



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

October 20, 2011

The Honorable Kevin Lembo
State Comptroller
55 Elm Street
Hartford, Connecticut 06106

Dear Comptroller Lembo:

The following information on the State's General Fund for fiscal year 2012 is provided in accordance with Section 4-66 of the General Statutes. In addition, an analysis of the Special Transportation Fund is included due to the significant nature of this fund. It should be noted that these projections reflect the state's current modified cash basis of accounting but include an adjustment as noted below in compliance with legislation initiating the state's transition to Generally Accepted Accounting Principles (GAAP).

General Fund

We are projecting a General Fund balance of \$75.6 million this month, a decrease of \$3.3 million from last month's estimate, and \$0.6 million above the amount reserved to address the GAAP deficit per Sec. 46 of Public Act 11-48. However, we note that this month's estimate relies on incomplete data for several significant revenue streams as a result of filing extensions due to Tropical Storm Irene, as well as uncertainty regarding several significant expenditure areas, most notably, the pending updated valuation of the State Employees Retirement Fund and the financial impact of changes affecting the State employee healthcare accounts. These are discussed further below. We also note that the adopted budget is only \$1.0 million below the constitutional expenditure cap, so spending will need to be brought in line with appropriations in order to remain within the cap's limits. In accordance with Sec. 511 of Public Act 09-3, June Special Session, any remaining balance beyond the \$75 million required for GAAP will be dedicated to redeeming Economic Recovery Notes issued to finance the FY 2009 deficit.

Revenues

This month's estimate reflects a consensus between OPM and the legislature's Office of Fiscal Analysis reached October 14th pursuant to C.G.S. 2-36c. As a result of that consensus, General Fund revenues are being revised downward by a net \$2.6 million from the budgeted levels reflected in last month's forecast. The Sales Tax estimate has been revised downward by \$23.5 million as its current positive growth is not at a pace sufficient to meet our target. Indian Gaming payments have been revised downward by \$20.7 million to reflect a continued decline in collections. Refunds of Payments are forecast to increase by \$11.7 million due to a greater volume of refunds of escheated property. Oil Companies revenue is estimated to increase by \$22.4 million due to higher than anticipated fuel prices. Federal Grant revenue has been revised upward by \$16.3 million due largely to the Medicaid deficiency discussed

further below. Real Estate Conveyance tax revenues have been revised upward by \$7.5 million as FY 2011 collections ended better than anticipated and collections to date have exceeded their targets. All other revenue changes net to a positive \$7.1 million. It should be noted that the October consensus forecast features incomplete information in several significant revenue categories. This is due to state filing and tax payment extensions that mirror federal extensions in the wake of the Presidential disaster declaration related to Tropical Storm Irene. These extensions allow filers to delay payment of the Personal Income Tax and the Corporation Tax until the end of October.

Expenditures

Overall, expenditures are estimated at \$2.7 million above appropriated levels, an increase of \$0.7 million over last month's estimate. A net shortfall of \$30.0 million is forecast in the Department of Social Services' Medicaid account after accounting for various offsetting lapses. The Public Defenders Services Commission will experience a net deficiency of \$555,000 based on a projected \$2.0 million shortfall in the Contracted Attorneys account resulting from a plan to resolve payments for cases handled by contracted child protection attorneys, which is partially offset by lapses in various accounts. The Teachers' Retirement Board is expected to experience a deficiency of \$2.4 million in its Retirees Health Service Cost account due to higher than anticipated membership in the plan.

The deficiencies noted above are mostly offset by an anticipated lapse of \$15.0 million in the Treasurer's Debt Service account as a result of lower than anticipated interest costs and higher bond premiums for the May 2011 bond sale, Personal Services lapses of \$2 million at the Office of Legislative Management and \$300,000 at the Auditors of Public Accounts, and \$13.0 million lapsing across a variety of accounts at the Department of Children and Families.

