$64.2 million, and \$397.4 million respectively. According to the bond resolution, the following assets of the Authority are pledged for the payment of the bond principal and interest (1) the proceeds from the sale of bonds, (2) all mortgage repayments with respect to long-term mortgage and construction loans financed from the Authority's general fund, and (3) all monies and securities of the Authority's general and capital reserve funds. The 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 the next succeeding calendar year on all outstanding bonds. The required reserves are \$282.0 million per the resolution and \$4.6 million per the indenture at 12/31/12. As of December 31, 2012, the Authority has entered into interest rate swap agreements for \$834.4 million of its variable rate bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the Authority.

Connecticut Resources Recovery Authority's revenue bonds are issued to finance the design, development and construction of resources recovery and recycling facilities and landfills throughout the State. These bonds are paid solely from the revenues generated from the operations of the projects and other receipts, accounts and monies pledged in the bond indentures.

Connecticut Higher Education Supplemental Loan Authority's revenue bonds are issued to provide loans to students, their parents, and institutions of higher education to assist in the financing of the cost of higher education. These loans are issued through the Authority's Bond fund.

According to the bond resolutions, the Authority internally accounts for each bond issue in separate funds, and additionally, the Bond fund includes individual funds and accounts as defined by each bond resolution.

### *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 revenue bonds outstanding at June 30, 2013, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2014	\$ 165,327	\$ 123,787	\$ 289,114
2015	145,602	120,209	265,811
2016	129,000	116,577	245,577
2017	180,330	124,577	304,907
2018	140,306	112,442	252,748
2019-2023	802,094	497,229	1,299,323
2024-2028	861,000	365,751	1,226,751
2029-2033	913,990	228,604	1,142,594
2034-2038	721,525	103,040	824,565
2039-2043	360,610	26,783	387,393
2044-2048	40,031	62,236	102,267
2049-2053	23,987	7,918	31,905
Total	<u>\$ 4,483,802</u>	<u>\$ 1,889,153</u>	<u>\$ 6,372,955</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, 2013 were \$731.6 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



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financial statements, except for restricted assets for which the Authority has a fiduciary responsibility. Total special obligation bonds outstanding at June 30, 2013, were \$8,030.2 million, of which \$292.1 million was secured by special capital reserve funds.

The Connecticut Resources Recovery Authority has issued several bonds to fund the construction of waste processing facilities by independent contractors/operators. These bonds are payable from a pledge of revenues derived primarily under lease or loan arrangements between the Authority and the operators. Letters of credit secure some of these bonds. The Authority does not become involved in the construction activities or the repayment of the debt (other than the portion allocable to Authority purposes). In the event of a default, neither the authority nor the State guarantees payment of the debt, except for the State contingent liability discussed below. Thus, the assets and liabilities that relate to these bond issues are not included in the Authority's financial statements. The amount of these bonds outstanding at June 30, 2013 was \$60.6 million.

The State may be contingently liable for those bonds that are secured by special capital reserve funds as discussed previously in this section.

**e. Debt Refundings**

During the fiscal year the State Issued General Obligation and Special Tax Obligation bonds of \$194.9 million at an average coupon interest rate of 3.6 percent to advance refund \$210.5 million of General Obligation and Special Tax Obligation bonds with an average coupon interest rate of 5.1 percent. 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.

*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, 2013, along with the credit rating of the associated counterparty (amounts in thousands).

Type	Objective	Notional		Effective Date	Maturity Date	Terms	Counterparty Credit Rating
		Amounts	(000's)				
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds	\$	140,000	3/24/2005	3/1/2023	Pay 3.392% receive 60% of LIBOR+30bp	Aa1/AAA
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds		140,000	3/24/2005	3/1/2023	Pay 3.401% receive 60% of LIBOR+30bp	A3/A
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds		15,620	4/27/2005	6/1/2016	Pay 3.99% receive CPI plus .65%	Baa1/A-
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%	Baa1/A-
Pay-fixed interest rate swap	Hedge of changes in cash flows of the 2005 GO bonds		20,000	4/27/2005	6/1/2020	Pay 5.2% receive CPI plus 1.79%	Aa3/A
Total Notional Amount		\$	335,620				

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.

Although the advance refunding resulted in a \$15.5 million accounting loss, the State in effect reduced its aggregate fund level debt service payments by \$21.1 million over the next 11 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 \$19.9 million. The above loss is being netted against the new debt and amortized over the life of the new or old debt, whichever is shorter.

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, 2013, the outstanding balance of bonds defeased in prior years was approximately \$938.0 million.

**Note 19 - Derivative Financial Instruments**

The fair value balances and notional amounts of the State's derivative instruments outstanding at June 30, 2013, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows (amounts in thousands; debit(credit)):

	Changes in Fair Value		Fair Value at Year End		
	Classification	Amount	Classification	Amount	Notional
<b>Governmental activities</b>					
Cash flow hedges:					
Pay-fixed interest rate swap	Deferred outflow of Resources	\$ (7,380)	Non-current portion of LT Obligation	\$ (17,576)	\$ 335,620
<b>Business-type activities</b>					
Cash flow hedges:					
Bradley Airport:	Deferred outflow of Resources	\$ (9,563)	Non-current portion of LT Obligation	\$ (20,454)	\$ 152,380

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### *Credit Risk*

As of June 30, 2013, the State had no credit risk exposure on any of the swaps because the swaps had negative fair value. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the swaps' fair value.

### *Interest Rate Risk*

The State is exposed to interest rate risk on its interest rate swaps. As the LIBOR or CPI swap index rate decreases, the State's net payment on the swap increases.

### *Basis Risk*

The State's variable-rate bond interest payments are based on the Securities Industry and Financial Markets Association Municipal Swap (SIFMA) index rate, or the CPI floating rate. The State is exposed to basis risk on those swaps for which the State receives variable-rate payments that are based on the LIBOR swap index rate. As of June 30, 2013, the SIFMA rate was 0.06 percent, whereas 60 percent of LIBOR plus 30bp was 0.417 percent. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal year 2013, the budgeted amount for basis risk was \$1,500,000.

### *Termination Risk*

The State or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any swap is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the State would be liable to the counterparty for a payment equal to the swap's fair value. Under the 2005 swap agreements, the State has up to 270 days to fund any required termination payment.

