



CONNECTICUT

RECOMMENDED REVISIONS TO THE FY 2019 BUDGET

Secretary Ben Barnes
Finance Committee Presentation
March 2, 2018

Introduction



The Governor's budget proposal for the biennium:

- Makes minor revisions to bipartisan budget to achieve balance
- Recommends revenues to avoid project deferrals, fare hikes, and service cuts in transportation
- Reduces out-year budget gaps by half

Budget Overview



FY 2019 General Fund Budget Challenge

(in millions)

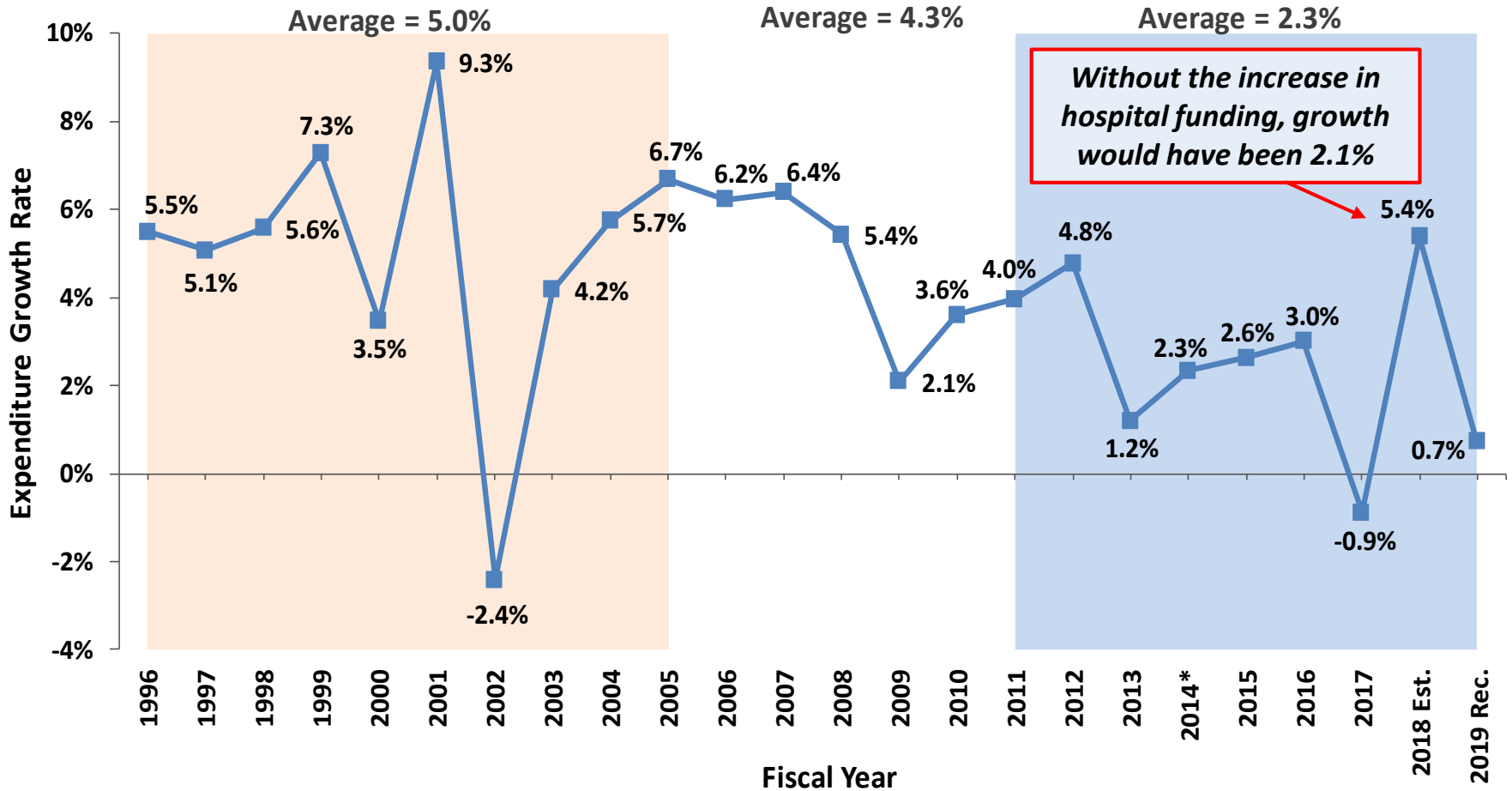
	Adopted Budget	Consensus Adjustments	Revised Total
Revenues	\$ 18,908.2	\$ (282.8)	\$ 18,625.4
Appropriations	<u>18,790.6</u>	<u>-</u>	<u>18,790.6</u>
Balance	\$ 117.6	\$ (282.8)	\$ (165.2)

