



# STATE OF CONNECTICUT

## OFFICE OF POLICY AND MANAGEMENT

May 20, 2021

The Honorable Kevin Lembo  
 State Comptroller  
 165 Capitol Avenue  
 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 2021. An analysis of the Special Transportation Fund is also provided here due to the significance of this fund.

	<b>FY 2021 Projection</b>			Change in Estimate - May vs. Apr.	May Est. Variance from Budget
	Budget (as Revised Dec. 2019)	Revised Apr. Estimate	(in millions) May Estimate		
<b><u>General Fund</u></b>					
Revenues	\$ 20,252.5	\$ 19,877.5	\$ 20,053.7	\$ 176.2	\$ (198.8)
Expenditures	<u>20,086.3</u>	<u>19,627.7</u>	<u>19,583.2</u>	<u>(44.5)</u>	<u>(503.1)</u>
Operating Results - Surplus/(Deficit)	\$ 166.2	\$ 249.8	\$ 470.5	\$ 220.7	\$ 304.3
<b><u>Budget Reserve Fund</u></b>					
Deposit / (Withdrawal)	\$ 467.7	\$ 893.3	\$ 1,414.0 <sup>1</sup>	\$ 520.7	\$ 946.3
Proj. Balance 6/30	\$ 3,542.3	\$ 3,967.9	\$ 4,488.5	\$ 520.7	\$ 946.3
<b><u>Special Transportation Fund</u></b>					
Revenues	\$ 1,880.8	\$ 1,711.5	\$ 1,715.4	\$ 3.9	\$ (165.4)
Expenditures	<u>1,816.3</u>	<u>1,735.5</u>	<u>1,709.9</u>	<u>(25.6)</u>	<u>(106.4)</u>
Operating Results - Surplus/(Deficit)	\$ 64.5	\$ (24.0)	\$ 5.5	\$ 29.5	\$ (59.0)
Proj. Fund Balance 6/30	\$ 423.4	\$ 144.4	\$ 173.9	\$ 29.5	\$ (249.5)
<b><u>Tourism Fund</u></b>					
Revenues	\$ 14.2	\$ 6.2	\$ 6.2	\$ -	\$ (8.0)
Expenditures	<u>13.1</u>	<u>13.1</u>	<u>13.1</u>	<u>-</u>	<u>-</u>
Operating Results - Surplus/(Deficit)	\$ 1.1	\$ (6.9)	\$ (6.9)	\$ -	\$ (8.0)
Proj. Fund Balance 6/30	\$ (0.1)	\$ (9.8)	\$ (9.8)	\$ -	\$ (9.7)
Notes:					
1. BRF deposit includes the transfer out of \$61.62 million pursuant to Sec. 4-30a, CGS, as the FY 2020 ending balance exceeded the statutory 15% cap. This sum was deposited as an additional contribution to the State Employees Retirement Fund.					

## General Fund

The adopted FY 2021 budget anticipates a \$166.2 million balance at year end. We are projecting an operating surplus of \$470.5 million, an improvement of \$220.7 million from last month due to revised revenue and expenditure trends. The projected surplus represents 2.3 percent of the General Fund.

Our estimates include anticipated state costs for the state's current pandemic response. Attachments to this letter outline specific measures approved to date as part of that response.

Our forecast of the Budget Reserve Fund (BRF) balance at year end is depicted below. After transferring \$61.6 million to the State Employees' Retirement System, the state's reserves stood at \$3,012.9 million to start FY 2021. The projected Budget Reserve Fund balance at the end of the fiscal year, after transfers pursuant to the statutory volatility cap and the estimated FY 2021 operating surplus, is expected to reach nearly \$4.5 billion, or 22.3 percent of current net General Fund appropriations for the current year. Given that this balance is expected to exceed the statutory 15 percent cap for the Budget Reserve Fund, additional transfers to the State Employees Retirement Fund and/or the Teachers' Retirement Fund would be made as part of the closing process for FY 2021.