### *Rollover Risk*

Because all of the swap agreements terminate when the associated debt is fully paid, the State is only exposed to rollover risk if an early termination occurs. Upon an early termination, the State will not realize the synthetic rate offered by the swaps on the underlying debt issues.

### *Hedging Derivative Instrument Payments and Hedged Debt*

As rates vary, variable-rate bond interest payments and net swap payments will vary. Using rates as of June 30, 2013, debt service requirements of the State's outstanding variable-rate bonds and net swap payments are as follows (amounts in thousands):

Fiscal Year	Variable-Rate Bonds		Interest Rate SWAP, Net	Total
	Principal	Interest		
Ending June 30,				
2014	\$ -	\$ 2,081	\$ 9,106	\$ 11,187
2015	-	2,081	9,106	11,187
2016	50,620	2,081	8,840	61,541
2017	55,000	1,643	7,592	64,235
2018	45,000	875	6,205	52,080
2019-2023	185,000	1,730	11,253	197,983
	<u>\$ 335,620</u>	<u>\$ 10,491</u>	<u>\$ 52,102</u>	<u>\$ 398,213</u>

As of June 30, 2013, Bradley airport has entered into interest rate swap agreements for \$141.6 million of its variable rate

bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the fund.

### **Note 20 Risk Management**

The risk financing and insurance program of the State is managed by the State Insurance and Risk Management Board. The Board is responsible mainly for determining the method by which the State shall insure itself against losses by the purchase of insurance to obtain the broadest coverage at the most reasonable cost, determining whether deductible provisions should be included in the insurance contract, and whenever appropriate determining whether the State shall act as self-insurer. The schedule lists the risks of loss to which the State is exposed and the ways in which the State finances those risks.

Risk of Loss	Risk Financed by	
	Purchase of Commercial Insurance	Self- Insurance
Liability (Torts):		
-General (State buildings, parks, or grounds)		X
-Other	X	
Theft of, damage to, or destruction of assets	X	
Business interruptions	X	
Errors or omissions:		
-Professional liability	X	
-Medical malpractice (John Dempsey Hospital)		X
Injuries to employees		X
Natural disasters	X	

For the general liability risk, the State is self-insured because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a particular statute (e.g. per Statute the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than \$100 thousand. When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is \$25 million, which is carried in a railroad liability policy.

The State records its risk management activities related to the medical malpractice risk in the University of Connecticut and Health Center fund, an Enterprise fund. At year-end, liabilities for unpaid claims are recorded in the statement of net 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

**Connecticut**

been incurred but not reported and claim adjustment expenses. The liabilities are actuarially determined and the unpaid liability for medical malpractice is reported at its present value, using a discount rate of 5 percent. In the General Fund, the liability for unpaid claims is only recorded if the liability is due for payment at year-end. Settlements have not exceeded coverages for each of the past three fiscal years. Changes in the claims liabilities during the last two fiscal years were as follows (amounts in thousands):

	<u>Governmental Activities Workers' Compensation</u>	<u>Business-Type Activities Medical Malpractice</u>
Balance 6-30-11	\$ 511,413	\$ 20,439
Incurred claims	149,921	52
Paid claims	<u>(101,788)</u>	<u>(534)</u>
Balance 6-30-12	559,546	19,957
Incurred claims	129,268	4,133
Paid claims	<u>(101,162)</u>	<u>(4,201)</u>
Balance 6-30-13	<u>\$ 587,652</u>	<u>\$ 19,889</u>

**Note 21 Interfund Receivables and Payables**

Interfund receivable and payable balances at June 30, 2013, were as follows (amounts in thousands):

	Balance due to fund(s)												Total
	General	Transportation	Restricted Grants & Accounts	Grant & Loan Programs	Other Governmental	UConn	State Universities	Connecticut Community Colleges	Employment Security	Internal Services	Fiduciary	Component Units	
<b>Balance due from fund(s)</b>													
General	\$ -	\$ -	\$ 302,308	\$ 20,953	\$ 495,230	\$ 45,826	\$ 14,593	\$ 15,373	\$ 570	\$ 4,324	\$ 4,273	\$ -	\$ 903,450
Debt Service	-	1,134	-	-	-	-	-	-	-	-	-	-	1,134
Restricted Grants & Accounts	-	-	-	-	2,091	-	-	-	-	-	-	191	2,282
Grant & Loan Programs	-	-	-	-	24	-	-	-	-	-	-	7,029	7,053
Other Governmental	3,879	-	-	20,005	4,433	35,758	12,917	103,524	-	-	-	-	180,516
UConn	10,889	-	-	-	-	-	-	-	-	-	-	-	10,889
State Universities	3,610	-	-	-	-	-	-	-	-	-	-	-	3,610
Employment Security	-	-	-	-	350	-	-	-	-	-	-	-	350
Other Proprietary	433	-	4,241	-	-	-	-	-	-	-	-	-	4,674
Internal Services	7,370	-	-	-	-	-	-	-	-	-	-	-	7,370
Fiduciary	-	-	-	3,807	-	-	-	-	-	-	8,649	-	12,456
Component Units	27,068	-	-	-	-	-	-	-	-	-	-	-	27,068
<b>Total</b>	<u>\$ 53,249</u>	<u>\$ 1,134</u>	<u>\$ 306,549</u>	<u>\$ 44,765</u>	<u>\$ 502,128</u>	<u>\$ 81,584</u>	<u>\$ 27,510</u>	<u>\$ 118,897</u>	<u>\$ 570</u>	<u>\$ 4,324</u>	<u>\$ 12,922</u>	<u>\$ 7,220</u>	<u>\$ 1,160,852</u>

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end.