Other Adopted Budget Challenges

Revenue - Unspecified elimination of tax expenditures			(10.0)
Required technical budget adjustments			
Annualize funding for FY 2018 deficiencies			(10.4)
Fund programming for Juan F. compliance			(16.3)
Revise funding due to cost and caseload adjustments			(10.5)
Adjust for overly aggressive savings estimates			(7.5)
All other adjustments (net)			4.9
Unachievable lapses			<u>(51.2)</u>
Total (including consensus revisions)			(266.3)

Expenditure Growth

Lowest Average General Fund Growth in Decades



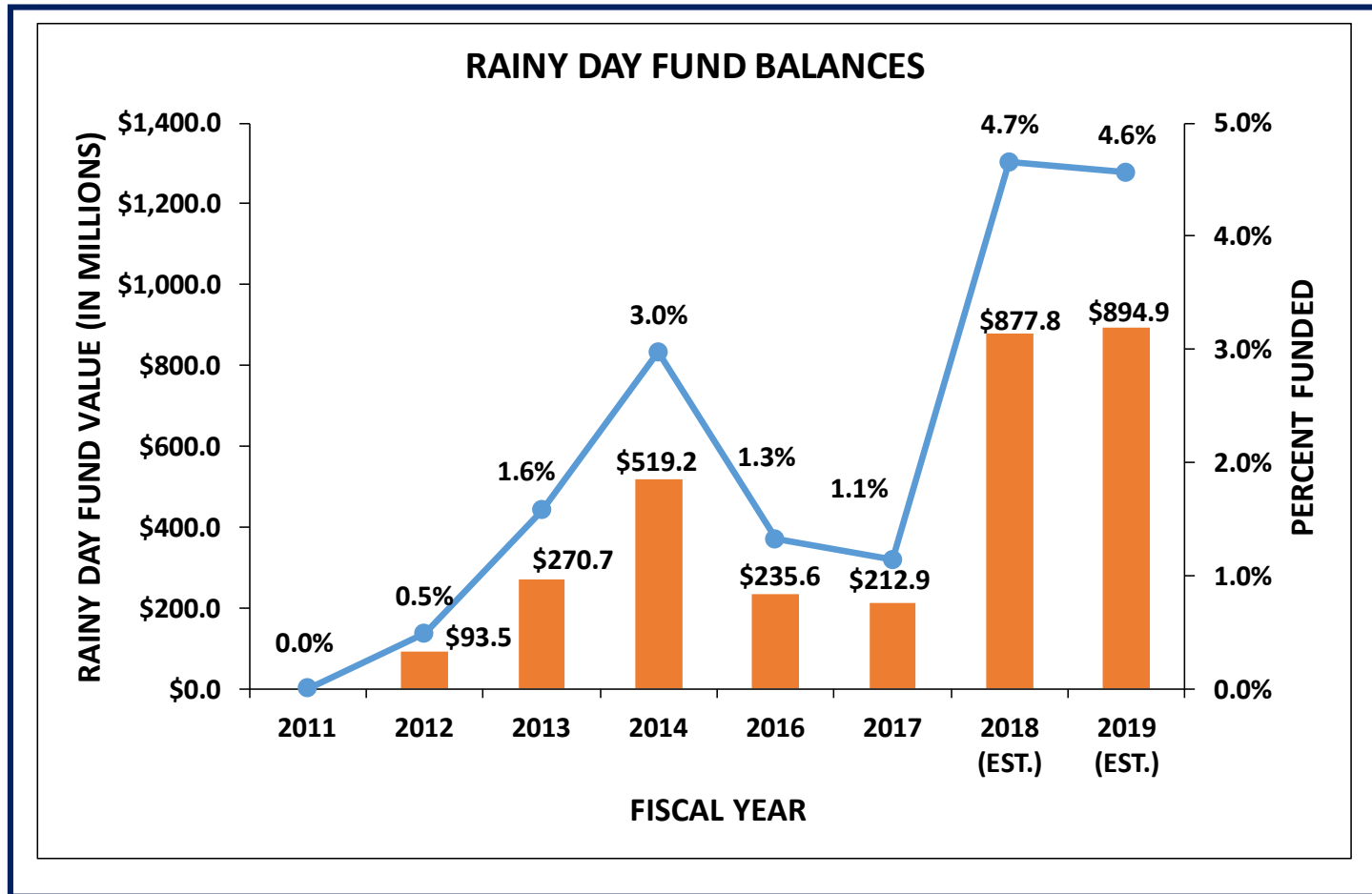
Average represents the compound annual growth rate of each shaded section
*2013 to 2014 growth has been adjusted to reflect the net budgeting of Medicaid

