



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

October 21, 2019

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.

General Fund

The adopted budget anticipates a \$141.1 million balance at year end. We are projecting an operating balance of \$79.1 million, down \$5.2 million from last month's forecast due to minor revisions in expenditure estimates that are described further below. As noted last month, our balance projection does not include the impact of a potential settlement of hospital litigation.¹

The projected Budget Reserve Fund balance at year end, after transfers pursuant to the statutory volatility cap and the estimated FY 2020 operating surplus, is depicted below. The estimated rainy day fund balance at the start of FY 2020 is \$2.5 billion, or 13.0% of net General Fund appropriations, and is expected to reach about \$2.9 billion by the beginning of FY 2021, or 14.5% of net General Fund appropriations for that year.

Budget Reserve Fund	
	(in millions)
Estimated BRF Ending Balance - FY 2019 (OSC Est. 9/30/19)	\$ 2,505.5
Projected Operating Surplus - FY 2020 (10/21/19 Est.)	\$ 79.1
Volatility Cap Deposit - FY 2020 (10/21/19 Est.)	318.3
Estimated BRF Ending Balance - FY 2020	\$ 2,902.9

Revenues

Our forecast continues to project revenues consistent with the adopted budget plan, unchanged from last month's forecast. However, as noted last month, we remain cautious about the collections outlook given several factors. Budgeted revenues of \$27.7 million from the new ten cent plastic bag fee are unlikely to materialize given that certain large retailers announced their elimination of such bags. Collection data for this fee is not yet sufficiently available, however, to form the basis for a revised revenue estimate. Additionally, the economic outlook is uncertain due in part to international trade and geopolitical tensions. We will continue to closely monitor revenues for any sign of weakness as the year progresses. Note that my office and the Office of Fiscal Analysis will jointly release a consensus forecast on November 12th, which could materially alter our projections next month.

¹ Pursuant to Sec. 50 of Public Act 19-117, \$30.0 million of the FY 2020 operating surplus is available for use toward a potential settlement. Section 50 also specifies that the General Assembly Budget Plan be modified to reflect any adjustments to revenue or expenditures that might be necessary as a result of such settlement.

Expenditures

We are projecting net expenditures will, in aggregate, exceed the budget plan by \$62.0 million, an increase of \$5.2 million over last month's estimate. Explanations of lapses and deficiencies follow.

Deficiencies. Projected shortfalls are forecast in the following agencies:

- Department of Social Services. A net shortfall of \$28.0 million is forecast in the Medicaid account due to current cost trends.
- Office of Early Childhood. A \$1.8 million shortfall is anticipated in the Birth to Three account due to increased referrals to and enrollment in the program.
- Department of Correction. A total shortfall of \$8.0 million is projected. Other Expenses spending is projected to be similar to FY 2019 levels, resulting in a shortfall of \$3.0 million. A \$5.0 million shortfall is projected in Inmate Medical Services largely due to pharmaceutical costs trending higher than compared to the same timeframe a year ago. It should be noted that the agency is in the process of transitioning its pharmacy provider, but our estimate does not reflect any budgetary impact from this transition. Additionally, overtime costs for medical staff are up compared to last fiscal year as the agency works to achieve appropriate staffing levels.

Our forecast includes \$25.0 million in unappropriated expenditures for Adjudicated Claims. Of this amount, \$6.5 million is for a settlement that was delayed from FY 2019 into FY 2020, and the remainder is for payment of other claims. Existing law identifies the resources of the General Fund as the source for payments.

While not reflected in our estimates, we are also watching expenditure trends in the active state employee healthcare account managed by the State Comptroller. While there may be offsetting lapses in other fringe benefit lines, current trends suggest higher than expected claims experience and premium costs.

Lapses. Our projections reflect the amounts currently withheld from agencies to achieve budgeted lapse targets. Additionally, the following sum is estimated to remain unspent this fiscal year:

- Teachers' Retirement Board. A \$0.8 million lapse is projected in the Retirees Health Service Cost account due to lower than budgeted premiums that take effect January 1, 2020, resulting from reduced pharmacy trends.

Special Transportation Fund

The adopted budget anticipates a \$38.8 million balance from operations. We project that both revenues and expenditures will, in aggregate, be consistent with the budget plan, and that the Transportation Fund balance on June 30, 2020, will be \$359.0 million. It should be noted, however, that we are monitoring expenditure trends in the Department of Transportation's Rail Operations account that, if not mitigated, could require additional resources.