**Note 22 Interfund Transfers**

Interfund transfers for the fiscal year ended June 30, 2013, consisted of the following (amounts in thousands):

	General	Debt Service	Transportation	Restricted Grants & Accounts	Grant & Loan Programs	Other Governmental	UConn	State Universities	Connecticut Community Colleges	Bradley International Airport	Clean Water	Total
	<b>Amount transferred from fund(s)</b>											
General	\$ -	\$ -	\$ 95,245	\$ 106,774	\$ -	\$ 62,473	\$ 501,827	\$ 222,071	\$ 223,621	\$ -	\$ -	\$ 1,212,011
Debt Service	-	-	3,625	-	-	238	-	-	-	-	-	3,863
Transportation	-	430,772	-	15,000	-	6,500	-	-	-	-	-	452,272
Restricted Grants & Accounts	22,567	-	-	-	-	-	-	-	-	-	-	22,567
Grants & Loan Programs	2,000	-	-	39,911	-	-	-	-	-	-	-	41,911
Other Governmental	109,322	-	46	48,914	4,000	1,899	20,000	72,761	50,768	-	989	308,699
Employment Security	-	-	-	-	-	3,665	-	-	-	-	-	3,665
Other Proprietary	-	-	-	-	-	247	-	-	-	10,483	-	10,730
<b>Total</b>	<u>\$ 133,889</u>	<u>\$ 430,772</u>	<u>\$ 98,916</u>	<u>\$ 210,599</u>	<u>\$ 4,000</u>	<u>\$ 75,022</u>	<u>\$ 521,827</u>	<u>\$ 294,832</u>	<u>\$ 274,389</u>	<u>\$ 10,483</u>	<u>\$ 989</u>	<u>\$ 2,055,718</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.

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### Note 23 Restatement of Net Position, Fund Balance Classifications, and Restricted Net Position

#### Restatement of Net Position

As of June 30, 2013, the beginning net position for the following funds and activities were restated as follows (amounts in thousands):

	Balances 6-30-12 Previously Reported	Fund Reclassifications	Balances 6-30-12 as Restated
<b>Proprietary Funds and Business-Type Activities</b>			
<b>Major Funds:</b>			
Connecticut Lottery Corporation	\$ 7,561	\$ (7,561)	\$ -
Connecticut Community Colleges	-	781,702	781,702
<b>Non-Major Funds:</b>			
Connecticut Community Colleges	781,702	(781,702)	-
<b>Total Non-Major Funds</b>	<u>912,201</u>	<u>(781,702)</u>	<u>130,499</u>
<b>Total Proprietary Funds</b>	<u>\$ 4,475,052</u>	<u>(7,561)</u>	<u>\$ 4,467,491</u>
<b>Business-Type Activities</b>			
Net Position of Business-Type Activities	<u>\$ 4,475,052</u>	<u>(7,561)</u>	<u>\$ 4,467,491</u>
<b>Component Units</b>			
<b>Major Component Units:</b>			
Connecticut Lottery Corporation	\$ -	\$ 7,561	\$ 7,561
CT Health and Educational Facilities Authority	13,286	(13,286)	-
<b>Non-Major Component Units:</b>			
CT Health and Educational Facilities Authority	-	13,286	13,286
Connecticut Development Authority	84,776	(84,776)	-
Connecticut Innovations, Incorporated	85,705	84,776	170,481
<b>Total Non-Major Component Units</b>	<u>973,095</u>	<u>13,286</u>	<u>986,381</u>
<b>Total Component Units</b>	<u>\$ 1,944,102</u>	<u>7,561</u>	<u>\$ 1,951,663</u>

In 2013, the Connecticut Lottery Corporation was reclassified from a proprietary fund (blended presentation) to a discreetly presented component unit because, as required by current reporting guidance, the Corporation's operations do not exclusively, or almost exclusively benefit the State. The state's citizenry is benefited as well.

During the year, according to state legislation the assets and operations of the Connecticut Development Authority were merged into the Connecticut Innovations, Incorporated.

#### Fund Balance – Restricted and Assigned

As of June 30, 2013 restricted and assigned fund balances of nonmajor governmental funds were comprised as follows (amounts in thousands):

	Restricted Purposes	Assigned Purposes
Capital Projects	\$ 288,363	\$ -
Environmental Programs	61,811	-
Housing Programs	90,764	-
Employment Security Administration	30,746	-
Banking	26,713	-
Other	50,308	20,316
<b>Total</b>	<u>\$ 548,705</u>	<u>\$ 20,316</u>

#### Restricted Net Position

As of June 30, 2013, the government-wide statement of net position reported \$3,282 million of restricted net position, of which \$217 million was restricted by enabling legislation.

#### Note 24 Related Organizations

The Community Economic Development Fund and the Connecticut Student Loan Foundation are legally separate organizations that are related to the State because the State appoints a voting majority of the organizations' governing board. However, the State's accountability for these organizations does not extend beyond making the appointments.

#### Note 25 New Accounting Pronouncements

In 2013, The State implemented the following statements issued by the Governmental Accounting Standards Board ("GASB").

*Accounting and Financial Reporting for Service Concession Arrangements* (Statement No. 60)- This Statement establishes accounting and reporting guidance for service concession arrangements (SCA), which are a type of public-private or public-public partnership. In a SCA, (1) a government conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The adoption of this Statement had no significant impact on the State's financial statements.

*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No.14 and No. 34* (Statement No. 61)- This Statement amends Statement No. 14, *The Financial Reporting Entity*, and Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet user needs and to address reporting issues that have arisen since the issuance of those Statements. Basically, the Statement modifies certain requirements for inclusion of components in the financial reporting entity. The adoption of the Statement resulted in the modification of note disclosures related to the reporting entity of the State (Note 1b).

*Codification of Accounting and Financial Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Statement No. 62)-This Statement incorporates into GASB'S authoritative literature certain accounting and reporting guidance found in the Financial Accounting Standards Board and AICPA pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements. The adoption of this Statement had no significant impact on the State's financial statements.

*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (Statement No. 63)- This Statement provides guidance on reporting deferred outflows of resources and deferred inflows of resources, which are to be reported in a statement of net position. Amounts to be reported as deferred outflows or

inflows of resources should be reported in the statement of net position in a separate category following assets or liabilities. The statement of net position should report the residual amount as net position, rather than net assets. The adoption of this Statement resulted in a change in the presentation of the Statement of Net Assets to what is now referred to as the Statement of Net Position and the term “net assets” is changed to “net position” throughout the State’s financial statements.

*Technical Corrections-2012 an amendment of GASB Statements No. 10 and No. 62* (Statement No. 66)-This Statement provides clarification on two recently issued statements: No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62 (discussed above). The Statement resolves conflicting guidance created as a result of the issuance of these two statements. The adoption of this Statement had no significant impact on the State’s financial statements.