Watch List

As noted above, several areas of the budget have the potential to significantly impact the estimates provided in this letter. Of particular note, this letter does not include any projected deficiency in the State Employees Health Service Cost or Retired Employees Health Service Cost accounts at the Office of the State Comptroller. However, based on higher than anticipated enrollment in the Health Enhancement Plan and the limited expenditure data available to this office, a significant shortfall is possible for these accounts; as more data becomes available a revised estimate can be made. In the Comptrollers' State Employee Retirement Contribution account, an updated valuation and calculation of the State's actuarially required contribution is anticipated in the coming weeks; until that calculation is complete, the impacts of the changes negotiated between the State and SEBAC in combination with market changes over the valuation period are not known. Finally, our projections for the General Fund assume no state resources will be provided to continue benefits under the Connecticut Energy Assistance Program should federal funding be exhausted. Based on preliminary numbers released by the U.S. House and Senate Appropriations committees, Connecticut's share of federal LIHEAP funding should be sufficient to cover the benefit levels approved by the legislature.

Special Transportation Fund

In the Special Transportation Fund, revenues also reflect the consensus process mentioned above and have been revised downward by \$18.8 million. Motor Fuels Tax revenue has been revised downward by \$15.5 million as higher fuel prices and a slowing economy have dampened consumption. All other revenue changes net to a negative \$3.3 million. More than offsetting this change, estimated expenditures have been reduced by \$20.0 million in the Treasurer's Debt Service account as the budgeted fall bond sale is anticipated to be delayed until December and reduced in size. We anticipate the fund balance on June 30, 2012 to be \$109.2 million.

It is important to note that while these projections are the best that can be made at this time, estimates may have to be adjusted to reflect changes in the economy, expenditure patterns and/or other factors as the year progresses.

Given that the adopted budget has little room available under the expenditure cap and the need to remain balanced on a GAAP basis, we will continue to pay close attention to managing expenditures throughout the year.

Sincerely,

A handwritten signature in black ink, appearing to read "Benjamin Barnes", written in a cursive style.

Benjamin Barnes
Secretary

Summary
October 20, 2011

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2012
As of September 30, 2011
(In Millions)

General Fund

Balance - September 20, 2011		\$	78.9
Revenues			
Sales Tax	(23.5)		
Indian gaming payments	(20.7)		
Refunds of Payments	(11.7)		
Oil Companies	22.4		
Federal Grants	16.3		
Real Estate Conveyance	7.5		
All Other	7.1		(2.6)
Expenditures			
Additional Requirements	(16.0)		
Estimated Lapses	15.3		
Miscellaneous Adjustments/Rounding	0.0		(0.7)
Balance - October 20, 2011		\$	75.6
Reserved Balance ¹			(75.6)
Estimated Balance - June 30, 2012		\$	-

1. \$75,000,000 is reserved for GAAP per Sec. 46 of P.A. 11-48, with the balance applied to Economic Recovery Notes per Sec. 511, P.A. 09-3, June Spec. Sess.

Special Transportation Fund

Carry Forward FY 2010-11 Surplus		\$	107.4
Balance - September 20, 2011			0.6
Revenues			
Motor Fuels	(15.5)		
All Other	(3.3)		(18.8)
Expenditures			
Additional Requirements	0.0		
Estimated Lapses	20.0		
Miscellaneous Adjustments/Rounding	0.0		20.0
Estimated Balance - June 30, 2012		\$	109.2

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2012
As of September 30, 2011
(In Millions)