Out-year Budget Gaps Reduced

(\$ in millions)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
<u>Bipartisan Budget (PA 17-2, JSS)</u>			
Revenue (January 2018 consensus)	17,510.1	17,612.9	17,753.5
Appropriations (per OFA fiscal note)	<u>19,708.5</u>	<u>20,548.0</u>	<u>21,187.9</u>
Projected Deficit	(2,198.4)	(2,935.1)	(3,434.4)
<u>Governor's Recommended Revisions</u>			
Revenue	18,708.6	18,870.3	19,045.4
Appropriations	<u>19,552.7</u>	<u>20,375.2</u>	<u>20,988.7</u>
Projected Deficit	(844.1)	(1,504.9)	(1,943.3)
Out-year Balance Improvement	1,354.3	1,430.2	1,491.1

Rebuilding the Budget Reserve Fund



- Public Act 17-2, June Special Session, requires payments from the estimated and final portion of the personal income tax in excess of \$3.15 billion be deposited to the Budget Reserve Fund
- If the legislature acts to close the projected FY 2018 deficit, the Rainy Day Fund will grow to \$894.9 million, or an estimated 4.6 percent, by the end of FY 2019 based on current consensus revenue forecasts

Transportation



Special Transportation Fund

- Insufficient revenue collections in the STF will trigger service cuts, fare increases, and deferral of important infrastructure projects
- The Governor recommends adding revenue to the STF in order to:
 - Restore capital spending to adequately address the state's infrastructure needs
 - Avoid service reductions, rail and bus fare increases and cuts to transit district subsidies

Special Transportation Fund Revenue Proposals

- Statewide Tolling – Will provide the funding necessary to address some of the state’s largest infrastructure projects and provide essential traffic mitigation
- Gasoline Tax – Add 7 cents to the gasoline tax by FY 2022, raising gasoline taxes from 25 cents to 32 cents to sustain the fund until tolls are implemented
- Accelerate transfer of sales tax on cars by two years