**Note 26 Commitments and Contingencies**

**A. Commitments**

**Primary Government**

Commitments are defined as “existing arrangements to enter into future transactions or events, such as long-term contractual obligations with suppliers for future purchases at specified prices and sometimes at specified quantities.” As of June 30, 2013, the Departments of Transportation and Public Works had contractual commitments of approximately \$3,642 million for infrastructure and other construction projects. Additionally, other commitments were approximately as follows:

School construction and alteration grant program \$2,949 million.

Clean and drinking water loan programs \$583 million.

Various programs and services \$3,050 million.

All commitments are expected to be funded by federal grants, bond proceeds, and other resources.

**Component Units**

As of December 31, 2012, the Connecticut Housing Finance Authority had mortgage loan commitments of approximately \$152 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, 2013, the State reported an escheat liability of \$266.5 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 \$231.8 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 or revenue sources of the State.

**Note 27 Subsequent Events**

In July 2013, the State issued \$172.7 million of General Obligation bonds and \$51.3 million of general Obligation refunding bonds under its University of Connecticut 2000 program. The original issue bonds will mature in 2033 and the refunding bonds will mature in 2024. Both bond series bear interest rates ranging from 2.0 percent to 5.0 percent.

In August 2013, the State issued \$200.0 million General Obligation bonds. The bonds will mature in 2033 and bear interest rates ranging from 2.0 percent to 5.0 percent.

In August 2013, the State issued \$115.0 million series D General Obligation bonds. The bonds will mature in 2020 and bear variable interest rates ranging from 9 to 102 basis points above the SIFMA rate.

In August 2013, the State issued \$285.0 million series E General Obligation bonds. The bonds will mature in 2033 and bear interest rates ranging from 1.0 percent to 5.0 percent.

In August 2013, the State issued \$100.0 million series A Taxable General Obligation bonds. The bonds will mature in 2033 and bear interest rates ranging from 0.28 percent to 3.82 percent.

In October 2013, the State issued \$314.3 million of Economic Recovery Refunding - Variable-rate Remarketed

Obligation Notes. The notes will mature in 2018 and bear an initial interest rate of 0.5 percent. After the delivery date, the notes will bear interest at the Variable-rate Remarketed Obligation (VRO) rate, which will be determined by the Remarketing Agent on each business day during the VRO Mode period.

In October 2013, the State issued \$560.4 million in General Obligation GAAP conversion bonds. The bonds will mature in 2027 and bear interest rates ranging from 1.0 percent to 5.0 percent.

In October 2013, the Connecticut State University System issued \$80.3 million Series N Revenue bonds. The bonds, which are special obligations of the State of Connecticut Health and Educational Facilities Authority, mature in 2033 and bear interest rates ranging from 4.1 percent to 5.0 percent.

In November 2013, the State issued \$600.0 million in Special Tax Obligation bonds. The bonds will mature in 2033 and bear interest rates ranging from 2.0 percent to 5.0 percent.

Effective July 1, 2011, the State established the Connecticut Airport Authority (the Authority), which became responsible for governance, control and transitioning of jurisdiction of the Bradley International Airport (an Enterprise fund) as well as other state-owned airports from the Department of Transportation to the Authority. On July 1, 2013, the transfer of ownership of the airport was completed.

Effective January 5, 2011, the Governor issued "Executive Order No 1" which initiated the process of implementing Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB), with respect to the preparation of the biennial budget. On July 1, 2013, the State implemented its GAAP conversion plan to use the modified accrual basis of accounting for the State budget.

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*Required  
PERS  
Supplementary  
Information*

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**Pension and Other Postemployment Benefit Plans  
Required Supplementary Information  
Schedules of Funding Progress**

(Expressed in Millions)

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL)</b>	<b>(b-a) Unfunded AAL (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>((b-a)/c) UAAL as a Percentage of Covered Payroll</b>
<b><u>SERS</u></b>						
6/30/2008	\$9,990.2	\$19,243.4	\$9,253.2	51.9%	\$3,497.4	264.6%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2010	\$9,349.6	\$21,054.2	\$11,704.6	44.4%	\$3,295.7	355.1%
6/30/2011 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2012	\$9,745.0	\$23,018.8	\$13,273.8	42.3%	\$3,354.7	395.7%
6/30/2013 *	\$-	\$-	\$-	0.0%	\$-	0.0%

\*No actuarial valuation was performed.

<b><u>TRS</u></b>						
6/30/2008	\$15,271.0	\$21,801.0	\$6,530.0	70.0%	\$3,399.3	192.1%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2010	\$14,430.2	\$23,495.9	\$9,065.7	61.4%	\$3,646.0	248.6%
6/30/2011 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2012	\$13,734.8	\$24,862.2	\$11,127.4	55.2%	\$3,652.5	304.7%
6/30/2013 *	\$-	\$-	\$-	0.0%	\$-	0.0%

\*No actuarial valuation was performed.

<b><u>JRS</u></b>						
6/30/2008	\$191.7	\$267.0	\$75.3	71.8%	\$34.0	221.5%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2010	\$179.7	\$276.8	\$97.1	64.9%	\$31.6	307.3%
6/30/2011 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2012	\$174.7	\$319.5	\$144.8	54.7%	\$30.3	477.9%
6/30/2013 *	\$-	\$-	\$-	0.0%	\$-	0.0%

\*No actuarial valuation was performed.

<b><u>RTHP</u></b>						
6/30/2008	\$-	\$2,318.8	\$2,318.8	0.0%	\$3,399.3	68.2%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2010	\$-	\$2,997.8	\$2,997.8	0.0%	\$3,646.0	82.2%
6/30/2011 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2012	\$-	\$3,048.3	\$3,048.3	0.0%	\$3,652.5	83.5%
6/30/2013 *	\$-	\$-	\$-	0.0%	\$-	0.0%

\*No actuarial valuation was performed.

Actuarial valuations for other postemployment benefit plans are required to be disclosed starting with fiscal year 2008.

<b><u>SEOPEBP</u></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%

\*No actuarial valuation was performed.

June 30, 2011 was the first year an actuarial valuation for State Employees Other Postemployment Benefit Plan was performed.



