

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

May 25, 2016

Susan Keane
Committee Administrator
Appropriations Committee
300 Capitol Avenue
Hartford, CT 06105

Dear Ms. Keane:

This letter is to inform you that the Office of Policy and Management (OPM) has prepared responses to questions posed during the Spending Cap Commission meeting on Monday, May 9th as follows:

1. *Can OPM provide a historical table of cap exempt items, such as debt service and statutory grants? See exhibit A*
2. *What would be the impact of using the lesser of CPI-U or personal income, rather than the greater of the two, to calculate the expenditure cap growth rate? See exhibit A*
3. *Can OPM provide a historical table of capital gains realizations in Connecticut? See exhibit B*
4. *Can OPM provide a summary of what is included in personal income? See exhibit C*
5. *Has rebasing the expenditure cap ever been challenged in court? No.*
6. *Who at DECD produces the list of 25 distressed municipalities? The list of 25 municipalities is prepared annually by DECD's research unit per C.G.S. 32-9p and is posted on their website at <http://www.ct.gov/ecd/cwp/view.asp?a=1105&q=251248>.*
7. *Should the state rebase for the 10% state match on low income adults covered under the Medicaid expansion? Would the state match be considered a federal mandate? First of all, the Federal share of the Medicaid expansion associated with the Affordable Care Act (ACA) is scheduled to change as follows:*

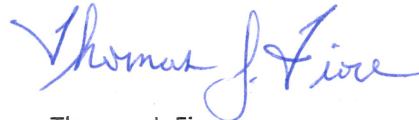
Calendar Year	Federal Reimbursement
2014	100%
2015	100%
2016	100%
2017	95%
2018	94%
2019	93%
2020+	90%

OPM would consider the change in the state share of low income adults to be a revision to Medicaid expenditures, rather than a change in state accounting, and therefore would not rebase. As adoption of the ACA Medicaid expansion was optional for states, this expense would not be considered a federal mandate. This lower reimbursement was already incorporated into the FY 2017 budget and those expenditures were not handled differently from other items under the expenditure cap.

8. *Are there measures of inflation that reflect the cost of government?* The Bureau of Economic Analysis publishes an implicit price deflator for state and local Government consumption expenditures and gross investment on a quarterly basis. It is our understanding that this measure will be discussed more fully at a future Commission meeting.
9. *Is carried interest in capital gains or personal income?* It is our understanding that carried interest is included in capital gains when reported to the Internal Revenue Service as part of an individual's income tax filings. Since capital gains are excluded from personal income, we would expect that carried interest is not included in personal income, but OPM is still investigating this matter.
10. *Can OPM provide a list of non-appropriated expenditures in the state?* All expenditures of the state are included in the Comprehensive Annual Financial Report (CAFR) produced annually by the state Comptroller. However, OPM is looking into producing a summary that will hopefully be more useful to the Commission.

Our office is available to answer any additional questions the committee may have. Thank you for your time.

Regards,



Thomas J. Fiore
Section Director

attachments

Exhibit A

State of Connecticut
Uncapped Expenditures at Budget Adoption
(in millions)