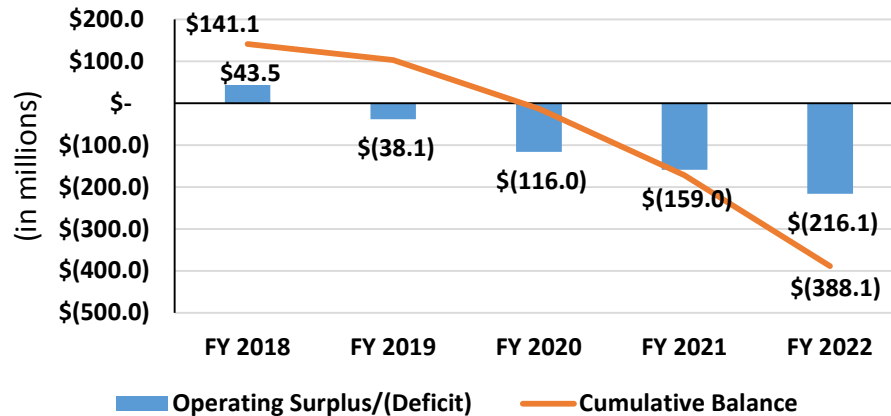
Special Transportation Fund Revenue Proposals

(in millions)

	<u>Eff. Date</u>	<u>Fiscal 2019</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>	<u>Fiscal 2022</u>
Increase Gasoline Tax by 7 Cents (2, 1, 2, 2)	7/1/2018	\$ 30.0	\$ 45.0	\$ 75.0	\$ 105.0
Accelerate Transfer of Car Sales Tax by 2 Years	7/1/2018	9.1	66.9	78.7	74.9
Impose a Tire Fee (\$3 per tire)	7/1/2018	8.0	8.0	8.0	8.0
Retain Suspended License Restoration Fees in STF	7/1/2019	-	2.0	2.0	2.0
Institute Statewide Tolling (Begins in FY 2023)	7/1/2018	-	-	-	-
		<u>\$ 47.1</u>	<u>\$ 121.9</u>	<u>\$ 163.7</u>	<u>\$ 189.9</u>

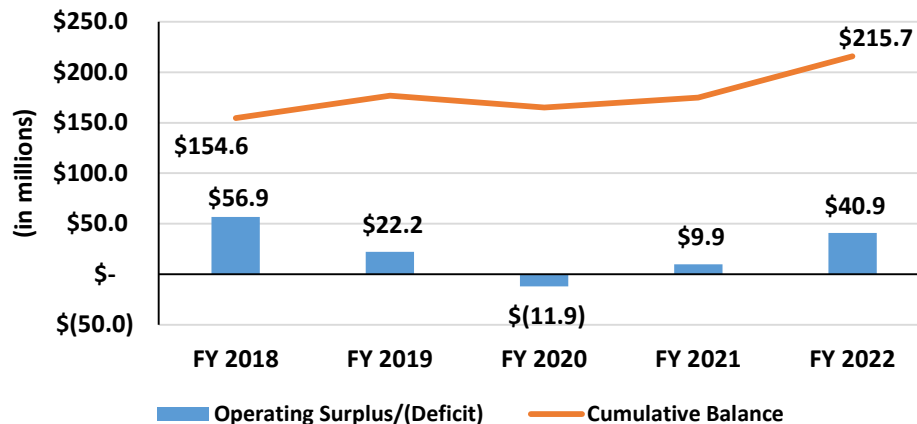
Special Transportation Fund

**Adopted Bipartisan Budget
with November 13, 2017 Consensus Revenue**



- The November Consensus Revenue projection identified a drop-off in revenue due to continued low oil prices/slow growing revenue
- As a result, the fund would have gone into deficit and run out of money in FY 2020