**Pension and Other Postemployment Benefit Plans  
Required Supplementary Information  
Schedules of Employer Contributions**

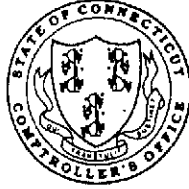
(Expressed in Millions)

Fiscal Year	<u>SERS</u>		<u>TRS</u>		<u>JRS</u>		<u>RTHP</u>		<u>SEOPBP</u>	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2005	\$518.8	100.0%	\$281.4	65.8%	\$12.2	100.0%	\$0.0	0.0%	\$0.0	0.0%
2006	\$623.1	100.0%	\$396.2	100.0%	\$11.7	100.0%	\$0.0	0.0%	\$0.0	0.0%
2007	\$663.9	100.0%	\$416.0	99.0%	\$12.4	100.0%	\$0.0	0.0%	\$0.0	0.0%
2008	\$716.9	99.2%	\$518.6	485.7%	\$13.4	100.0%	\$116.1	21.5%	\$0.0	0.0%
2009	\$753.7	92.8%	\$539.3	100.0%	\$14.2	100.0%	\$116.7	25.3%	\$0.0	0.0%
2010	\$897.4	80.3%	\$559.2	100.0%	\$15.4	0.0%	\$121.3	10.0%	\$0.0	0.0%
2011	\$944.1	87.5%	\$581.6	100.0%	\$16.2	0.0%	\$177.1	3.0%	\$0.0	0.0%
2012	\$926.4	100.0%	\$757.2	100.0%	\$15.1	100.0%	\$184.1	26.9%	\$1,354.7	40.0%
2013	\$1,059.7	100.0%	\$787.5	100.0%	\$16.0	100.0%	\$180.4	15.0%	\$1,271.3	42.7%

Schedules of employer contributions for other postemployment benefit plans (RTPH) were required to be disclosed starting with fiscal year 2008. SEOPBP did not begin disclosing employer contributions until fiscal year 2012.

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**APPENDIX III-D**



**STATE OF CONNECTICUT  
OFFICE OF THE STATE COMPTROLLER**  
55 ELM STREET  
HARTFORD, CONNECTICUT  
06106-1775

**Kevin Lembo**  
State Comptroller

**Martha Carlson**  
Deputy Comptroller

February 28, 2014

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, 2009-2013. 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, 2009-2013.

The statements have been prepared on a modified cash basis of accounting for appropriated funds and on a cash basis of accounting for all other funds. These methods of accounting have been applied consistently and in accordance with the governing statutory requirements for all periods shown.

Sincerely,

A handwritten signature in cursive script that reads "Kevin Lembo".

Kevin Lembo  
State Comptroller

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

STATE CAPITOL  
210 CAPITOL AVENUE  
HARTFORD, CONNECTICUT 06106-1559

ROBERT M. WARD

**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, 2009, 2010, 2011, 2012 and 2013 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.

***Opinions***

As discussed in Note (a) to Appendix III-D-4, the State of Connecticut prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements referred to above present only the General Fund and do not purport to, and do not, present fairly the financial position of the State of Connecticut as of June 30, 2009, 2010, 2011, 2012 and 2013, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the General Fund of the State of Connecticut as of June 30, 2009, 2010, 2011, 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.

John C. Geragosian  
Auditor of Public Accounts

Robert M. Ward  
Auditor of Public Accounts

December 31, 2013  
State Capitol  
Hartford, Connecticut

**GENERAL FUND<sup>(a)</sup>**

**Balance Sheet  
As of June 30  
(In Thousands)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Assets</b>					
Cash and Short-Term Investments	\$ --	\$ --	\$ --	\$ --	\$ --
Accrued Taxes Receivable	976,536	1,091,117	1,077,249	1,336,954	1,412,940
Accrued Accounts Receivable	29,913	28,975	28,821	27,839	24,116
Federal and Other Grants Receivable and Unexpended Balances	--	--	--	--	--
Investments	--	--	--	--	--
Due from Other Funds	--	--	--	--	--
Loans Receivable	--	--	3,419	3,419	3,419
Total Assets	<u>\$ 1,006,449</u>	<u>\$ 1,120,092</u>	<u>\$ 1,109,489</u>	<u>\$ 1,368,212</u>	<u>\$ 1,440,475</u>
<b>Liabilities, Reserves and Surplus</b>					
<b>Liabilities</b>					
Deficiency in Cash and Short-Term Investments	\$ 1,863,042	\$ 547,305	\$ 666,879	\$ 1,233,336	\$ 925,552
Accounts Payable	--	--	--	--	--
Deferred Restricted Accounts and Federal and Other Grant Revenue	--	--	--	--	--
Due to Other Funds	1,374	605	469	301	263
Total Liabilities	<u>\$ 1,864,416</u>	<u>\$ 547,910</u>	<u>\$ 667,348</u>	<u>\$ 1,233,637</u>	<u>\$ 925,815</u>
<b>Reserves</b>					
Petty Cash Funds	\$ 840	\$ 838	\$ 814	\$ 806	\$ 804
Statutory Surplus Reserves	--	449,869	236,923	--	398,035
Appropriations Continued to Following Year	88,772	121,475	200,985	130,351	112,402
Reserve for Receivables	--	--	3,419	3,418	3,419
Total Reserves	<u>\$ 89,612</u>	<u>\$ 572,182</u>	<u>\$ 442,141</u>	<u>\$ 134,575</u>	<u>\$ 514,660</u>
<b>Unappropriated Surplus (Deficit)</b>	<u>\$ (947,579)<sup>(b)</sup></u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Liabilities, Reserves and Surplus	<u>\$ 1,006,449</u>	<u>\$ 1,120,092</u>	<u>\$ 1,109,489</u>	<u>\$ 1,368,212</u>	<u>\$ 1,440,475</u>

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

(b) Under the provisions of Public Act No. 09-2 of the June 2009 Special Session, the accumulated deficit as of June 30, 2009 was financed through the issuance of economic recovery notes.

