# STATE OF CONNECTICUT

## OFFICE OF POLICY AND MANAGEMENT

November 20, 2020

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.

| | FY 2021 Projection (in millions) | | | | |
|---|---|---|---|---|---|
| **General Fund** | Budget (as Revised Dec. 2019) | Oct. Estimate | Nov. Estimate | Change in Estimate - Nov. vs. Oct. | Nov. Est. Variance from Budget |
| Revenues | $ 20,252.5 | $ 18,510.6 | $ 18,837.2 | $ 326.6 | $ (1,415.3) |
| Expenditures | 20,086.3 | 19,772.2 | 19,716.6 | (55.6) | (369.7) |
| Operating Results - Surplus/(Deficit) | $ 166.2 | $ (1,261.6) | $ (879.4) | $ 382.2 | $ (1,045.6) |
| **Budget Reserve Fund** | | | | | |
| Deposit / (Withdrawal) | $ 467.7 | $ (1,323.2) | $ (941.0) [1.] | $ 382.2 | $ (1,408.7) |
| Proj. Balance 6/30 | $ 3,542.3 | $ 1,751.3 | $ 2,133.5 | $ 382.2 | $ (1,408.7) |
| **Special Transportation Fund** | | | | | |
| Revenues | $ 1,880.8 | $ 1,697.2 | $ 1,690.6 | $ (6.6) | $ (190.2) |
| Expenditures | 1,816.3 | 1,752.4 | 1,752.4 | - | (63.9) |
| Operating Results - Surplus/(Deficit) | $ 64.5 | $ (55.2) | $ (61.8) | $ (6.6) | $ (126.3) |
| Proj. Fund Balance 6/30 | $ 423.4 | $ 113.2 | $ 106.6 | $ (6.6) | $ (316.8) |
| **Tourism Fund** | | | | | |
| Revenues | $ 14.2 | $ 9.2 | $ 6.2 | $ (3.0) | $ (8.0) |
| Expenditures | 13.1 | 13.1 | 13.1 | - | - |
| Operating Results - Surplus/(Deficit) | $ 1.1 | $ (3.9) | $ (6.9) | $ (3.0) | $ (8.0) |
| Proj. Fund Balance 6/30 | $ (0.1) | $ (10.8) | $ (13.8) | $ (3.0) | $ (13.7) |

Notes:

1. BRF withdrawal includes the transfer out of $61.62 million pursuant to Sec. 4-30a, CGS, as the FY 2020 ending balance exceeds the statutory 15% cap. This sum would be deposited as an additional contribution to the State Employees Retirement Fund or the Teachers' Retirement Fund. Estimated draw on BRF based on projected shortfall and may not reflect future mitigation actions.

450 Capitol Avenue · Hartford, Connecticut 06106-1379
www.ct.gov/opm

## General Fund

The adopted FY 2021 budget anticipates a $166.2 million balance at year end. We are projecting an operating shortfall of $879.4 million, an improvement of $382.2 million from last month, driven by improved revenue collections and expenditure trends. The projected shortfall represents 4.4 percent of the General Fund.

Our estimates include anticipated state costs for the state's current pandemic response. The table attached to this letter outlines specific measures approved to date as part of that response. It should be noted, however, that this data does not reflect the impact of any potential resurgence of the COVID-19 virus or resource requirements beyond existing federal assistance.

Our forecast of the Budget Reserve Fund (BRF) balance at year end is depicted below. The state's reserves at the close of FY 2020 are $3.07 billion, pending potential audit revisions as prior year results are finalized, or 15.3 percent of FY 2021 net General Fund appropriations. Notwithstanding anticipated revisions to estimated revenue from future consensus forecasts and potential mitigation efforts, the potential draw on the BRF at the end of FY 2021 would leave a balance of $2.1 billion, or 10.6% of FY 2021 net General Fund appropriations.

| Budget Reserve Fund | |
|---|---|
| | (in millions) |
| Estimated BRF Ending Balance - FY 2020 (OSC Est. 9/17/20) | $ 3,074.6 |
| | |
| Deposit to SERS or TRS pursuant to Sec. 4-30a, C.G.S. (OSC Est. 9/17/20) | $ (61.6) |
| Projected Operating Deficit - FY 2021 (OPM 11/20/20 Est.) | (879.4) |
| Volatility Cap Deposit - FY 2021 (OPM 11/20/20 Est.) | - |
| Estimated BRF Ending Balance - FY 2021 | $ 2,133.5 |