**Indefinitely Postpone Projects, Service Cuts and
Fare Hikes**

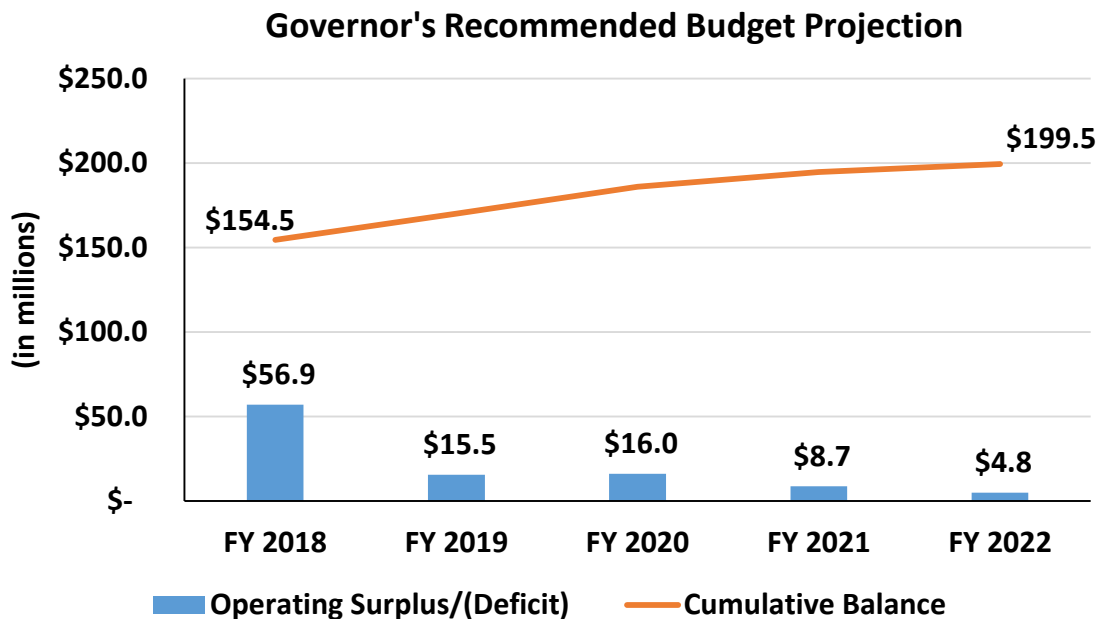


- To address the revenue drop, the state identified actions to balance the fund with no new revenues:
 - 20% rail fare hike and a \$0.25 bus fare hike
 - Major service cuts to Shore Line East and Branch Lines
 - Deferral of over \$4.3 billion in infrastructure projects
- All together, these actions will produce a balanced Special Transportation Fund

Special Transportation Fund

Governor's Recommendation:

No Service Cuts, No Fare Hikes, and No Project Deferrals



- No service cuts, no fare hikes, and no project deferrals
- Annual gas tax increase of 2¢, 1¢, 2¢, 2¢ in FY 2019 through FY 2022
- Authorization of tolls to produce revenue in FY 2023
- Advance diversion of sales tax on motor vehicles into FY 2019

Special Transportation Fund

The History of Transfers To/From the STF

(in millions)

Fiscal Year	Transfers from the General Fund					Transfers to G.F.	Net to STF
	Petroleum Gross Receipts Tax*	Petroleum Gross Receipts Hold Harmless	Sales Tax	General Transp. Subsidy	Total Transfers from the General Fund	Transfers to the General Fund	Net Transp. Fund
2003	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (60.5)	\$ (60.5)
2004	10.5	-	-	-	10.5	(8.5)	2.0
2005	13.0	-	-	-	13.0	-	13.0
2006	43.5	-	-	-	43.5	-	43.5
2007	141.0	-	-	-	141.0	-	141.0
2008	127.8	-	-	-	127.8	-	127.8
2009	141.9	-	-	-	141.9	(6.5)	135.4
2010	141.9	-	-	71.2	213.1	-	213.1
2011	165.3	-	-	107.6	272.9	-	272.9
2012	226.9	-	-	81.6	308.5	-	308.5
2013	199.4	-	-	95.2	294.6	-	294.6
2014	380.7	-	-	-	380.7	(76.5)	304.2
2015	337.9	41.2	-	-	379.1	-	379.1
2016	-	-	109.0	-	109.0	-	109.0
2017	-	-	188.4	-	188.4	-	188.4
Total	\$ 1,929.8	\$ 41.2	\$ 297.4	\$ 355.5	\$ 2,623.9	\$ (152.0)	\$ 2,472.0

Source: Annual Reports of the State Comptroller

*Section 91 of Public Act 15-244 modifies C.G.S. Section 13b-61a by eliminating the Oil Companies transfer and redirecting all taxes collected to the Special Transportation Fund.