**GENERAL FUND**  
**Statement of Revenues, Expenditures and Changes in Unappropriated Surplus**  
**Fiscal Year Ended June 30**  
**(In Thousands)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Unappropriated Surplus (Deficit), July 1	\$ -0-	\$ (947,578)	\$ -0-	\$ -0-	\$ -0-
Resources from Reserve for Debt					
Avoidance/ERN	--	947,578	--	--	--
Total Revenues (per Appendix III-D-6)	15,700,801	17,688,529	17,707,454	18,561,633	19,405,031
Total Expenditures (per Appendix III-D-7)	17,234,855 <sup>(a)</sup>	17,208,021 <sup>(b)</sup>	17,845,124 <sup>(c)</sup>	18,781,634 <sup>(d)</sup>	19,025,667 <sup>(e)</sup>
Operating Balance	(1,534,054)	480,508	(137,670)	(220,001)	379,364
Reserved for Prior Year Appropriations					
Less Appropriations Carried Forward	415,327	(32,704)	(75,276)	70,634	18,671
Transferred (Out) or Reserved for:					
Budget Reserve Fund	-0-	-0-	-0-	-0-	(177,235)
Reserve for Debt Retirement/Avoidance	-0-	-0-	(236,923)	-0-	-0-
Reserve for Future Fiscal Year	-0-	-0-	-0-	-0-	(220,800)
Other Adjustments	(8,271)	2,065	--	5,850	-0-
Reserved from Prior Year	<u>179,420</u>	<u>-0-</u>	<u>449,869</u>	<u>-0-</u>	<u>-0-</u>
Subtotal	\$ (947,578)	\$ 449,869	\$ -0-	\$ (143,517)	\$ -0-
Transferred from Budget Reserve Fund	<u>--</u>	<u>--</u>	<u>--</u>	<u>143,517</u>	<u>--</u>
Unappropriated Surplus (Deficit), June 30 <sup>(f)</sup>	<u>\$ (947,578)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>-0-</u>	<u>\$ -0-</u>

- (a) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$415.327 million.
- (b) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$(32.704) million.
- (c) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$(75.276) million.
- (d) Total Expenditures include prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$70.634 million.
- (e) Total Expenditures include prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$18.671 million.
- (f) The Fiscal Year 2010 surplus of \$449.869 million was reserved for Fiscal Year 2011 leaving no unappropriated surplus.

**GENERAL FUND**  
**Statement of Revenues**  
**Fiscal Year Ended June 30**  
**(In Thousands)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Taxes:					
Personal Income	\$ 6,385,856	\$ 6,586,099	\$ 7,246,431	\$ 8,310,820	\$ 8,719,245
Sales and Use	3,318,752	3,203,988	3,353,230	3,830,117	3,896,998
Corporations	615,921	667,132	794,473	716,522	742,515
Insurance Companies	202,217	226,549	220,626	237,609	260,858
Inheritance and Estate	238,337	177,601	237,573	191,699	439,519
Alcoholic Beverages	47,065	48,196	48,923	60,595	60,406
Cigarettes	317,774	387,435	404,111	421,005	399,822
Admissions, Dues, Cabaret	36,040	34,379	34,455	34,399	36,544
Oil Companies	104,413	123,018	169,163	146,067	175,526
Electric Generation	--	--	--	69,533	66,824
Public Service Corporations	268,495	267,946	269,806	250,396	266,647
Real Estate Conveyance	90,802	100,267	94,822	107,531	113,830
Miscellaneous	143,305	141,892	140,505	536,810	523,028
Refunds of Taxes	(1,052,286)	(1,061,433)	(956,054)	(1,105,171)	(1,144,993)
R&D Credit Exchange	(8,428)	(8,937)	(8,598)	(3,563)	(4,086)
Other Revenue:					
Licenses, Permits, Fees	162,474	257,569	250,442	283,414	262,068
Sales of Commodities and Services	32,558	33,678	35,506	35,007	36,298
Transfer – Special Revenue	287,195	289,314	293,108	313,757	315,452
Investment Income	18,806	4,062	30	964	(792)
Transfers — To Other Funds <sup>(a)</sup>	(86,300)	(61,800)	(61,800)	(61,800)	(61,800)
Fines, Escheats and Rents	64,018	252,792	157,771	123,424	144,141
Miscellaneous	163,023	142,910	178,727	191,965	163,818
Refunds of Payments	(662)	(1,189)	(1,875)	(85,377)	(74,016)
Federal Grants	3,619,490	4,066,314	4,235,178	3,607,164	3,733,910
Indian Gaming Payments	377,805	384,248	359,582	344,645	296,396
Statutory Transfer to Resources of the General Fund				(91,999)	(66,228)
Statutory Transfers From Other Funds	<u>354,131</u>	<u>1,426,497</u>	<u>211,319</u>	<u>96,100</u>	<u>103,100</u>
<b>Total Revenues<sup>(b)</sup></b>	<b><u>\$ 15,700,801</u></b>	<b><u>\$ 17,688,528</u></b>	<b><u>\$17,707,454</u></b>	<b><u>\$ 18,561,633</u></b>	<b><u>\$ 19,405,031</u></b>

(a) Transfer to Pequot/Mohegan Fund.

(b) See Operating Balance on Appendix III-D-5 for surplus or deficit for each fiscal year.



