



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

November 20, 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 shortfall of \$19.6 million, a \$98.7 million reduction from last month's forecast surplus. Revenues have declined by \$84.5 million and reflect the consensus forecast reached by my office and the Office of Fiscal Analysis on November 12, 2019, with the remainder of the change attributable to expenditure trends. Our balance projection does not include the impact of a potential settlement of hospital litigation.¹ Note that management actions to mitigate the projected shortfall—including reductions in hiring and discretionary expenditures and possible use of rescission authority pursuant to Sec. 4-85, C.G.S.—are being finalized and we anticipate announcing specific steps toward that end very shortly.

The projected Budget Reserve Fund balance at year end, after transfers pursuant to the statutory volatility cap and the estimated FY 2020 operating deficit, 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 \$2.8 billion by the beginning of FY 2021, or 14.0% 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 Deficit - FY 2020 (OPM 11/20/19 Est.)	\$ (19.6)
Volatility Cap Deposit - FY 2020 (OPM 11/20/19 Est.)	<u>318.3</u>
Estimated BRF Ending Balance - FY 2020	\$ 2,804.2

Revenues

Projected revenues have been revised downward by \$84.5 million in aggregate compared to our estimate last month, reflective of the November 12th consensus revenue forecast. The biggest change is in Refunds of Taxes, up \$100 million, due to much larger than expected income tax refunds which are likely related to the interplay between the state's relatively new Pass-through Entity Tax and the Personal Income Tax, as

¹ Pursuant to Sec. 50 of Public Act 19-117, \$30.0 million of General Fund resources 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.

taxpayers who filed their final reconciliation under extension requested higher levels of refunds. Although the state has received only two monthly collections from the 10-cent plastic bag tax, given the low level of receipts combined with the fact that large retailers have shifted away from offering such bags, revenue from that tax has been revised downward from \$27.7 million to \$7.0 million, a reduction of \$20.7 million. Expected reimbursements from the Higher Education Alternative Retirement Plan are revised downward by \$10.0 million. At the same time, collections from such reimbursements will now be reported under Miscellaneous Revenue instead of Transfers to reflect the Comptroller's Office approach to reporting of such revenue. On a positive note, Sales and Use tax collections ended FY 2019 stronger than expected and have continued to remain above target, leading our office to revise our projection upward by \$39.8 million.² All other changes net to a positive \$6.4 million. Despite the revenue changes outlined above, \$318.3 million is still expected to be transferred to the Budget Reserve Fund in FY 2020 pursuant to the volatility cap.

Expenditures

We are projecting net expenditures will, in aggregate, exceed the budget plan by \$76.2 million, an increase of \$14.2 million over last month's estimate. Explanations of lapses and deficiencies follow.

Deficiencies. Projected shortfalls totaling \$51.5 million are forecast in the following agencies:

- Department of Emergency Services and Public Protection. A \$5.0 million deficiency is forecast in the Personal Services account as a result of higher than budgeted overtime costs.
- Department of Social Services. A net shortfall, after transfers from lapsing accounts, of \$19.2 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 \$13.0 million is projected. Other Expenses spending is projected to be comparable to FY 2019 levels, resulting in a shortfall of \$3.0 million. A \$10.0 million shortfall is projected in Inmate Medical Services largely due to pharmaceutical costs trending higher than compared to the same timeframe a year ago. While the agency is in the process of transitioning its pharmacy provider, our estimate assumes no resulting budgetary impact. Additionally, overtime costs for medical staff are up compared to last fiscal year as the agency works to achieve appropriate staffing levels.
- OSC – Fringe Benefits. A net shortfall of \$12.0 million is forecast based on current cost trends, including projected shortfalls of \$25.0 million in the State Employees' Health Service Cost account to reflect higher than expected claims experience and premium costs, \$1.5 million in the Employers' Social Security Tax account and \$1.0 million in the SERS Defined Contribution Match account. Partially offsetting these shortfalls are a projected lapse of \$2.5 million in the Unemployment Compensation account and a \$13.0 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.
- DAS – Workers' Compensation Claims. A \$0.5 million shortfall is projected based on current claim trends.

Our forecast includes \$30.0 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.

² Note that our Sales and Use Tax projection is net of the \$7.0 million plastic bag revenue which will now be reported under the Sales and Use Tax, instead of Miscellaneous Tax, as retailers remit the tax as part of their sales tax return and the Department of Revenue Services reports collections within that tax type.

Lapses. Our projections reflect the amounts currently withheld from agencies to achieve budgeted lapse targets. Additionally, the following sums totaling \$5.3 million are estimated to remain unspent this fiscal year:

- Personal Services. We are projecting total of \$1.9 million in lapsing Personal Services appropriations across several agencies, including \$300,000 in the Auditors of Public Accounts, \$800,000 in the Department of Revenue Services, \$200,000 in the Department of Administrative Services, \$200,000 in the Department of Veterans Affairs, and \$400,000 in the Department of Consumer Protection.
- Department of Housing. A \$1.2 million lapse is forecast in the Housing / Homeless account as a result of delays in placements.
- 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.
- Department of Children and Families. A net lapse of \$1.4 million is projected in the Board and Care for Children – Short-term and Residential account as a result of recent caseload reductions.