<b>Budget Reserve Fund</b>	
	(in millions)
Estimated BRF Ending Balance - FY 2020 (CAFR 2/19/21)	\$ 3,074.6
Deposit to SERS pursuant to Sec. 4-30a, C.G.S. (CAFR 2/19/21)	\$ (61.6)
Projected Operating Surplus - FY 2021 (OPM 05/20/21 Est.)	\$ 470.5
Volatility Cap Deposit - FY 2021 (OPM 05/20/21 Est.)	<u>\$ 1,005.1</u>
Estimated BRF Ending Balance - FY 2021	\$ 4,488.5

### Revenues

Estimated revenues have been revised upward this month by \$176.2 million. The largest change is in the Estimates and Finals component of the Personal Income Tax, up \$300.0 million as a result of robust returns through the month of May, likely tied to strong market performance over the past year. The Withholding component of the Personal Income Tax is being increased by \$50.0 million as revenue collections continue to exceed expectations. The Corporation Tax has also been increased by \$50.0 million after strong final payments in the months of April and May, outpacing current targets. The Sales and Use Tax has been revised upward by \$41.0 million, as continued consumer confidence appears to be driving elevated levels of spending. The Inheritance and Estate Tax is being adjusted upward by \$25.0 million, attributable to increased collections through the month of May. Given the projected increase in Estimates and Finals collections noted above, the transfer to the Budget Reserve Fund pursuant to the volatility cap will increase by \$300.0 million to a total of \$1,005.1 million. All other revenue changes net to \$10.2 million.

### Expenditures

We are projecting that FY 2021 net expenditures will be below the amended budget plan by \$503.1 million, as explained further below.

*Deficiencies.* Projected shortfalls totaling \$169.1 million are forecast in the following agencies:

- Department of Economic and Community Development. A \$10.5 million shortfall is anticipated in the Capital Region Development Authority account, after the transfer approved January 7th by the Finance Advisory Committee. The remaining shortfall is due to pandemic-related building use restrictions and event cancellations that have impacted and are expected to continue to impact

attendance and associated revenues at the Pratt and Whitney Stadium at Rentschler Field, the XL Center and the CT Convention Center. In addition, the shortfall reflects the payment of \$2.2 million in outstanding event public safety services provided by the City of Hartford for the XL Center.

- Office of the Chief Medical Examiner. A \$485,000 deficiency is estimated in Personal Services. This represents the annualized impact of the shortfall experienced in FY 2020.
- University of Connecticut Health Center. A shortfall of at least \$50.0 million is forecast. The FY 2020 budget included a fringe benefit subsidy of \$33.2 million to assist with stabilizing the Health Center's finances, but no subsidy was included in the FY 2021 budget plan. While deficiencies at higher education institutions do not have a direct impact on the General Fund, the magnitude and recurring nature of the Health Center's deficiencies may put additional pressure on state resources in FY 2021.
- Department of Correction. A net deficiency of \$3.0 million is projected. A shortfall of \$2.0 million is forecast in Personal Services due to increased staff overtime, influenced in part by the impact of COVID-19 on operations. Other Expenses is projected to be short by \$500,000 due to facility operating and maintenance costs. Additionally, a \$1.0 million shortfall is forecast in the Workers' Compensation Claims account, reflective of claim trends. These are offset by a \$500,000 lapse in the Board of Pardons and Paroles account due to vacancies.
- State Comptroller – Fringe Benefits. A total shortfall of \$50.1 million is anticipated. Of this amount, \$41.0 million is due to revised contribution requirements for the State Employees' Retirement System resulting from the June 30, 2019 valuation of the fund. A \$3.4 million shortfall is anticipated in the Judges Retirement System, also reflective of the June 30, 2019, valuation for that system. In addition, we anticipate shortfalls of \$1.8 million in the Employers Social Security Tax account, \$26.0 million in the State Employees Health Service Cost account, and \$2.0 million in the SERS Defined Contribution Match account. Partially offsetting these shortfalls are projected lapses of \$13.5 million in the Higher Education Alternative Retirement System account, \$8.5 million in the Retired State Employees Health Service Cost account, \$1.8 million in the Other Post Employment Benefits account, and \$290,000 across several other accounts.
- State Comptroller – Miscellaneous. We estimate \$30.0 million in expenditures for Adjudicated Claims, which are paid from the resources of the General Fund. No appropriation was made in the enacted budget for payment of these claims.
- Additional COVID Testing Requirements. It is anticipated that \$25.0 million of General Fund resources may be needed to support projected costs of COVID-19 testing. Testing costs are paid through several agencies depending on the population being tested, including the departments of Public Health and Social Services as well as the Office of the State Comptroller.

