



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

May 20, 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.

Overview of Changes					
(in millions)					
	Budget (as Revised Dec. 2019)	Revised April Estimate	May Estimate	Change in Estimate - May vs. April	May Est. Variance from Budget
General Fund					
Revenues	\$ 19,564.4	\$ 18,485.1	\$ 18,734.7	\$ 249.6	\$ (829.7)
Expenditures	19,423.3	19,419.2	19,354.6	(64.6)	(68.7)
Operating Results - Surplus/(Deficit)	\$ 141.1	\$ (934.0)	\$ (619.9)	\$ 314.2	\$ (761.0)
Budget Reserve Fund					
Deposit / (Withdrawal)	\$ 318.3	\$ (615.7)	\$ (301.6)	\$ 314.1	\$ (619.9)
Proj. Balance 6/30/20	\$ 2,823.8	\$ 1,889.8	\$ 2,203.9	\$ 314.1	\$ (619.9)
Special Transportation Fund					
Revenues	\$ 1,749.1	\$ 1,565.9	\$ 1,565.9	\$ -	\$ (183.2)
Expenditures	1,710.3	1,717.6	1,684.2	(33.4)	(26.1)
Operating Results - Surplus/(Deficit)	\$ 38.8	\$ (151.7)	\$ (118.3)	\$ 33.4	\$ (157.1)
Proj. Fund Balance 6/30/20	\$ 358.9	\$ 168.4	\$ 201.8	\$ 33.4	\$ (157.1)

General Fund

The adopted budget anticipated a \$141.1 million balance at year end. We are projecting an operating shortfall of \$619.9 million, an improvement of \$314.2 million from last month's forecast. The projected shortfall represents 3.2 percent of the General Fund. On March 10, 2020, Governor Lamont declared a public health emergency due to the spread of COVID-19 throughout the State. By and large, actions are being taken to support the Connecticut economy and the businesses therein through tax filing deferments consistent with federal actions. Actions have also been taken to stabilize grants to providers, services and programs at a time where demand for such programs is high. These measures are coupled with increased programmatic supports that are necessary for COVID-19 response. Given the declaration of a public health emergency, the critical pandemic response measures and the timing thereof, the Governor is not offering expenditure reductions or revenue policy changes to address the deficit. Any year-end deficit will, by operation of existing state law, 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 \$2.2 billion by the beginning of FY 2021, or 11.0% of net General Fund appropriations for that year. The projected Budget Reserve Fund balance at year end is depicted below.

Budget Reserve Fund	
	(in millions)
Estimated BRF Ending Balance - FY 2019 (OSC Est. 9/30/19)	\$ 2,505.5
Projected Operating Deficit - FY 2020 (OPM 05/20/20 Est.)	\$ (619.9)
Volatility Cap Deposit - FY 2020 (OPM 05/20/20 Est.)	<u>318.3</u>
Estimated BRF Ending Balance - FY 2020	\$ 2,203.9

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, but it should be noted that updated federal guidance may result in future decisions by the state to shift costs among funding sources to maximize resources available for addressing the pandemic.

The federal government has enacted four emergency supplemental funding bills which provide significant resources to the state. One of the vehicles for this relief is through a 6.2 percent increase in reimbursement for the Medicaid program, and this additional reimbursement is reflected in both our estimate of Medicaid spending as well as our revenue projections.

Revenues

Estimated revenues this month have been revised upward by \$249.6 million compared to our April 30, 2020 letter and the consensus revenue forecast. The largest change is in Federal Grants, up \$285.5 million as federal reimbursement for the inpatient 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. In addition, the federal government is currently reviewing the Department of Social Services’ request for federal reimbursement of Medicaid supplemental payments for outpatient hospital services. While no change is reflected this month, the department is hopeful that federal approval will be received by the beginning of June, allowing the state to leverage the enhanced federal reimbursement that is available through June 30, 2020, and resulting in receipt of an additional \$93.6 million in Federal Grants revenue in FY 2020 rather than in FY 2021 as assumed in the consensus estimate. The only other change is in Indian Gaming Payments, which are being revised downward by \$35.9 million. Of that total, \$28.6 million is expected to shift to FY 2021 with the remainder of the decline due to the assumption that the casinos’ reopening will be delayed.

Most of the tax due date extensions that have been implemented by the Internal Revenue Service and the Department of Revenue Services (DRS) to assist filers impacted by the pandemic currently fall within the existing statutory revenue accrual period for this fiscal year for those tax-types, and therefore remittance delays are not expected to have a material impact on budgetary balance outside of small losses in interest income from the change in timing of collections. However, the state may seek a one-time extension to those accrual periods to allow the DRS adequate time to process returns and, in cases where no accrual period currently exists, to allow for such accrual on a one-time basis. The Office of the State Treasurer and the Office

of Policy and Management continue to monitor the cash flow impact of the timing changes, which are considerable but are currently manageable.