	General Assembly <u>Budget Plan</u> ¹	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
REVENUE			
Taxes	\$14,954.4	\$14,957.0	\$2.6
Less: Refunds	<u>(\$935.3)</u>	<u>(\$935.3)</u>	<u>\$0.0</u>
Taxes - Net	\$14,019.1	\$14,021.7	\$2.6
Other Revenue	\$1,226.5	\$1,205.0	(\$21.5)
Other Sources	<u>\$3,543.0</u>	<u>\$3,559.3</u>	<u>\$16.3</u>
TOTAL Revenue	\$18,788.6	\$18,786.0	(\$2.6)
EXPENDITURES			
Appropriations	\$19,485.6	\$19,485.6	\$0.0
Net Additional Requirements	\$0.0	\$33.0	\$33.0
Less: Estimated Lapses	<u>(\$777.9)</u>	<u>(\$808.2)</u>	<u>(\$30.3)</u>
TOTAL Expenditures	\$18,707.7	\$18,710.4	\$2.7
Balance from Operations	\$80.9	\$75.6	(\$5.3)
Miscellaneous Adjustments	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Balance - June 30, 2012	\$80.9	\$75.6	(\$5.3)
Reserved Balance ²	<u>(\$80.9)</u>	<u>(\$75.6)</u>	<u>\$5.3</u>
Estimated Balance - June 30, 2012	\$0.0	\$0.0	\$0.0

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.

2. \$75,000,000 is reserved for GAAP per Sec. 46 of P.A. 11-48, with the balance applied to Economic Recovery Notes per Sec. 511, P.A. 09-3, June Spec. Sess.

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2012
As of September 30, 2011
(In Millions)

TAXES	
Personal Income	\$8,456.9
Sales and Use	3,765.5
Corporation	707.7
Public Service Corporations	268.7
Inheritance and Estate	158.0
Insurance Companies	237.2
Cigarettes	443.8
Real Estate Conveyance	97.8
Oil Companies	115.5
Electric Generation	71.0
Alcoholic Beverages	54.9
Admissions and Dues	37.8
Health Provider Tax	525.9
Miscellaneous	16.3
TOTAL - TAXES	<u>\$14,957.0</u>
Less: Refunds of Taxes	(816.1)
Earned Income Tax Credit	(110.2)
R & D Credit Exchange	(9.0)
TOTAL - TAXES - NET	<u>\$14,021.7</u>
OTHER REVENUE	
Transfers - Special Revenue	\$292.3
Indian Gaming Payments	354.8
Licenses, Permits, Fees	274.1
Sales of Commodities and Services	36.4
Rents, Fines, Escheats	127.4
Investment Income	2.0
Miscellaneous	168.0
Refunds of Payments	(50.0)
TOTAL - OTHER REVENUE	<u>\$1,205.0</u>
OTHER SOURCES	
Federal Grants	\$3,606.0
Transfer from Tobacco Settlement Fund	96.1
Transfers to Other Funds	(142.8)
TOTAL - OTHER SOURCES	<u>\$3,559.3</u>
TOTAL - GENERAL FUND REVENUE	\$18,786.0

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2012
As of September 30, 2011

Department of Social Services	30,000,000
Teachers' Retirement Board	2,400,000
Public Defender Services Commission	555,000
Total	<u>\$32,955,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2012
As of September 30, 2011

Unallocated Lapse	\$ 92,006,562
Unallocated Lapse - Legislative	2,700,000
Unallocated Lapse - Judicial	3,545,000
General Personal Services Reduction - Legislative	476,000
General Personal Services Reduction - Executive	11,538,800
General Other Expenses Reduction - Legislative	374,000
General Other Expenses Reduction - Executive	9,066,200
Labor-Management Savings - Legislative	4,586,734
Labor-Management Savings - Executive	625,947,354
Labor-Management Savings - Judicial	27,670,929
Office of Legislative Management	2,000,000
Auditors of Public Accounts	300,000
Department of Children and Families	13,000,000
State Treasurer - Debt Service	15,000,000
Total	<u><u>\$808,211,579</u></u>

State of Connecticut
2011-12 General Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹	July 2011	August 2011	September 2011	October 2011	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012
REVENUE	\$18,788.6	\$18,788.6	\$18,788.6	\$18,786.0									
Appropriations	19,485.6	19,485.6	19,485.6	19,485.6									
Additional Requirements	0.0	0.0	17.0	33.0									
Less: Estimated Lapses	(777.9)	(777.9)	(792.9)	(808.2)									
TOTAL - Estimated Expenditures	18,707.7	18,707.7	18,709.7	18,710.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	80.9	80.9	78.9	75.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Compt.'s Misc. Adjustments/Rounding	0.0	0.0	0.0	0.0									
Estimated Balance 6/30/12 ²	\$80.9	\$80.9	\$78.9	\$75.6	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.