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
<u>Uncapped Appropriations</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
1. Debt Service	\$ 696.3	\$ 793.1	\$ 785.9	\$ 906.5	\$ 1,015.8	\$ 1,127.0	\$ 1,166.6	\$ 1,237.5	\$ 1,328.7	\$ 1,417.2
2. Federal Mandates and Court Orders	-	11.3	19.4	76.1	6.4	16.7	10.9	10.4	15.3	7.5
3. Statutory Grants to Distressed Municipalities	719.1	598.8	830.8	863.9	1,056.6	1,034.8	1,022.1	1,016.1	1,074.2	1,108.1
4. SERS/TRS/JRS Unfunded Liability	-	-	-	-	-	-	-	-	-	-
5. Total	\$ 1,415.4	\$ 1,403.2	\$ 1,636.1	\$ 1,846.5	\$ 2,078.8	\$ 2,178.5	\$ 2,199.6	\$ 2,264.0	\$ 2,418.2	\$ 2,532.8
6. Total Appropriations	\$ 7,721.5	\$ 8,067.4	\$ 8,589.5	\$ 9,484.8	\$ 9,792.8	\$ 10,022.0	\$ 10,377.7	\$ 10,994.7	\$ 11,618.9	\$ 12,305.0
7. Increase/Decrease in Total Appropriations		4.5%	6.5%	10.4%	3.2%	2.3%	3.5%	5.9%	5.7%	5.9%
8. Uncapped Appropriations/Total Approp.	18.3%	17.4%	19.0%	19.5%	21.2%	21.7%	21.2%	20.6%	20.8%	20.6%
9. Capped Growth Rate (Greater of CPI and PI)		6.38%	5.82%	4.86%	3.59%	3.43%	3.97%	4.86%	5.08%	5.48%
10. Cumulative Cap Growth, 1992=100	100.0	106.4	112.6	118.0	122.3	126.5	131.5	137.9	144.9	152.8
<u>Additional Information</u>										
11. Lesser of CPI and Personal Income		3.06%	2.90%	2.75%	2.67%	2.54%	3.32%	1.70%	1.73%	2.55%
12. Cumulative Cap Growth, 1992=100	100.0	103.1	106.0	109.0	111.9	114.7	118.5	120.5	122.6	125.8
13. Estimated Federal Share of Medicaid	\$ 643.5	\$ 736.3	\$ 818.7	\$ 877.8	\$ 951.6	\$ 974.6	\$ 1,020.0	\$ 999.0	\$ 1,108.4	\$ 1,186.5
14. Total Appropriations Less Est. Federal Share	\$ 7,078.0	\$ 7,331.1	\$ 7,770.8	\$ 8,607.0	\$ 8,841.2	\$ 9,047.4	\$ 9,357.7	\$ 9,995.7	\$ 10,510.5	\$ 11,118.5

Notes

Figures in odd numbered years represent revised budget.

(1) CAGR = Compound Annual Growth Rate

(2) Adjusted as follows:

a) Removed SERS/TRS/JRS Unfunded Liability of \$1.8 billion in FY 2016 from line 5 in order to be comparable to prior years.

b) Total appropriations (line 6) adjusted downward by \$0.6 billion in FY 1992 (line 14) to replicate the impact of net budgeting of Medicaid in order to be comparable to FY 16.

(3) Net budgeting of Medicaid began in FY 2014 and the amounts outlined in the box were no longer appropriated.

Source: OPM

Exhibit A

State of Connecticut
Uncapped Expenditures at Budget Adoption
(in millions)

	11.	12.	13.	14.	15.	16.	17.	18.	19.	20.
	FY	FY	FY	FY	FY	FY	FY	FY	FY	FY
<u>Uncapped Appropriations</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1. Debt Service	\$ 1,437.7	\$ 1,438.1	\$ 1,590.3	\$ 1,734.2	\$ 1,704.5	\$ 1,813.2	\$ 1,835.3	\$ 1,996.1	\$ 2,113.3	\$ 2,131.6
2. Federal Mandates and Court Orders	29.2	5.1	-	19.4	123.2	142.9	105.5	49.0	15.4	46.7
3. Statutory Grants to Distressed Municipalities	1,294.9	1,307.2	1,258.2	1,294.2	1,339.0	1,350.4	1,506.1	1,563.4	1,480.6	1,473.5
4. SERS/TRS/JRS Unfunded Liability	-	-	-	-	-	-	-	-	-	-
5. Total	\$ 2,761.8	\$ 2,750.4	\$ 2,848.5	\$ 3,047.8	\$ 3,166.7	\$ 3,306.5	\$ 3,446.9	\$ 3,608.5	\$ 3,609.3	\$ 3,651.8
6. Total Appropriations	\$ 12,947.0	\$ 13,217.8	\$ 13,520.5	\$ 14,322.1	\$ 15,282.9	\$ 16,068.0	\$ 17,597.9	\$ 18,442.7	\$ 18,640.4	\$ 19,010.2
7. Increase/Decrease in Total Appropriations	5.2%	2.1%	2.3%	5.9%	6.7%	5.1%	9.5%	4.8%	1.1%	2.0%
8. Uncapped Appropriations/Total Approp.	21.3%	20.8%	21.1%	21.3%	20.7%	20.6%	19.6%	19.6%	19.4%	19.2%
9. Capped Growth Rate (Greater of CPI and PI)	5.33%	6.20%	5.27%	4.46%	4.06%	3.88%	3.31%	4.60%	5.90%	4.53%
10. Cumulative Cap Growth, 1992=100	161.0	171.0	180.0	188.0	195.6	203.2	209.9	219.6	232.6	243.1
<u>Additional Information</u>										
11. Lesser of CPI and Personal Income	3.43%	2.24%	2.82%	1.98%	3.27%	3.42%	1.86%	3.76%	3.23%	1.12%
12. Cumulative Cap Growth, 1992=100	130.1	133.0	136.7	139.4	144.0	148.9	151.7	157.4	162.5	164.3
13. Estimated Federal Share of Medicaid	\$ 1,273.5	\$ 1,351.6	\$ 1,392.5	\$ 1,461.2	\$ 1,570.3	\$ 1,575.8	\$ 1,735.3	\$ 1,925.8	\$ 1,927.5	\$ 2,232.9
14. Total Appropriations Less Est. Federal Share	\$ 11,673.5	\$ 11,866.2	\$ 12,128.0	\$ 12,860.9	\$ 13,712.6	\$ 14,492.2	\$ 15,862.6	\$ 16,516.9	\$ 16,712.9	\$ 16,777.3