**GENERAL FUND**  
**Statement of Expenditures**  
**Fiscal Year Ended June 30**  
**(In Thousands)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Legislative	\$ 71,555	\$ 66,288	\$ 66,109	\$ 67,344	\$ 66,533
General Government					
Executive	11,841	10,567	9,954	10,741	10,211
Financial Administration	424,610	400,369	381,716	521,013	506,598
Legal	<u>83,664</u>	<u>75,382</u>	<u>84,420</u>	<u>77,485</u>	<u>76,558</u>
Total General Government	<u>520,115</u>	<u>486,318</u>	<u>476,090</u>	<u>609,239</u>	<u>593,367</u>
Regulation and Protection of Persons and Property					
Public Safety	189,394	169,994	175,700	177,121	175,772
Regulative	<u>97,428</u>	<u>92,826</u>	<u>86,066</u>	<u>85,777</u>	<u>86,015</u>
Total Regulation and Protection	<u>286,822</u>	<u>262,820</u>	<u>261,766</u>	<u>262,898</u>	<u>261,787</u>
Conservation and Development					
Agriculture	12,276	20,423	11,356	11,551	11,250
Environment	39,038	69,174	71,353	71,437	66,457
Historical Sites, Commerce and Industry	<u>62,015</u>	<u>39,555</u>	<u>41,210</u>	<u>54,306</u>	<u>55,376</u>
Total Conservation and Development	<u>113,329</u>	<u>129,152</u>	<u>123,919</u>	<u>137,294</u>	<u>133,083</u>
Health and Hospitals					
Public Health	108,878	88,846	88,226	86,144	98,999
Mental Retardation/Developmental Services	970,322	967,786	970,070	1,013,182	1,005,732
Mental Health	<u>583,339</u>	<u>568,195</u>	<u>657,374</u>	<u>693,109</u>	<u>697,220</u>
Total Health and Hospitals	<u>1,662,539</u>	<u>1,624,827</u>	<u>1,715,670</u>	<u>1,792,435</u>	<u>1,801,951</u>
Transportation	<u>(50)</u>	<u>2,295</u>	<u>0</u>	<u>0</u>	<u>0</u>
Human Services	<u>5,041,515</u>	<u>5,012,333</u>	<u>5,387,535</u>	<u>5,817,369</u>	<u>5,931,567</u>
Education, Libraries and Museums					
Department of Education	2,671,600	2,662,756	2,708,442	2,769,385	2,880,342
Education of the Blind and Deaf	13,537	11,598	11,145	0 <sup>(b)</sup>	0 <sup>(b)</sup>
University of Connecticut	234,058	233,011	232,656	205,586	195,847
Higher Education and the Arts	198,638	189,845	192,626	169,084	158,271
Libraries	13,100	10,911	11,067	10,618	12,294
Teachers Retirement	564,062	561,038	583,978	794,205	805,193
Community—Technical Colleges	161,451	158,523	158,282	144,505	141,288
State University	<u>162,935</u>	<u>162,517</u>	<u>162,271</u>	<u>142,045</u>	<u>135,659</u>
Total Education, Libraries and Museums	<u>4,019,381</u>	<u>3,990,199</u>	<u>4,060,467</u>	<u>4,235,428</u>	<u>4,328,894</u>
Corrections	<u>1,577,167</u>	<u>1,475,769</u>	<u>1,484,364</u>	<u>1,472,685</u>	<u>1,408,761</u>
Judicial	<u>543,078</u>	<u>524,043</u>	<u>559,912</u>	<u>545,650</u>	<u>534,512</u>
Non-Functional					
Debt Service	1,464,072	1,619,470	1,629,672	1,809,201	1,799,937
Miscellaneous	<u>1,935,332</u>	<u>2,014,507</u>	<u>2,079,621</u>	<u>2,032,091</u>	<u>2,165,275</u>
Total Non-Functional	<u>3,399,404</u>	<u>3,633,977</u>	<u>3,709,293</u>	<u>3,841,292</u>	<u>3,965,212</u>
Totals	<u>17,234,855</u>	<u>17,208,021</u>	<u>17,845,125</u>	<u>18,781,634</u>	<u>19,025,667</u>
<b>Total Expenditures<sup>(a)</sup></b>	<u>\$17,234,855</u>	<u>\$17,208,021</u>	<u>\$17,845,125</u>	<u>\$18,781,634</u>	<u>\$19,025,667</u>

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

(b) These functions were transferred to Human Services.

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APPENDIX III-E

**GENERAL FUND REVENUES AND EXPENDITURES  
ADOPTED BUDGET AND FINAL FINANCIAL RESULTS FOR FISCAL YEAR 2013  
ADOPTED AND ESTIMATED BUDGET FOR FISCAL YEAR 2014  
ADOPTED BUDGET FOR FISCAL YEAR 2015**

(In Millions)

	<b>Adopted Budget Fiscal Year 2013<sup>(c)</sup></b>	<b>Final Financial Results Fiscal Year 2013<sup>(d)</sup></b>	<b>Adopted Budget Fiscal Year 2014<sup>(f)</sup></b>	<b>Estimated Budget Fiscal Year 2014<sup>(f)</sup></b>	<b>Adopted Budget Fiscal Year 2015<sup>(g)</sup></b>
<b>Revenues</b>					
<u>Taxes</u>					
Personal Income Tax	\$ 8,554.3	\$ 8,719.2	\$ 8,808.8	\$ 9,021.9	\$ 9,399.8
Sales & Use	4,045.9	3,897.0	4,044.0	4,132.2	4,164.8
Corporation	793.0	742.5	723.5	815.4	749.3
Public Service	275.2	266.6	279.3	279.6	284.4
Inheritance & Estate	166.2	439.5	172.9	185.1	179.8
Insurance Companies	234.4	260.9	271.2	271.2	277.6
Cigarettes	411.1	399.8	390.4	383.4	379.5
Real Estate Conveyance	100.3	113.8	143.8	159.4	150.8
Oil Companies	182.6	175.5	37.4 <sup>(g)</sup>	36.8 <sup>(g)</sup>	36.1 <sup>(g)</sup>
Electric Generation Tax	71.0	66.8	17.5 <sup>(h)</sup>	15.5 <sup>(h)</sup>	--
Alcoholic Beverages	59.3	60.4	59.8	59.8	60.2
Admissions and Dues	39.6	36.5	37.0	38.0	37.3
Health Provider Tax	530.7	501.9	512.0	507.0	514.5
Miscellaneous	20.1	21.2	19.9	19.9	20.2
Total Taxes	\$ 15,483.8	\$ 15,701.8	\$ 15,517.5	\$ 15,925.2	\$ 16,254.3
Less Refunds of Taxes	(950.6)	(1,039.1)	(1,073.5)	(1,043.5)	(1,115.6)
Less Earned Income Tax	(116.5)	(105.9)	(104.5)	(104.5)	(121.0)
Less R&D Credit Exchange	(8.5)	(4.1)	(5.5)	(5.5)	(6.2)
Net Taxes	\$ 14,408.2	\$ 14,552.7	\$ 14,334.0	\$ 14,771.7	\$ 15,011.5
<u>Other Revenues</u>					
Transfers- Special Revenues	\$ 305.1	\$ 315.4	\$ 313.9	\$ 310.1	\$ 338.4
Indian Gaming Payments	336.2	296.4	285.3	285.3	280.4
Licenses, Permits, Fees	258.8	262.1	301.2	315.2	274.1
Sales of Commodities & Services	34.8	36.3	38.2	41.2	39.4
Rents, Fines & Escheats	107.7	144.1	114.5	114.6	116.6
Investment Income	2.8	(0.8)	1.3	0.1	1.6
Miscellaneous	162.9	163.8	169.1	158.1	170.9
Less Refunds of Payments	(50.0)	(74.0)	(69.8)	(74.8)	(71.3)
Total Other Revenue	\$ 1,158.3	\$ 1,143.3	\$ 1,153.7	\$ 1,149.8	\$ 1,150.4
<u>Other Sources</u>					
Federal Grants	\$ 3,629.0	\$ 3,733.9	\$ 1,312.7 <sup>(i)</sup>	\$ 1,305.5 <sup>(i)</sup>	\$ 1,227.9 <sup>(i)</sup>
Transfers to the Resources of the General Fund	--	--	--	--	--
Transfers from Tobacco Settlement Funds	93.1	103.1	107.0	107.0	106.0
Transfers to Other Funds <sup>(a)</sup>	(145.5)	(128.0)	285.7 <sup>(g)</sup>	280.3 <sup>(g)</sup>	4.9 <sup>(g)</sup>
Total Other Sources	\$ 3,576.7	\$ 3,709.0	\$ 1,705.4	\$ 1,692.8	\$ 1,338.8
Total Budgeted Revenue <sup>(b)</sup>	\$ 19,143.2	\$ 19,405.0	\$ 17,193.1	\$ 17,614.3	\$ 17,500.7