As the year progresses, the estimates offered by my office will continue to be revised to reflect the impact of changes in the economy and revenue collections, expenditure patterns, and/or other factors.

Sincerely,



Melissa McCaw
Secretary

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2020
As of September 30, 2019
(In Millions)

General Fund

Operating Balance - Prior Month		\$	84.3
Revenues			
No Changes	0.0		0.0
Expenditures			
Additional Requirements	0.0		
Estimated Lapses	(0.2)		
Miscellaneous Adjustments/Rounding	(5.0)		(5.2)
Operating Surplus - FY 2020		\$	79.1

Budget Reserve Fund

Fund Balance as of June 30, 2019		\$	2,505.5
Volatility Cap Deposit	318.3		
FY 2020 Est. Balance from Operations	79.1		397.4
Estimated Fund Balance - June 30, 2020		\$	2,902.9
Fund Balance as Percentage of FY 2021 General Fund			14.5%

Special Transportation Fund

Fund Balance as of June 30, 2019		\$	320.1
Operating Balance - Prior Month			38.8
Revenues			
No Changes	0.0		0.0
Expenditures			
Additional Requirements	0.0		
Estimated Lapses	0.0		
Miscellaneous Adjustments/Rounding	0.0		0.0
Estimated Fund Balance - June 30, 2020		\$	359.0

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2020
As of September 30, 2019
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 18,445.1	\$ 18,445.1	\$ -
Less: Refunds	(1,411.7)	(1,411.7)	-
Taxes - Net	\$ 17,033.4	\$ 17,033.4	\$ -
Other Revenue	1,288.2	1,288.2	-
Other Sources	1,138.6	1,138.6	-
TOTAL Revenue	\$ 19,460.2	\$ 19,460.2	\$ -
EXPENDITURES			
Initial Current Year Appropriations	\$ 19,528.3	\$ 19,528.3	\$ -
Prior Year Appropriations Continued to FY 2020 ²		164.5	164.5
TOTAL Initial and Continued Appropriations	\$ 19,528.3	\$ 19,692.8	\$ 164.5
Appropriation Adjustments	-	-	-
TOTAL Adjusted Appropriations	\$ 19,528.3	\$ 19,692.8	\$ 164.5
Net Additional Expenditure Requirements		37.8	37.8
Estimated Appropriations Lapsed	(209.2)	(210.0)	(0.8)
Estimated Appropriations to be Continued to FY 2021 ²		-	-
TOTAL Estimated Expenditures	\$ 19,319.1	\$ 19,520.6	\$ 201.5
Net Change in Fund Balance - Continuing Appropriations		(164.5)	(164.5)
Miscellaneous Adjustments/Rounding		(25.0)	(25.0)
Net Change in Unassigned Fund Balance - 6/30/2020	\$ 141.1	\$ 79.1	\$ (62.0)

1. P.A. 19-117. Note that CGS Sec. 2-33c limits appropriations in FY 2020 to 99.5% of General Fund revenue. As a result, the \$141.1 million budgeted surplus is comprised of \$97.3 million due to this 99.5% limitation, plus a \$43.8 million operating surplus. Pursuant to Sec. 50 of P.A. 19-117, \$30.0 million of the operating surplus is available for use toward a potential settlement of hospital litigation. Section 50 also makes available \$160.0 million of FY 2019 surplus for a total of \$190.0 million to effectuate a settlement, and further specifies that the General Assembly Budget Plan be modified to reflect any adjustments to revenue or expenditures that might be necessary as a result of such settlement.

2. CGS Sec. 4-89 and other statutory provisions.

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2020
As of September 30, 2019
(In Millions)