Revenues

Projected revenues have been revised upward by $326.6 million compared to our estimate last month and are reflective of the November 10th consensus revenue forecast. The largest change is in the Withholding component of the Personal Income Tax, up $130.0 million, as collections continue to exceed our target and have not exhibited the decline anticipated in the April consensus revenue forecast. Estimated and Final payments under the Personal Income Tax have also been revised upward by $117.0 million and the Pass-through Entity Tax has been revised upward by $64.3 million, as collections for both taxes have been stronger than anticipated in April consensus revenue forecast. The Sales and Use tax has been revised upward by $39.6 million as collections continue to exceed our target. Finally, the Real Estate Conveyance tax has been revised upward by $24.5 million reflecting strength each month in its collections. Offsetting those gains, Refunds of Taxes have been revised upward by $49.9 million due to Income Tax refunds that are continuing to trend above target. All Other changes net to a positive $1.1 million.

In general, the positive revisions in the above revenue streams reflect the positive variance received to date and a small measure of expected continued outperformance in the first half of this fiscal year. The current forecast remains conservative for the second half of the fiscal year given the significant uncertainty surrounding the course of the COVID pandemic and the waning impact of the unprecedented amount of fiscal and monetary stimulus that was injected into the nation's economy by the federal government over the spring and summer months. In addition, pandemic-related closures of many businesses may have caused deferred consumption of goods and services, resulting in pent-up demand that is being realized in the first half of the fiscal year. Until a vaccine for the COVID virus is widely available, and absent further federal measures to stimulate economic activity, significant challenges are likely over the coming months.

Expenditures
We are projecting that FY 2021 net expenditures will be below the amended budget plan by $369.7 million, as explained further below.

*Deficiencies*. Projected shortfalls totaling $175.7 million are forecast in the following agencies:

- Department of Administrative Services. A $1.6 million shortfall is anticipated in the Insurance and Risk Management account due to an increase in property insurance rates.
- Department of Economic and Community Development. A $10.4 million shortfall is anticipated in the Capital Region Development Authority account. Of this sum, approximately $2.55 million was the result of the failure to enact FY 2020 deficiency appropriations, resulting in bills that carried over to FY 2021. The remainder is the result of event cancellations due to COVID-19 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.
- Department of Mental Health and Addiction Services. A total shortfall of $4.1 million is projected due to the failure to enact FY 2020 deficiency appropriations and lack of FY 2021 budget adjustments addressing direct care costs. While June Finance Advisory Committee action addressed a portion of the FY 2020 deficiency, over $2.1 million in prior year bills were held over for payment in FY 2021. We estimate a $0.4 million shortfall in Other Expenses due largely to various facility maintenance and repair costs and increased software licensing costs, $2.0 million in the Professional Services account for contracted medical services including contracted psychiatrists, $1.7 million in the Workers' Compensation Claims account to reflect claim trends, and $3.0 million in the Discharge and Diversion account to assist with discharges from Connecticut Valley Hospital to community settings for those no longer needing inpatient care. These shortfalls are partially offset by a projected $3.0 million lapse in Personal Services due to vacancies.
- 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.
- State Comptroller – Fringe Benefits. A total shortfall of $99.1 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 $4.3 million in the Unemployment Compensation account, $125,000 in the Insurance – Group Life account, $5.5 million in the Employers Social Security Tax account, $30.3 million in the State Employees Health Service account, $24.4 million in the Retired State Employees Health Service Cost account, and $1.8 million in the SERS Defined Contribution Match account. Partially offsetting these shortfalls is a projected $12.0 million lapse in the Higher Education Alternative Retirement System account.
- State Comptroller – Miscellaneous. We estimate $10.0 million in expenditures for Adjudicated Claims. No appropriation was made in the enacted budget for payment of these claims.

As noted last month, our projections do not include a significant potential shortfall in the Connecticut State Colleges and Universities system, primarily due to pandemic-related impacts on enrollment and residential occupancy resulting in declines in tuition and fee revenue. Depending on measures the system may adopt to address the issue as well as potential assistance from federal CARES Act funding, the scale of this deficiency could materially impact our estimates later this year.