*Lapses*. The following sums totaling \$646.9 million beyond programmed lapses are estimated to remain unspent this fiscal year:

- Office of Legislative Management. A total of \$6.0 million is projected to lapse, with \$5.0 million in Personal Services and \$1.0 million in Other Expenses.
- Commission on Women, Children, Seniors, Equity & Opportunity. \$200,000 is projected to lapse.
- Secretary of the State. A \$230,000 lapse is projected in Personal Services due to vacancies.
- State Treasurer- Debt Service. A total lapse of \$69.3 million is forecast, with \$47.9 million associated with the timing of FY 2021 bond sales and revised estimates of the cost and interest rates for FY 2021 sales, and \$21.4 million adjustment in the UConn debt service account associated with moving the spring FY 2020 bond sale to the fall of FY 2021.
- Elections Enforcement Commission. \$220,000 is projected to lapse.
- Office of the State Comptroller. A \$750,000 lapse is projected in Personal Services due to vacancies.
- Department of Revenue Services. Personal Services will lapse \$1.2 million due to vacancies.
- Department of Veterans Affairs. A \$500,000 lapse is projected in Personal Services due to vacancies.

- Department of Administrative Services. Personal Services will lapse \$2.5 million due to vacancies.
- Workers' Compensation Claims – Department of Administrative Services. A \$625,000 lapse is forecast.
- Office of the Attorney General. \$350,000 is estimated to lapse in Personal Services due to vacancies.
- Department of Consumer Protection. \$500,000 is estimated to lapse in Personal Services due to vacancies.
- Department of Labor. A net total of \$2.44 million will lapse in a variety of accounts, including \$1.5 million in the Jobs First Employment Services account due to fewer referrals, and \$300,000 in the Workforce Training Authority account as the Authority has not yet been formed.
- Commission on Human Rights and Opportunities. \$125,000 will lapse in Personal Services due to turnover savings.
- Department of Agriculture. \$100,000 is anticipated to lapse in Other Expenses due to current cost trends.
- Department of Housing. A \$3.5 million lapse is forecast in the Housing/Homeless Services account due to fewer transitions than budgeted in the Money Follows the Person program and a delay in the CHES program.
- Department of Public Health. A net \$1.97 million will lapse, largely in Personal Services due to vacancies.
- Department of Developmental Services. A total of \$15.4 million will lapse. Personal Services will lapse \$6.0 million due to vacancies. A \$6.5 million lapse is anticipated in the Behavioral Services Program as more individuals are served in their own homes rather than in residential settings, \$1.0 million in the Emergency Placements account, \$1.0 million in Workers' Compensation Claims due to current trends, and \$900,000 across several other accounts.
- Department of Mental Health and Addiction Services. A net lapse of \$200,000 is anticipated in Personal Services due to vacancies.
- Department of Social Services. A total of \$439.7 million is projected to lapse. This is primarily the result of an estimated \$400.0 million lapse in the Medicaid account due to the extension of the public health emergency declaration by the federal government, which maintains the enhanced level of federal reimbursement through the end of the year, thus reducing the state share of program costs, as well as lower levels of service utilization. Reduced caseloads will result in lapses of \$14.8 million in Temporary Family Assistance, \$7.2 million in Aid to the Disabled, \$5.7 million in the Connecticut Home Care Program, \$4.4 million in Old Age Assistance and \$2.3 million in State Administered General Assistance. Reduced caseloads and service utilization, coupled with the extension of enhanced federal reimbursement through the end of the year, are expected to result in a \$3.0 million lapse in the HUSKY B account. Personal Services is estimated to lapse \$900,000 due to vacancies. All other lapses total \$1.4 million.
- Department of Aging and Disability Services. A total lapse of \$1.15 million is projected across a variety of accounts due to cost trends.
- Department of Education. A net total of \$20.8 million is projected to lapse. The Charter School account is projected to lapse \$4.7 million due to the closure of two charter schools and budgeted funding exceeding the number of approved charter school slots. A lapse of \$1.26 million is anticipated in the Bilingual Education account pursuant to section 10-17g of the General Statutes, as the budget included funds for several programs that are no longer in operation. In addition, lapses of \$2.7 million in the Open Choice Program account and \$13.0 million in the Magnet Schools account are projected based on current enrollment trends. Both accounts lapsed funding in FY 2020. Lastly, \$500,000 is projected to lapse in Personal Services due to vacancies. Offsetting these lapses is a net \$1.4 million shortfall in the CTEC System accounts.
- Office of Early Childhood. A total of \$7.4 million is projected to remain unspent. \$6.1 million will lapse in the Early Care and Education account due to natural turnover in enrollment that impacts funding

requirements, as well as the availability of federal funding that will reduce state expenditures. The Birth to Three account will lapse \$750,000 due to reduced service utilization, Child Care Quality Enhancements will lapse \$400,000, and Personal Services will lapse \$100,000 as a result of turnover savings.