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Source: OPM

Exhibit A

State of Connecticut
Uncapped Expenditures at Budget Adoption
(in millions)

	21.	22.	23.	24.	25.	26.	27.	
	FY	FY	FY	FY	FY	FY 92-16	Adjusted ⁽²⁾	
<u>Uncapped Appropriations</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>CAGR ⁽¹⁾</u>	<u>CAGR</u>	
1. Debt Service	\$ 2,373.0	\$ 2,328.9	\$ 2,183.6	\$ 2,261.1	\$ 2,439.5	5.36%		
2. Federal Mandates and Court Orders	46.3	20.0	61.7	20.4	42.9			
3. Statutory Grants to Distressed Municipalities	1,480.5	1,541.4	1,529.3	1,578.2	1,579.2	3.33%		
4. SERS/TRS/JRS Unfunded Liability	-	-	-	-	1,828.8			
5. Total	\$ 3,899.8	\$ 3,890.3	\$ 3,774.6	\$ 3,859.7	\$ 5,890.4	6.12%	4.49%	(2a)
6. Total Appropriations	\$ 20,140.8	\$ 20,543.0	\$ 18,606.5	\$ 18,993.7	\$ 19,807.2	4.00%	4.38%	(2b)
7. Increase/Decrease in Total Appropriations	5.9%	2.0%	-9.4%	2.1%	4.3%			
8. Uncapped Appropriations/Total Approp.	19.4%	18.9%	20.3%	20.3%	29.7%			
9. Capped Growth Rate (Greater of CPI and PI)	3.39%	2.98%	1.80%	1.70%	3.20%			
10. Cumulative Cap Growth, 1992=100	251.3	258.8	263.5	268.0	276.5	4.33%		
<u>Additional Information</u>								
11. Lesser of CPI and Personal Income	1.21%	2.73%	1.74%	1.40%	-0.06%			
12. Cumulative Cap Growth, 1992=100	166.3	170.8	173.8	176.2	176.1	2.39%		
13. Estimated Federal Share of Medicaid	\$ 2,357.2	\$ 2,449.0	\$ 2,993.0	\$ 3,483.0	\$ 3,662.0	7.51%		(3)
14. Total Appropriations Less Est. Federal Share	\$ 17,783.6	\$ 18,094.0	\$ 18,606.5	\$ 18,993.7	\$ 19,807.2	4.38%		