*Lapses*. Our projections reflect the amounts currently withheld from agencies to achieve budgeted lapse targets, rescissions implemented by the Governor on October 1st, and use of federal CARES Act funding to cover $100 million of certain public health and public safety costs that would otherwise have been borne by the General Fund. Additionally, the following sums totaling $420.1 million are estimated to remain unspent this fiscal year:

- Office of Legislative Management. A total of $3.0 million is projected to lapse, with $2.0 million in Personal Services and $1.0 million in Other Expenses.
- State Treasurer- Debt Service. A total lapse of $38.4 million is forecast, with $23.4 million associated with the timing of FY 2021 bond sales and revised estimates of the cost and interest rates for FY 2021 sales based on FY 2020 results, and $15 million adjustment in the UConn debt service account associated with moving the spring FY 2020 bond sale to the fall of FY 2021.
- Department of Consumer Protection. $125,000 is estimated to lapse in Personal Services due to vacancies.
- Department of Labor. Beyond holdbacks and rescissions, $395,717 will lapse in the Workforce Training Authority account as the Authority has not yet been formed.
- Department of Public Health. $850,000 will lapse in Personal Services primarily as a result of vacancies.
- Department of Social Services. A total of $332.1 million is projected to lapse, up significantly from last month's projection. This is primarily the result of an estimated $300.0 million lapse in the Medicaid account due to the extension of the public health emergency declaration by the federal government, which extends the enhanced level of federal reimbursement through March 31, 2021, thus reducing the state share of program costs, as well as lower levels of service utilization. Reduced caseloads will result in lapses of $11.8 million in Temporary Family Assistance, $9.3 million in Aid to the Disabled, $4.7 million in the Connecticut Home Care Program, $3.6 million in Old Age Assistance and $1.1 million in State Administered General Assistance. Reduced caseloads and service utilization, coupled with the extension of enhanced federal reimbursement through March 31, 2021, are expected to result in a $1.5 million lapse in the HUSKY B account.
- Department of Aging and Disability Services. A lapse of $550,000 is projected in the Employment Opportunities account.
- Department of Education. A net total of $15.65 million is projected to lapse. The Education Cost Sharing grant is underfunded by $1.55 million. This is offset by a projected lapse of $4.5 million in the Charter School account due to the closure of two charter schools and budgeted funding exceeding the number of approved charter school slots. In addition, lapses of $1.7 million in the Open Choice Program account and $11.0 million in the Magnet Schools account are projected based on current enrollment trends. Both accounts lapsed funding in FY 2020.
- Office of Higher Education. $100,000 will lapse in Personal Services.
- Teachers' Retirement Board. A net total of $3.55 million is projected to lapse. The Retirement Contributions account is underfunded by $1.8 million, reflective of the employer contribution adjustment required due to the revised valuation adopted after passage of the biennial budget. This is offset by a $5.0 million lapse in the Retiree Health Service Cost account due to health premiums that are lower than assumed in the adopted budget, as well as a $365,000 lapse in the Municipal Retiree Health Insurance Costs account due to a decrease in the number of retired teachers eligible for the municipal subsidy.
- Department of Children and Families. A net lapse of $19.7 million is anticipated across a variety of accounts due primarily to current caseload trends and reduced overtime expenses.
- Judicial Department. A net total of $5.4 million is projected to lapse, with $7.9 million in Personal Services, offset by a $2.5 million shortfall in Workers' Compensation Claims.
- Public Defender Services Commission. A total lapse of $359,000 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 $61.8 million operating deficit, an increase of $6.6 million from last month, and that the Transportation Fund balance on June 30, 2021, will be $106.6 million.

Revenues

Projected revenues have been revised downward by $6.6 million compared to last month, reflective of the November 10th consensus revenue forecast. The largest change is in the Oil Companies Tax, down $11.0 million due to a combination of reduced driving and lower than expected motor fuel prices. All other changes net to a positive $4.4 million. As noted last month, the overall reduction in revenues in the Special Transportation Fund compared to budgeted levels will require another significant drawdown from reserves, accelerating the timeframe for a long-term financial and infrastructure investment solution. The FY 2020 Transportation Fund starting balance on July 1, 2019, was $320.1 million and—as noted above—is estimated to close at $106.6 million on June 30, 2021.

Expenditures

Expenditures are projected to be $63.9 million better than budgeted due primarily to $74.1 million in debt service savings attributable to reduced interest costs and delayed timing of FY 2020 and anticipated future bond sales. In addition, $3.0 million is forecast to remain unspent in the Department of Motor Vehicles' Personal Services account due to vacancies. These lapses will more than satisfy the $12.0 million general lapse anticipated in the enacted budget. Offsetting this is a projected $1.2 million deficiency in the Department of Administrative Services' Insurance and Risk Management account due to rail-related increases.

## 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 lapse.

- 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 $6.9 million at the end of FY 2020, we anticipate the Tourism Fund will end FY 2021 with a $13.8 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