



# STATE OF CONNECTICUT

## OFFICE OF POLICY AND MANAGEMENT

June 19, 2020

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

Dear Comptroller Lembo:

Section 4-66 of the General Statutes requires that my office provide information on the state's General Fund for Fiscal Year 2020. An analysis of the Special Transportation Fund is also provided here due to the significance of this fund.

<b>Overview of Changes</b>					
(in millions)					
	Budget (as Revised Dec. 2019)	May Estimate	June Estimate	Change in Estimate - June vs. May	June Est. Variance from Budget
<b>General Fund</b>					
Revenues	\$ 19,564.4	\$ 18,734.7	\$ 18,818.3	\$ 83.6	\$ (746.1)
Expenditures	19,423.3	19,354.6	19,263.0	(91.6)	(160.3)
Operating Results - Surplus/(Deficit)	\$ 141.1	\$ (619.9)	\$ (444.7)	\$ 175.2	\$ (585.8)
<b>Budget Reserve Fund</b>					
Deposit / (Withdrawal)	\$ 318.3	\$ (301.6)	\$ (126.4)	\$ 175.2	\$ (444.7)
Proj. Balance 6/30/20	\$ 2,823.8	\$ 2,203.9	\$ 2,379.1	\$ 175.2	\$ (444.7)
<b>Special Transportation Fund</b>					
Revenues	\$ 1,749.1	\$ 1,565.9	\$ 1,512.3	\$ (53.6)	\$ (236.8)
Expenditures	1,710.3	1,684.2	1,675.1	(9.1)	(35.2)
Operating Results - Surplus/(Deficit)	\$ 38.8	\$ (118.3)	\$ (162.8)	\$ (44.5)	\$ (201.6)
Proj. Fund Balance 6/30/20	\$ 358.9	\$ 201.8	\$ 157.4	\$ (44.4)	\$ (201.5)

### General Fund

The adopted budget anticipated a \$141.1 million balance at year end. We are projecting an operating shortfall of \$444.7 million, an improvement of \$175.2 million from last month's forecast. The projected shortfall represents 2.3 percent of the General Fund. In response to the public health emergency declared March 10, 2020, by Governor Lamont, actions were taken to support the Connecticut economy and businesses, as well as to stabilize providers, services and programs at a time where demand for such programs is high. As a result, expenditure reductions and revenue policy changes to address the deficit would generally have been counter-productive to the pandemic response. By operation of existing state law, any year-end deficit will be addressed through a transfer from the Budget Reserve Fund when the Comptroller closes the books for fiscal year 2020.

The estimated rainy day fund balance at the start of FY 2020 is \$2.5 billion, or about 13.0% of net General Fund appropriations. After closing the anticipated FY 2020 deficit, reserves are expected to be about \$2.38 billion by the beginning of FY 2021, or 11.8% of net General Fund appropriations for that year. The projected Budget Reserve Fund balance at year end is depicted below.

<b>Budget Reserve Fund</b>	
	(in millions)
Estimated BRF Ending Balance - FY 2019 (OSC Est. 9/30/19)	\$ 2,505.5
Projected Operating Deficit - FY 2020 (OPM 06/19/20 Est.)	\$ (444.7)
Volatility Cap Deposit - FY 2020 (OPM 06/19/20 Est.)	<u>318.3</u>
Estimated BRF Ending Balance - FY 2020	\$ 2,379.1

Our estimates include anticipated state costs for the state’s pandemic response. The table attached to this letter outlines specific measures approved to date as part of that response.

Revenues

Projected revenues in the General Fund have been revised upward by \$83.6 million compared to last month’s estimate. Fewer tax refunds have been issued given the various extensions to tax due dates and therefore the Refunds of Taxes forecast has been reduced by \$116.0 million. These refunds are now projected to be issued early in FY 2021 as tax filings increase as we approach the extended filing date of July 15, 2020. Federal Grants has been revised upward by \$90.9 million as federal reimbursement for the outpatient component of hospital supplemental payments has been approved and will be received in FY 2020 rather than shifting to FY 2021 as assumed in the April consensus estimate. Inheritance and Estate Tax revenues have been revised downward by \$50.0 million due to the extension of the filing due date to July 15, 2020. This revenue is now projected to be received in FY 2021. Real Estate Conveyance taxes have been revised downward by \$50.0 million given the reduced level of completed transactions in the months of April and May. We do not believe that this reflects underlying weakness in the housing market, but rather temporarily reduced activity induced by the various shut-down orders. Licenses, Permits and Fees have been reduced by \$20.0 million due primarily to reduced court fees and other recording fees, again due to the various shut-down orders. All other revenue changes net to a negative \$3.3 million.

Although most of the tax due date extensions that have been implemented by the Internal Revenue Service and the Department of Revenue Services to assist filers impacted by the pandemic currently fall within the existing statutory revenue accrual period for this fiscal year, previous monthly revenue forecasts had assumed certain statutory tax accrual language would have been legislatively modified prior to the end of the fiscal year to address tax refunds and Inheritance and Estate Taxes. As such action has not been undertaken, the above changes to revenue projections reflects existing law concerning tax accruals.