2. \$75,000,000 is reserved for GAAP per Sec. 46 of P.A. 11-48, with the balance applied to Economic Recovery Notes per Sec. 511, P.A. 09-3, June Spec. Sess.

Statement 1T
October 20, 2011

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2012
As of September 30, 2011
(In Millions)

	General Assembly <u>Budget Plan</u> ¹	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
Surplus Carried Forward from 2010-11 ²	\$107.5	\$107.4	(\$0.1)
REVENUE			
Taxes	\$805.8	\$793.0	(\$12.8)
Less: Refunds of Taxes	<u>(7.2)</u>	<u>(7.4)</u>	<u>(0.2)</u>
Taxes - Net	798.6	785.6	(13.0)
Other Revenue	<u>463.9</u>	<u>458.1</u>	<u>(5.8)</u>
TOTAL - Revenue	\$1,262.5	\$1,243.7	(\$18.8)
EXPENDITURES			
Appropriations	\$1,315.4	\$1,315.4	\$0.0
Net Additional Requirements	0.0	0.0	0.0
Less: Estimated Lapses	<u>(53.5)</u>	<u>(73.5)</u>	<u>(20.0)</u>
TOTAL - Expenditures	\$1,261.9	\$1,241.9	(\$20.0)
Balance from Operations	\$0.6	\$1.8	\$1.2
Miscellaneous Adjustments	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Estimated Balance - June 30, 2012	<u>\$108.1</u>	<u>\$109.2</u>	<u>\$1.1</u>

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.

2. Budget plan as estimated by the Office of Policy and Management. Revised estimates per the Comptroller's Sept. 1, 2011 letter.

Statement 2T
October 20, 2011

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2012
As of September 30, 2011
(In Millions)

TAXES	
Motor Fuels	\$491.8
Oil Companies	226.9
Sales Tax DMV	74.3
TOTAL - TAXES	<u>793.0</u>
Less: Refunds of Taxes	(7.4)
TOTAL - TAXES - NET	<u>\$785.6</u>
OTHER REVENUE	
Motor Vehicle Receipts	\$237.5
Licenses, Permits, Fees	141.9
Interest Income	9.0
Federal Grants	13.1
Transfers (To)/From Other Funds	60.1
Refunds of Payments	(3.5)
TOTAL - OTHER REVENUE	<u>\$458.1</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	\$1,243.7

Statement 3T
October 20, 2011

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2012
As of September 30, 2011

No Additional Requirements	<u>\$0</u>
Total	\$0

Statement 4T
October 20, 2011

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2012
As of September 30, 2011

Unallocated Lapse	\$ 11,000,000
Labor-Management Savings	42,536,383
State Treasurer - Debt Service	20,000,000
Total	<hr/> 73,536,383

State of Connecticut
2011-12 Special Transportation Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹	July 2011	August 2011	September 2011	October 2011	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012
Beginning Balance ²	\$107.5	\$107.5	\$107.4	\$107.4									
Revenue	1,262.5	1,262.5	1,262.5	1,243.7									
Total Available	1,370.0	1,370.0	1,369.9	1,351.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations	1,315.4	1,315.4	1,315.4	1,315.4									
Additional Requirements	0.0	0.0	0.0	0.0									
Less: Estimated Lapses	(53.5)	(53.5)	(53.5)	(73.5)									
TOTAL - Estimated Expenditures	1,261.9	1,261.9	1,261.9	1,241.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	0.6	0.6	0.6	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Compt's Misc. Adjustments/Rounding	0.0	0.0	0.0	0.0									
Estimated Balance 6/30/12	\$108.1	\$108.1	\$108.0	\$109.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.

2. Budget Plan and the month of July as estimated by the Office of Policy and Management. August and thereafter per the Comptroller's September 1, 2011 Letter.