Special Transportation Fund

The History of Transfers To/From the STF

<u>Date</u>	<u>Revenue Source</u>	<u>Previously Deposited To:</u>
FY 1985	Motor Fuels Tax	General Fund
FY 1985	Motor Vehicle Receipts	General Fund
FY 1985	License, Permits, Fees (Transp. Related)	General Fund
FY 1999	Oil Companies	General Fund & Other
FY 2000	Sales Tax - DMV	General Fund
FY 2010	General Fund Transfer – Eliminated FY 2016	General Fund
FY 2016	Sales & Use Tax – 0.5% by FY 2018	General Fund

- Note:**
- 1) In FY 1984 1 cent of the Motor Fuels Tax was transferred to the Special Transportation Fund.
 - 2) Beginning in FY 2016, and each year thereafter, 100% of Oil Companies revenue will be deposited into the STF.

Special Transportation Fund

The History of Transfers To/From the STF

STF Revenue by Fiscal Year (\$ in millions)

<u>Fiscal Year</u>	<u>Revenue Total</u>	<u>Year to Year Change</u>	<u>Change from FY 2011</u>
2011	1,167.2	-	-
2012	1,232.9	65.7	65.7
2013	1,232.5	(0.4)	65.3
2014	1,255.7	23.2	88.5
2015	1,360.9	105.2	193.7
2016	1,352.8	(8.1)	185.6
2017	1,394.4	41.6	227.2
2018	1,554.4	160.0	387.2
Cumulative Total:		387.2	1,213.2

- The Special Transportation Fund has seen cumulative revenue growth since the Governor took office
- Since 2003, a net of \$2.4 billion of General Fund revenue has been transferred to the STF
- New revenues are needed not because of past underfunding but due to the cost of necessary improvements to our aging transportation infrastructure
 - Current revenues can not accommodate the size of large projects like the Waterbury “Mixmaster” and the Hartford Viaduct which are in excess of 50 years old.

Revenue



Restoring Balance to FY 2019

Major revenue changes in FY 2019 include: (in millions)

	FY 2019 Amount
Eliminate the \$200 property tax credit*	\$ 49.7
Accounting change for Higher Ed Alt. Retirement	35.5
Repeal exemption for nonprescription drugs*	30.0
Limit \$2.5 million cap on unitary to manufacturers	25.0
Increases to real estate conveyance tax rates*	22.9
Increase cigarette tax rate to \$4.60/pack*	20.0
Corporate surcharge of 8% beginning in IY 2019	18.0
Expand bottle bill to wine & liquor at 25 cents*	13.0
Net impact of hotel occupancy tax changes*	12.7
Restore energy fund sweeps in FY 2019 (RGGI/Green Bank)	(24.0)
All Other Changes - Net	<u>31.8</u>
	\$ 234.6

*Tax types modified or considered for adjustment in 2017

Reducing Out-year Budget Gaps

Changes which will significantly reduce out-year budget deficits include:

(in millions)	FY 2022 <u>Amount</u>
Maintain hospital tax at FY18/FY19 levels	\$ 516.0
Eliminate restoration of the MRSA account	356.0
Eliminate the \$200 property tax credit	105.0
Eliminate new exemption for pension income	57.5
Repeal 7/7 brownfield tax credit program	40.0
Eliminate new exemption for social security income	18.4
Eliminate \$500 credit for STEM graduates	11.8
Eliminate restoration of the RPIA account	11.5
Eliminate transfer to the early childhood ed. program	10.0
Maintain teachers' pension exemption at 25%	8.0
Eliminate transfer to Tobacco & Health Trust Fund	6.0
All Other Changes - Net	<u>151.7</u>
	\$ 1,291.9