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Source: OPM

**Capital Gains Realizations and Adjusted Gross Income (AGI)
Reported by Connecticut Residents
(In Millions)**

Income <u>Year</u>	CT Capital Gains <u>Realizations</u>	Percent <u>Change</u>	Federal AGI Reported on CT <u>Returns</u>	Percent <u>Change</u>	CT AGI Reported on CT <u>Returns</u>	Percent <u>Change</u>	Capital Gains as a % of <u>CT AGI</u>
1994	\$2,547	-16.0%	\$65,759	1.7%	\$65,105	1.4%	3.9%
1995	\$3,832	50.5%	\$71,766	9.1%	\$70,945	9.0%	5.4%
1996	\$4,732	23.5%	\$78,042	8.7%	\$77,091	8.7%	6.1%
1997	\$7,787	64.6%	\$88,624	13.6%	\$87,528	13.5%	8.9%
1998	\$9,867	26.7%	\$97,713	10.3%	\$95,982	9.7%	10.3%
1999	\$11,800	19.6%	\$105,304	7.8%	\$103,415	7.7%	11.4%
2000	\$15,435	30.8%	\$116,872	11.0%	\$114,916	11.1%	13.4%
2001	\$7,391	-52.1%	\$110,793	-5.2%	\$109,024	-5.1%	6.8%
2002	\$6,231	-15.7%	\$102,174	-7.8%	\$100,683	-7.7%	6.2%
2003	\$8,723	40.0%	\$108,722	6.4%	\$107,245	6.5%	8.1%
2004	\$10,626	21.8%	\$120,338	10.7%	\$118,821	10.8%	8.9%
2005	\$13,765	29.5%	\$132,227	9.9%	\$130,361	9.7%	10.6%
2006	\$15,784	14.7%	\$142,165	7.5%	\$140,153	7.5%	11.3%
2007	\$21,006	33.0%	\$160,501	12.9%	\$158,207	12.9%	13.3%
2008	\$8,377	-60.1%	\$142,338	-11.3%	\$140,004	-11.5%	6.0%
2009	\$5,172	-38.3%	\$132,238	-7.1%	\$129,947	-7.2%	4.0%
2010	\$9,962	92.6%	\$141,658	7.1%	\$139,326	7.2%	7.2%
2011	\$8,977	-9.9%	\$144,662	2.1%	\$142,224	2.1%	6.3%
2012	\$13,142	46.4%	\$156,672	8.3%	\$154,105	8.4%	8.5%
2013	\$11,977	-8.9%	\$153,362	-2.1%	\$150,514	-2.3%	8.0%
2014			\$164,521	7.3%	\$161,355	7.2%	

Source: Dept. of Revenue Services and the Internal Revenue Service

Personal Income: Income received by persons from all sources

- **Wage and salary disbursements**
 - Includes commissions, tips, and bonuses and employee contributions to certain deferred compensation plans (for example 401(k) plans). Wages and salaries are measured before deductions such as social security contributions and union dues.
- **Supplements to wages and salaries (Other Labor Income)**
 - Employer contributions for employee pension funds, insurance funds, and government social insurance
- **Proprietors' income¹²**
 - Income of sole proprietorships, partnerships, and tax-exempt cooperatives
- **Rental income of persons¹**
 - Earnings from the rental of real property by persons who are not primarily engaged in the real estate business
 - Imputed net rental income of owner-occupants
 - Royalties received by persons from patents, copyrights, and rights to natural resources
- **Personal income receipts on assets**
 - Income from dividends and interest
- **Personal current transfer receipts**
 - Government social benefits (benefits from government social insurance funds)
 - Net current transfer receipts from business (for example insurance settlements)
- **Less Contributions for Government Social Insurance**
 - Employer contributions for government social insurance as well as payments by employees, the self-employed, and other individuals who participate in government social insurance programs.

Note: Capital gains and losses are **not** included in Personal Income, because they result from the revaluation and sale of existing assets rather than from current production.

¹ with **Capital consumption adjustment (CCAdj)** – depreciation for corporations, proprietorships, nonprofit institutions, and rental income of persons

² with **Inventory valuation adjustment (IVA)** - removes inventory "profits," which are more like a capital-gain than profits from current production.

Imputed net rental income of owner-occupants – owner-occupied property is treated as though it is a rental business, so that personal income remains invariant as to whether a house is owner-occupied or rented. It is based on the assumption that owner-occupants are in the rental business and that they are renting the houses in which they live to themselves: As tenants, they pay rent to the landlords (that is, to themselves); as landlords, they collect rent from their tenants (that is, from themselves), they incur expenses, and they may have a profit or a loss from the rental business.

BEA imputes a rental value for the owner-occupied housing based on the rents charged for similar tenant-occupied housing. Similarly, the expenses associated with owner-occupied housing, such as depreciation, maintenance and repairs, property taxes, and mortgage interest, are deducted from the imputed services to derive the value of rental income of persons.

Source: U.S. Bureau of Economic Analysis and the Economic Report of the Governor

State Personal Income - Release Schedule

Quarterly State Personal Income data is released:

<u>Release</u>	<u>Preliminary</u>	<u>Revised</u>
March 2016	2015 Quarter 4	2015 Quarter 3 and Prior
June 2016	2016 Quarter 1	2015 Quarter 4 and Prior
September 2016	2016 Quarter 2	2016 Quarter 1 and Prior
December 2016	2016 Quarter 3	2016 Quarter 2 and Prior

Annual State Personal Income data for the prior year is released:

- March – Preliminary
- September – Revised