As noted in previous months, the remittance deferrals announced by the Internal Revenue Service and DRS to assist tax filers impacted by the pandemic hamper our ability to forecast many tax revenue sources, including Personal Income Tax collections and associated refunds. Additionally, our ability to forecast the balance in the Budget Reserve Fund is hampered due to delays in the Estimates and Finals component of the Personal Income Tax and the Pass-Through Entity Tax which are the components of the volatility cap. The adequacy of the Budget Reserve Fund will be critical for any necessary long-term recovery of state finances; the rapid deterioration of the BRF during the last recession necessitated years of budget cuts and tax increases.

### Expenditures

We estimate net expenditures will, in aggregate, be below the amended budget plan by \$160.3 million, an improvement of \$91.6 million from last month's estimate. Our estimates reflect the impact of all transfers approved June 4, 2020, by the Finance Advisory Committee, as well as an estimated \$50.0 million in unappropriated expenditures for Adjudicated Claims. Existing law identifies the resources of the General Fund as the source for these claims payments. Statement 4, attached, lists estimated net lapses by agency as well as any funds held back from allotment as part of the budget plan.

The sole deficiency reported this month is in the Department of Correction. Due to the failure to enact deficiency appropriations for 2020, payroll expenditures totaling \$21.1 million are unsupported by appropriations. Given the legal and contractual obligation to honor payroll costs, this Personal Services deficiency will be unresolved at year end and will contribute to the overall General Fund shortfall to be addressed by transfer from the Budget Reserve Fund.

Additionally, the failure to enact deficiency appropriations for FY 2020 has resulted in two agencies delaying payment of bills until FY 2021, effectively shifting a portion of the FY 2020 deficiencies reported last month into the next fiscal year and artificially improving FY 2020 balance. We anticipate the following FY 2020 shortfalls totaling \$11.5 will now affect estimated FY 2021 spending:

- Department of Economic and Community Development. Current year bills totaling \$4,088,074 in the Capital Region Development Authority account will be paid in FY 2021. Event cancellations due to the COVID-19 pandemic have impacted attendance and associated revenues at the Pratt and Whitney Stadium at Rentschler Field, the XL Center and the CT Convention Center.
- Department of Mental Health and Addiction Services. Current year bills totaling \$7.4 million will be paid in July. This includes \$2.1 million in Other Expenses due largely to various facility maintenance and repair costs and increased software licensing costs, \$3.5 million in the Professional Services account for contracted medical services including contracted psychiatrists, and \$1.8 million in medical costs in the Workers' Compensation Claims account.

### **Special Transportation Fund**

The adopted budget anticipated a \$38.8 million balance from operations, while we project a \$162.8 million operating deficit by year end, an increase of \$44.5 million from last month due to revised revenue estimates as discussed further below. We project that the Transportation Fund balance on June 30, 2020, will be \$157.4 million.

### Revenues

Projected revenues have been reduced by a \$53.6 million compared to last month's estimate. Motor Vehicle Receipts have been revised downward by \$17.0 million due to extensions granted to renewals of drivers' licenses and motor vehicle registrations. Licenses, Permits, and Fees revenue has been reduced by \$14.0 million due primarily to reduced receipt of court fees. Motor Fuels Tax has been reduced by \$10 million due to the expectation that recovery in gasoline consumption will be somewhat slower than originally anticipated. Sales Tax-DMV has been reduced by \$10.0 million due to reduced private party automobile sales during the height of the shut-down orders. All other changes equate to a negative \$2.6 million.

### Expenditures

Estimated expenditures are projected to be \$35.2 million below the budget plan, an improvement of \$9.1 million from last month's estimate. No remaining shortfalls are projected, although as a result of the failure to adopt deficiency appropriations for FY 2020, the Department of Transportation will be forced to hold

approximately \$6.3 million in Rail Operations payments until next year, artificially decreasing the FY 2020 deficit and increasing FY 2021 expenditure requirements. Statement 4T attached, lists estimated net lapses by agency as well as any funds held back from allotment as part of the budget plan.

**Other Appropriated Funds**

While Sec. 4-66, CGS, does not require that we provide analyses of other appropriated funds, we offer the following information about the status of the Tourism Fund. The fund's revenue source is the Hotel Occupancy Tax, which has underperformed as a result of the pandemic's impact on the hospitality industry. As a result, expenditures from the fund will exceed available revenues by approximately \$245,000. When added to the negative fund balance of \$2.5 million at the end of FY 2019, we anticipate the Tourism Fund will end FY 2020 with a \$2.75 million negative fund balance, and that could double to \$5.4 million by the end of FY 2021.

While the foregoing information represents the best estimate that can be made at this time, accounting adjustments made as part of the upcoming year-end closing process will affect the results reported here. Our forecast next month will be the last estimate of operating results before the books are officially closed for FY 2020.

Sincerely,



Melissa McCaw  
Secretary

Attachments:

- COVID Responses – Budget Impact
- Summary Statements, FY 2020 Revenue and Expenditures