Protecting Connecticut From Federal Tax Changes

The Governor's proposed budget introduces changes to ensure Connecticut remains competitive under the new federal tax regime:

- A revenue neutral tax on pass-through entities offset by a personal income tax credit will provide Connecticut's small business owners with favorable federal tax treatment
- Allowing municipalities to create charitable organizations supporting town services, in conjunction with a local property tax credit, will allow our cities and towns to continue to provide services while reducing individuals' federal taxes

In addition, to avoid a General Fund revenue loss:

- Connecticut will not adopt federal tax changes related to accelerated depreciation and asset expensing
- Federal estate tax exemption levels phase in by 2023

Federal Tax Changes

New York State's Approach

Governor Cuomo of New York released on February 16, 2018 several amendments to his Fiscal Year 2019 executive budget recommending the following changes in response to federal tax reform:

1. The creation of an optional employer compensation expense tax at the employer level offset by a personal income tax credit at the employee level (also known as a Payroll Tax)
2. An income tax credit for contributions to state-operated charitable funds equal to 85 percent of the deduction amount for the tax year after the donation is made
3. An authorization of local charitable funds, offset by a local tax credit equal to 95 percent of the donation

Proposed Capital Budget



Capital Budget Revisions

- \$141 million in additional general obligation (GO) bond authorizations in FY 2019:
 - \$100 million - continue rehabilitation of the XL Center in Hartford
 - \$25 million - continue information technology improvements in state agencies
 - \$16 million - construct parking to support Bushnell area redevelopment
- These are in addition to previous authorizations by the General Assembly, which include:
 - \$1.295 billion - various projects and programs
 - \$200 million - Next Generation Connecticut/UConn 2000 program
 - \$95 million - CSCU 2020 program
 - \$12.525 million - Bioscience Collaboration Program
 - \$15 million - Bioscience Innovation Fund
- These authorizations are offset by the cancellation of \$40 million in existing GO bond authorizations

Addressing Long-Term Liabilities



Teachers' Retirement System (TRS)

- The current funding methodology results in increasingly volatile changes in required contributions as we approach end of the fixed amortization period in 2032
- Covenants included in the pension obligation bonds issued in 2008 require full funding of the state contribution
- Mirroring the funding approach utilized for SERS last year will help minimize risk in future years
- As in 2017, proposed changes include:
 - Reduced rate of return assumption from 8.0% to 6.9%
 - Extended amortization period
 - Transitioning to level dollar amortization
 - Laddered amortization of future gains or losses
- TRS Viability Commission report expected in March

Teachers' Retirement System

Other Option – Transfer an asset, like the lottery, to the TRS

- The lottery could potentially be valued at \$4.5 billion to \$5.5 billion based on an OPM preliminary analysis
- An asset of this size would raise the TRS funded ratio above 70%
- May provide an opportunity to exercise existing authority within the bond covenant to make necessary changes that will strengthen the fund, like reducing the return assumption

Other Notable Items

1. Bond Covenant (Sec. 702 of P.A. 17-2 JSS)

➤ Beginning May 15, 2018 requires Treasurer to include in any new G.O. bond issue the pledge that the state of Connecticut must abide by:

1. Budget Reserve Fund/Volatility Cap
2. Revenue Cap
3. Statutory spending cap authorization
4. Bond caps (including authorization, allocation, allotment and issuance caps)

➤ Legislature should consider delaying the effective date to provide time to analyze all the consequences of the language

➤ Provide the next administration the opportunity to weigh in on the issues

2. Commission on Fiscal Stability Economic Growth Report

3. Teachers' Retirement System Viability Commission – Report due by the end of March

4. S.B. 10, 11, 12:

➤ You have testimony and fact sheet in support of these Governor's bills which are on your agenda today