- Office of Higher Education. A total of \$238,000 will lapse, with \$138,000 in Personal Services and \$100,000 in Other Expenses.
- Teachers' Retirement Board. A total of \$4.3 million is projected to lapse. A \$3.6 million lapse is forecast in the Retiree Health Service Cost account due to health premiums that are lower than assumed in the adopted budget, as well as a \$460,000 lapse in the Municipal Retiree Health Insurance Costs account due to a decrease in the number of retired teachers eligible for the municipal subsidy. Personal Services and Other Expenses are anticipated to lapse a total of \$240,000.
- Department of Children and Families. A net lapse of \$53.1 million is anticipated across a variety of accounts due primarily to current caseload trends and reduced overtime expenditures.
- Judicial Department. An overall lapse of \$9.1 million is projected. Personal Services is projected to lapse \$9.9 million and Other Expenses will lapse \$314,000, offset by a \$1.15 million shortfall in Workers' Compensation Claims.
- Public Defender Services Commission. A total lapse of \$5.0 million is projected across several accounts due to current cost trends.

### **Special Transportation Fund**

The adopted budget anticipates a \$64.5 million balance from operations. We estimate that the Special Transportation Fund will end the year with a \$5.5 million operating surplus, and that the Transportation Fund balance on June 30, 2021, will be \$173.9 million.

#### Revenues

Estimated revenues have been revised upward by \$3.9 million. The only change is in Sales and Use Tax revenues that are directed to the Special Transportation Fund, with this source revised upward similar to the revision in the General Fund.

#### Expenditures

Our expenditure estimate has improved by \$25.6 million from last month's forecast. In aggregate, expenditures are projected to be \$106.4 million better than budgeted.

*Lapses.* The following lapses are projected, and will more than satisfy the \$12.0 million general lapse anticipated in the enacted budget:

- State Treasurer – Debt Service. We estimate a lapse of \$94.0 million in debt service savings attributable to reduced interest costs and delayed timing of FY 2020 and FY 2021 bond sales.
- State Comptroller – Fringe Benefits. \$1.9 million is projected to lapse in the State Employees Health Service Cost account due to current expenditure trends.
- DAS – Workers' Compensation Claims. \$1.0 million will lapse due to current claim trends.
- Department of Motor Vehicles. \$5.0 million will lapse in the Personal Services account due to vacancies.
- Department of Energy and Environmental Protection. \$100,000 is projected to lapse in Personal Services due to vacancies.
- Department of Transportation. A total of \$17.5 million will lapse, with \$8.9 million in Personal Services due to vacancies, and \$8.6 million in the ADA Para-transit Program due to utilization that has been impacted by the public health emergency.

*Deficiencies.* Offsetting the positive variances noted above is the following shortfall:

- Department of Administrative Services. The State Insurance and Risk Management account is projected to have a shortfall of \$1.1 million due to unanticipated increased premiums for the CT Bus liability renewal, the CT Rail liability policy, and a few large bus claim settlements.

### **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 Regional Market Operation Fund and the Tourism Fund.

- Regional Market Operation Fund. Pursuant to Section 10 of Public Act 18-154, the Hartford Regional Market was conveyed to the Capital Region Development Authority and CRDA has assumed operation of that market. As a result, appropriations totaling \$1.1 million will go unspent.
- 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 are estimated to exceed available revenues by approximately \$6.9 million. When added to the negative fund balance of \$2.9 million carried over from FY 2020, we anticipate the Tourism Fund will end FY 2021 with a \$9.8 million negative fund balance.

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

Sincerely,



Melissa McCaw  
Secretary

Attachments:

- COVID Responses – Budget Impact
- Summary Statements, FY 2021 Revenue and Expenditures