	General Assembly Budget Plan ^{1.}	Revised Estimates OPM	Over/ (Under)
TAXES			
Personal Income - Withholding	\$ 6,910.5	\$ 6,910.5	\$ -
Personal Income - Estimates and Finals	2,762.5	2,762.5	-
Sales and Use	4,444.1	4,444.1	-
Corporation	1,099.8	1,099.8	-
Pass-through Entity Tax	850.0	850.0	-
Public Service Corporations	237.7	237.7	-
Inheritance and Estate	165.8	165.8	-
Insurance Companies	203.3	203.3	-
Cigarettes	344.7	344.7	-
Real Estate Conveyance	217.4	217.4	-
Alcoholic Beverages	68.9	68.9	-
Admissions and Dues	41.9	41.9	-
Health Provider Tax	1,050.1	1,050.1	-
Miscellaneous	48.4	48.4	-
TOTAL - TAXES	\$ 18,445.1	\$ 18,445.1	\$ -
Less: Refunds of Taxes	(1,309.3)	(1,309.3)	-
Earned Income Tax Credit	(97.3)	(97.3)	-
R & D Credit Exchange	(5.1)	(5.1)	-
TOTAL - TAXES - NET	\$ 17,033.4	\$ 17,033.4	\$ -
OTHER REVENUE			
Transfers - Special Revenue	\$ 368.0	\$ 368.0	\$ -
Indian Gaming Payments	226.0	226.0	-
Licenses, Permits, Fees	341.2	341.2	-
Sales of Commodities and Services	30.2	30.2	-
Rents, Fines, Escheats	158.5	158.5	-
Investment Income	52.6	52.6	-
Miscellaneous	178.1	178.1	-
Refunds of Payments	(66.4)	(66.4)	-
TOTAL - OTHER REVENUE	\$ 1,288.2	\$ 1,288.2	\$ -
OTHER SOURCES			
Federal Grants	\$ 1,526.0	\$ 1,526.0	\$ -
Transfer from Tobacco Settlement Fund	136.0	136.0	-
Transfers From/(To) Other Funds	(205.1)	(205.1)	-
Transfers to BRF - Volatility Adjustment ^{2.}	(318.3)	(318.3)	-
TOTAL - OTHER SOURCES	\$ 1,138.6	\$ 1,138.6	\$ -
TOTAL - GENERAL FUND REVENUE	\$ 19,460.2	\$ 19,460.2	\$ -

1. Sec. 386 of P.A. 19-117.

2. The volatility cap for FY 2020 is \$3,294.2 million. Total revenue from the Estimates and Finals portion of the Personal Income Tax and the Pass-through Entity Tax that exceeds the volatility cap will be deposited into the Budget Reserve Fund.

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2020
As of September 30, 2019

Department of Social Services	\$	28,000,000
Office of Early Childhood		1,800,000
Department of Correction		8,000,000
Total		<u>\$ 37,800,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2020
As of September 30, 2019

Unallocated Lapse	\$ 29,015,570
Unallocated Lapse - Judicial	5,000,000
Statewide Hiring Reduction - Executive	7,000,000
Contracting Savings Initiatives	5,000,000
Pension and Healthcare Savings (pension portion)	115,780,000
Pension and Healthcare Savings (healthcare portion)	47,420,000
Teachers' Retirement Board	800,000
Total	<u><u>\$ 210,015,570</u></u>

State of Connecticut
FY 2020 General Fund
Monthly Summary of Operations
(In Millions)

	Budget Plan ¹	July 2019	August 2019	September 2019	October 2019	November 2019	December 2019	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020
REVENUE	\$ 19,460.2	\$ 19,460.2	\$ 19,460.2	\$ 19,460.2									
Appropriations	19,528.3	19,528.3	19,528.3	19,528.3									
Additional Requirements	0.0	0.0	37.8	37.8									
Less: Estimated Lapses	<u>(209.2)</u>	<u>(209.2)</u>	<u>(210.2)</u>	<u>(210.0)</u>									
TOTAL - Estimated Expenditures	19,319.1	19,319.1	19,355.9	19,356.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Balance	141.1	141.1	104.3	104.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Misc. Adjustments/Rounding	<u>0.0</u>	<u>(15.0)</u>	<u>(20.0)</u>	<u>(25.0)</u>									
Est. Operating Balance - 6/30/20	\$141.1	\$126.1	\$84.3	\$79.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 19-117.

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2020
As of September 30, 2019
(In Millions)