	<b>Adopted Budget Fiscal Year 2013<sup>(e)</sup></b>	<b>Final Financial Results Fiscal Year 2013<sup>(d)</sup></b>	<b>Adopted Budget Fiscal Year 2014<sup>(f)</sup></b>	<b>Estimated Budget Fiscal Year 2014<sup>(l)</sup></b>	<b>Adopted Budget Fiscal Year 2015<sup>(g)</sup></b>
<b>Appropriations /Expenditures</b>					
Legislative	\$ 76.2	\$ 67.7	\$ 81.2	\$ 81.2	\$ 85.2
General Government	614.9	597.1	616.7	624.7	628.1
Regulation & Protection	243.5	258.1	271.1	275.6	270.3
Conservation & Development	137.1	130.4	229.0 <sup>(i)</sup>	229.0 <sup>(i)</sup>	237.2 <sup>(i)</sup>
Health & Hospitals	1,837.7	1,801.9	1,835.4	1,835.4	1,827.6
Human Services	5,834.2	5,907.2	3,381.3 <sup>(i)</sup>	3,381.3 <sup>(i)</sup>	3,054.5 <sup>(i)</sup>
Education, Libraries & Museums	4,380.6	4,325.2	4,709.5	4,728.3	5,004.7
Corrections	1,450.8	1,408.7	1,481.9	1,481.9	1,516.8
Judicial	543.2	532.8	577.1	581.1	601.3
Non- Functional					
Debt Service	1,870.9	1,804.2	1,719.8 <sup>(k)</sup>	1,719.8 <sup>(k)</sup>	1,850.4 <sup>(k)</sup>
Miscellaneous	2,267.3	2,174.4	2,458.4	2,467.4	2,580.0
Subtotal	<u>\$ 19,256.4</u>	<u>\$ 19,007.7</u>	<u>\$ 17,361.4</u>	<u>\$ 17,405.7</u>	<u>\$ 17,656.1</u>
Other Reductions and Lapses	(116.3)	--	(172.6)	(297.5)	(158.5)
Net Appropriations/ Expenditures	<u>\$ 19,140.1</u>	<u>\$ 19,007.7</u>	<u>\$ 17,188.7</u>	<u>\$ 17,108.1</u>	<u>\$ 17,497.6</u>
Surplus (or Deficit) from Operations	3.1	397.3	4.4	506.1	3.1
Miscellaneous Adjustments	--	0.7	--	--	--
Reserve for Future Fiscal Years	--	(220.8) <sup>(e)</sup>	--	--	--
Statutory Transfer from Restricted Purposes	--	--	--	--	--
<b>Balance<sup>(b)</sup></b>	<u>\$ 3.1</u>	<u>\$ 177.2</u>	<u>\$ 4.4</u>	<u>\$ 506.1</u>	<u>\$ 3.1</u>

**NOTE: Columns may not add due to rounding.**

- (a) Includes transfers to the Mashantucket Pequot Fund for grants to towns. The amounts for Fiscal Years 2013 through 2015 include transfers of \$61.8 million in each year to the Mashantucket Pequot Fund for grants to towns and \$95.2 million in Fiscal Year 2013 to the Special Transportation Fund. The transfers for Fiscal Year 2014 include: \$190.8 million from the Fiscal Year 2013 surplus, \$76.5 million transfer from the Special Transportation Fund and \$80.2 from other sources. The transfers for Fiscal Year 2015 include: \$30.0 million from the Fiscal Year 2013 surplus, \$2.1 million transfer to the Special Transportation Fund and \$38.8 from other sources.
- (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. 12-104 as amended by Public Act No. 12-1 of the June Special Session.
- (d) Per the Comptroller's audited financial results dated December 31, 2013 for Fiscal Year 2013, 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.
- (e) Section 58 of Public Act No. 13-184 transfers up to \$220.8 million of the Fiscal Year 2013 surplus for use in Fiscal Years 2014 and 2015.
- (f) Per Public Act No. 13-184 as amended by various implementer legislation.

- (g) Section 87 of Public Act No. 13-184 increases the transfer of Oil Companies Tax to the Special Transportation by \$158.0 million in Fiscal Year 2014 and \$152.3 million in Fiscal Year 2015.
- (h) Section 76 of Public Act No. 13-184 extends the expiration of the Electric Generators Tax by one additional calendar quarter.
- (i) Pursuant to Public Act No. 13-184, beginning with Fiscal Year 2014, Medicaid related accounts within the Department of Social Services will be appropriated on a net basis that takes into account any federal reimbursement received for such expenditures. This change reduces both revenues and appropriations by an equal amount totaling \$2,768.7 million in Fiscal Year 2014 and \$3,204.9 million in Fiscal Year 2015.
- (j) Public Act No. 13-184 establishes a new Department of Housing and transfers certain existing functions from other agencies within the state.
- (k) 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.
- (l) Estimates reflect the January 20, 2013 Office of Policy and Management's letter to the State Comptroller (for the General Fund for Fiscal Year 2014 as of the period ending December 31, 2013).

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

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