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 are projecting net expenditures will, in aggregate, be below the amended budget plan by \$68.7 million, an improvement of \$64.6 million from last month's estimate due to revised estimates of lapses and deficiencies, explained below. Our estimates reflect the impact of all transfers approved April 24, 2020, by the Finance Advisory Committee.

Deficiencies. Projected shortfalls totaling \$29.7 million are forecast in the following agencies:

- Department of Economic and Community Development. A net \$3,848,074 shortfall is projected in the Capital Region Development Authority account due to the effect of the COVID-19 pandemic. Event cancellations have impacted attendance and associated revenues at the Pratt and Whitney Stadium at Rentschler Field (\$930,948), the XL Center (\$1,842,301) and the CT Convention Center (\$1,314,825). The overall shortfall is partially mitigated by lapses attributable largely to vacancies in the agency.
- Department of Mental Health and Addiction Services. A net shortfall of \$7.75 million is forecast. Other Expenses spending is \$2.3 million over budget due largely to various facility maintenance and repair costs, and increased software licensing costs. Spending on contracted medical services in the Professional Services account is projected to have a \$3.5 million deficiency due largely to use of contracted psychiatrists given difficulties recruiting for vacancies. Shortfalls of \$350,000 in the Behavioral Health Medications account and \$1.8 million in the Workers' Compensation Claims account are projected due to cost trends.
- Department of Correction. A total net shortfall of \$17.8 million is projected in Personal Services as a result of the transfers approved by the Finance Advisory Committee on April 24th which resolved shortfalls in other accounts.
- Public Defender Services Commission. A \$269,000 deficiency is projected in the Assigned Counsel – Criminal account due to appropriations that are lower than prior year spending levels.

Our forecast includes an estimated \$50.0 million in unappropriated expenditures for Adjudicated Claims. Existing law identifies the resources of the General Fund as the source for payments.

Lapses. Our projections reflect the amounts currently withheld from agencies to achieve budgeted lapse targets. Additionally, the following sums totaling \$201.0 million are estimated to remain unspent this fiscal year:

- Personal Services. We are projecting a total of \$12.34 million in lapsing Personal Services appropriations in the following agencies:
 - Office of Legislative Management - \$4.68 million, including lapses in the Interim Salary/Caucus Offices account;
 - Auditors of Public Accounts - \$361,000;

- Commission on Women, Children, Seniors, Equity and Opportunity - \$175,000;
 - Governor's Office - \$75,000
 - Lieutenant Governor's Office - \$25,000
 - Office of the State Treasurer - \$48,000;
 - Office of the State Comptroller - \$600,000;
 - Department of Revenue Services - \$3.1 million;
 - Department of Veterans Affairs - \$300,000;
 - Office of the Attorney General - \$900,000;
 - Division of Criminal Justice – a net \$765,000;
 - Department of Consumer Protection - \$490,000;
 - Department of Agriculture - \$325,000;
 - Agricultural Experiment Station - \$50,000;
 - Office of Health Strategy - \$100,000;
 - State Library - \$275,000; and
 - Office of Higher Education - \$70,000.
- Secretary of the State. A total of \$275,000 will lapse across a variety of accounts, reflective of spending trends.
 - State Treasurer – Debt Service. A lapse of \$19.0 million is expected in the Debt Service account largely due to savings achieved from the December 2019 General Obligation bond sale.
 - Election Enforcement Commission, Office of State Ethics, Freedom of Information Commission. These agencies are projected to lapse \$175,000, \$115,000 and \$145,000, respectively, reflective of spending trends.
 - OSC – Fringe Benefits. A net lapse of \$11.37 million is forecast after the release of the \$33.32 million in programmed holdbacks. This forecast reflects shortfalls, prior to the release of holdbacks, of \$45.32 million in the State Employees' Health Service Cost account to reflect higher than expected claims experience and premium costs, \$4.5 million in the Employers' Social Security Tax account, \$1.5 million in the SERS Defined Contribution Match account, and \$0.23 million in the Insurance – Group Life account. Partially offsetting these shortfalls are a projected lapse of \$10.0 million in the Retired State Employees' Health Service Cost account that is primarily the result of lower Medicare Advantage premiums attributable to the repeal of the federal health insurance tax; a \$2.5 million lapse in the Unemployment Compensation account; a \$2.8 million lapse in the Other Post Employment Benefits account; and a \$14.3 million lapse in the Higher Education Alternate Retirement Program (ARP), which is attributable to 1,600 employees shifting from ARP to SERS as an outcome of a grievance award, as well as a one-time accounting transaction related to the July 1, 2019, change in how these costs are budgeted.
 - Office of Policy and Management. A total lapse of \$945,000 is forecast. The Tax Relief for Elderly Renters account will lapse \$270,000, and the MRDA account will lapse \$475,000 due to startup delays. Additionally, \$200,000 will lapse in the Project Longevity account as no statutory authority exists for a budgeted grant to Waterbury.
 - Department of Administrative Services. A total lapse of \$3.2 million is projected, with \$1.4 million in Personal Services due to vacancies and \$1.8 million in the Rents and Moving account.
 - Department of Labor. A net total of \$1,231,000 will lapse across a variety of accounts due to cost trends and startup delays for new initiatives.
 - Department of Energy and Environmental Protection. A total of \$555,000 will lapse across a variety of accounts based on current expenditure trends.
 - Department of Housing. A \$2.5 million lapse is forecast in the Housing / Homeless account as a result of natural placement delays.
 - Department of Public Health. A net total of \$605,000 is projected to lapse across several accounts based on current expenditure trends.