	General Assembly <u>Budget Plan</u> ^{1.}	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
Fund Balance as of June 30, 2019	\$ 315.1	\$ 320.1	\$ 5.0
REVENUE			
Taxes	\$ 1,330.1	\$ 1,330.1	\$ -
Less: Refunds of Taxes	<u>(14.3)</u>	<u>(14.3)</u>	<u>-</u>
Taxes - Net	1,315.8	1,315.8	-
Other Revenue	<u>433.3</u>	<u>433.3</u>	<u>-</u>
TOTAL - Revenue	\$ 1,749.1	\$ 1,749.1	\$ -
EXPENDITURES			
Appropriations	\$ 1,740.6	\$ 1,740.6	\$ -
Prior Year Appropriations Continued to FY 2020 ^{2.}		33.3	33.3
TOTAL Initial and Continued Appropriations	\$ 1,740.6	\$ 1,773.9	\$ 33.3
Appropriation Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL Adjusted Appropriations	\$ 1,740.6	\$ 1,773.9	\$ 33.3
Net Additional Expenditure Requirements		-	-
Estimated Appropriations Lapsed	(30.3)	(30.3)	-
Estimated Appropriations to be Continued to FY 2021 ^{2.}		<u>-</u>	<u>-</u>
TOTAL Estimated Expenditures	\$ 1,710.3	\$ 1,743.6	\$ 33.3
Net Change in Fund Balance - Continuing Appropriations		(33.3)	(33.3)
Miscellaneous Adjustments/Rounding		-	-
Net Change in Unassigned Fund Balance - FY 2020	\$ 38.8	\$ 38.8	\$ -
Estimated Fund Balance - June 30, 2020	<u>\$ 353.9</u>	<u>\$ 359.0</u>	<u>\$ 5.0</u>

1. P.A. 19-117. Note that CGS Sec. 2-33c limits appropriations in FY 2020 to 99.5% of Special Transportation Fund revenue. As a result, the \$38.8 million budgeted surplus is comprised of \$8.7 million due to this 99.5% limitation, plus a \$30.1 million operating surplus.

2. CGS Sec. 4-89 and other statutory provisions.

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2020
As of September 30, 2019
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM	Over/ (Under)
TAXES			
Motor Fuels	\$ 507.2	\$ 507.2	\$ -
Oil Companies	322.9	322.9	-
Sales & Use Tax	414.3	414.3	-
Sales Tax DMV	85.7	85.7	-
TOTAL - TAXES	<u>1,330.1</u>	<u>1,330.1</u>	-
Less: Refunds of Taxes	(14.3)	(14.3)	-
TOTAL - TAXES - NET	<u>\$ 1,315.8</u>	<u>\$ 1,315.8</u>	<u>\$ -</u>
OTHER REVENUE			
Motor Vehicle Receipts	\$ 280.1	\$ 280.1	\$ -
Licenses, Permits, Fees	145.5	145.5	-
Interest Income	36.1	36.1	-
Federal Grants	12.1	12.1	-
Transfers (To)/From Other Funds	(35.5)	(35.5)	-
Refunds of Payments	(5.0)	(5.0)	-
TOTAL - OTHER REVENUE	<u>\$ 433.3</u>	<u>\$ 433.3</u>	<u>\$ -</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	<u>\$ 1,749.1</u>	<u>\$ 1,749.100</u>	<u>\$ -</u>

1. Sec. 387 of P.A. 19-117, as adjusted by provisions of P.A. 19-165.

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2020
As of September 30, 2019

No additional requirements

Total

\$ -

Statement 4T
October 21, 2019

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2020
As of September 30, 2019

Unallocated Lapse	\$ 12,000,000
Pension and Healthcare Savings (pension portion)	15,720,000
Pension and Healthcare Savings (healthcare portion)	2,580,000
Total	<u><u>\$ 30,300,000</u></u>

State of Connecticut
FY 2020 Special Transportation Fund
Monthly Summary of Operations
(In Millions)

	Budget Plan ¹	July 2019	August 2019	September 2019	October 2019	November 2019	December 2019	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020
Beginning Balance ²	\$ 315.1	\$ 315.1	\$ 320.1	\$ 320.1									
Revenue	1,749.1	1,749.1	1,749.1	1,749.1									
Total Available	2,064.2	2,064.2	2,069.2	2,069.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations	1,740.6	1,740.6	1,740.6	1,740.6									
Additional Requirements	0.0	0.0	0.0	0.0									
Less: Estimated Lapses	(30.3)	(30.3)	(30.3)	(30.3)									
TOTAL - Estimated Expenditures	1,710.3	1,710.3	1,710.3	1,710.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Balance	38.8	38.8	38.8	38.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Misc. Adjustments/Rounding	0.0	0.0	0.0	0.0									
Estimated Operating Balance 6/30/20	\$353.9	\$353.9	\$358.9	\$359.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 19-117.

2. Budget plan and July as estimated by the Office of Policy and Management based on the Comptroller's August 1, 2019 letter. August based on OSC preliminary closing balance for FY 2019. September and thereafter per the Comptroller's September 30, 2019 letter.