- Department of Developmental Services. A total lapse of \$13.45 million is forecast. A lapse of \$3.0 million in Personal Services is projected due to vacancies; \$7.5 million will lapse in the Behavioral Services Program account as a result of more individuals being supported in their own homes rather than in more expensive residential settings; \$2.95 million will lapse across the Housing Supports and Services, Emergency Placements, ID Partnership, and Employment Opportunities and Day Services accounts based on current expenditure trends.
- Department of Social Services. A net lapse of \$93.97 million is forecast. A projected \$75.2 million lapse is forecast in the Medicaid account after accounting for \$49.8 million in Medicaid costs related to the pandemic response which are more than offset by increased federal reimbursement provided under Public Law 116-127. Other pandemic costs totaling \$3.2 million are offset by lapses totaling more than \$21 million across Personal Services, Other Expenses and other various accounts.
- Department of Aging and Disability Services. A total of \$950,000 is projected to lapse across a variety of accounts based on current cost trends.
- State Department of Education. A total of \$18.0 million will lapse across a number of accounts based on current expenditure trends.
- Office of Early Childhood. A net lapse of \$220,000 is projected in the Early Care and Education account to reflect actual costs for early child care slots.
- Teachers' Retirement Board. A total lapse of \$1.9 million is forecast. Of this sum, \$1.56 million is projected to lapse in the Retirees Health Service Cost account due to lower than budgeted premiums that take effect January 1, 2020, resulting from reduced pharmacy trends. Additionally, \$245,000 will lapse in the Municipal Retiree Health Insurance Costs account based on current expenditure trends and \$100,000 total will lapse in Personal Services and Other Expenses.
- Department of Children and Families. A net total of \$10.79 million is projected to lapse across a variety of accounts, with the majority of this in the Board and Care for Children – Short-term and Residential account as a result of recent caseload reductions.
- Judicial Department. A total of \$9.3 million will lapse, with \$7.2 million in Personal Services due to vacancies and the remainder in the Juvenile Justice Outreach Services and Youth Services Prevention accounts.

Special Transportation Fund

The adopted budget anticipated a \$38.8 million balance from operations, while we project a \$118.3 million operating deficit by year end, an improvement of \$33.4 million from last month due to revised expenditure estimates as discussed further below. We project that the Transportation Fund balance on June 30, 2020, will be \$201.8 million.

Revenues

Revenues in the Transportation Fund remain unchanged from last month and continue to reflect the April consensus revenue forecast.

Expenditures

Estimated expenditures are projected to be \$26.0 million below the budget plan, an improvement of \$33.4 million from last month's estimate. Additional requirements total \$5.845 million in the Department of Transportation's Rail Operations account, reflective of current cost trends. Offsetting this projected shortfall are lapses totaling \$46.45 million, with \$40.0 million in Debt Service as a result of a delays in bond sales, \$4.5 million in the Department of Motor Vehicles' Personal Services account due to vacancies, \$1.4 million in the DAS – Workers' Compensation Claims account based on current expenditure trends, \$525,000 in the fringe benefits accounts administered by the State Comptroller, and \$25,000 in the Department of Energy and

Environmental Protection. It should be noted that the impact of the pandemic on transit ridership and associated fare collections, as well as the amount of farebox relief provided by the federal emergency supplemental funding bills, is still being assessed and may materially impact future projections.

As FY 2020 draws to a close, please note that the estimates offered by my office in June and July will reflect any changes in the economy and revenue collections, expenditure patterns, and/or other factors that may impact year-end results.

Sincerely,

A handwritten signature in blue ink, appearing to read "Melissa McCaw".

Melissa McCaw
Secretary

Attachments:

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