Special Transportation Fund

The adopted budget anticipates a \$38.8 million balance from operations. Projected revenues have been revised downward by \$16.4 million in aggregate compared to last month, reflective of the November 12th consensus revenue estimate. The largest change is in the Oil Companies Tax, down \$13.9 million due to lower than expected motor fuel prices. Estimated Refunds of Taxes have been revised upward by \$10.0 million due to one-time factors that have contributed to larger refunds. All other revenue changes net to a positive \$7.5 million. Partially offsetting the reduction in forecast revenue is a \$4.2 million reduction in anticipated spending. The most significant changes in our expenditure forecast are a \$10 million reduction in Debt Service requirements as a result of a delay in the date of the fall bond sale and a projected \$5 million deficit in the Department of Transportation's Rail Operations account. We project that the Transportation Fund balance on June 30, 2020, will be \$347.0 million.

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 October 31, 2019
(In Millions)

General Fund

Operating Balance - Prior Month		\$	79.1
Revenues			
Refunds of Taxes	(100.0)		
Sales and Use Tax	46.8		
All Other Changes (net)	<u>(31.3)</u>		<u>(84.5)</u>
Expenditures			
Additional Requirements	(13.7)		
Estimated Lapses	4.5		
Miscellaneous Adjustments/Rounding	<u>(5.0)</u>		<u>(14.2)</u>
Operating Deficit - FY 2020		\$	(19.6)

Budget Reserve Fund

Fund Balance as of June 30, 2019		\$	2,505.5
Volatility Cap Deposit	318.3		
FY 2020 Est. Balance from Operations	<u>(19.6)</u>		<u>298.7</u>
Estimated Fund Balance - June 30, 2020		\$	2,804.2
Fund Balance as Percentage of FY 2021 General Fund			14.0%

Special Transportation Fund

Fund Balance as of June 30, 2019		\$	320.1
Operating Balance - Prior Month			38.8
Revenues			
Oil Companies Tax	(13.9)		
Refunds of Taxes	(10.0)		
All Other Changes (net)	<u>7.5</u>		<u>(16.4)</u>
Expenditures			
Additional Requirements	(7.0)		
Estimated Lapses	11.4		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>4.4</u>
Estimated Fund Balance - June 30, 2020		\$	347.0

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2020
As of October 31, 2019
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 18,445.1	\$ 18,464.2	\$ 19.1
Less: Refunds	(1,411.7)	(1,513.7)	(102.0)
Taxes - Net	\$ 17,033.4	\$ 16,950.5	\$ (82.9)
Other Revenue	1,288.2	1,323.2	35.0
Other Sources	1,138.6	1,102.0	(36.6)
TOTAL Revenue	\$ 19,460.2	\$ 19,375.7	\$ (84.5)
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		51.5	51.5
Estimated Appropriations Lapsed	(209.2)	(214.5)	(5.3)
Estimated Appropriations to be Continued to FY 2021 ²		-	-
TOTAL Estimated Expenditures	\$ 19,319.1	\$ 19,529.8	\$ 210.7
Net Change in Fund Balance - Continuing Appropriations		(164.5)	(164.5)
Miscellaneous Adjustments/Rounding		(30.0)	(30.0)
Net Change in Unassigned Fund Balance - 6/30/2020	\$ 141.1	\$ (19.6)	\$ (160.7)

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 October 31, 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	4,490.9	46.8
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	20.7	(27.7)
TOTAL - TAXES	\$ 18,445.1	\$ 18,464.2	\$ 19.1
Less: Refunds of Taxes	(1,309.3)	(1,409.3)	(100.0)
Earned Income Tax Credit	(97.3)	(97.3)	-
R & D Credit Exchange	(5.1)	(7.1)	(2.0)
TOTAL - TAXES - NET	\$ 17,033.4	\$ 16,950.5	\$ (82.9)
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	163.5	5.0
Investment Income	52.6	57.6	5.0
Miscellaneous	178.1	203.1	25.0
Refunds of Payments	(66.4)	(66.4)	-
TOTAL - OTHER REVENUE	\$ 1,288.2	\$ 1,323.2	\$ 35.0
OTHER SOURCES			
Federal Grants	\$ 1,526.0	\$ 1,524.4	\$ (1.6)
Transfer from Tobacco Settlement Fund	136.0	136.0	-
Transfers From/(To) Other Funds	(205.1)	(240.1)	(35.0)
Transfers to BRF - Volatility Adjustment ^{2.}	(318.3)	(318.3)	-
TOTAL - OTHER SOURCES	\$ 1,138.6	\$ 1,102.0	\$ (36.6)
TOTAL - GENERAL FUND REVENUE	\$ 19,460.2	\$ 19,375.7	\$ (84.5)

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 October 31, 2019

Department of Public Safety	\$ 5,000,000
Department of Social Services	19,200,000
Office of Early Childhood	1,800,000
Department of Correction	13,000,000
OSC - Fringe Benefits	12,000,000
DAS - Workers' Compensation Claims	500,000
Total	<u>\$ 51,500,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2020
As of October 31, 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
Auditors of Public Accounts	300,000
Department of Revenue Services	800,000
Department of Veterans Affairs	200,000
Department of Administrative Services	200,000
Department of Consumer Protection	400,000
Department of Housing	1,200,000
Teachers' Retirement Board	800,000
Department of Children and Families	1,400,000
Total	<u><u>\$ 214,515,570</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	\$19,375.7								
Appropriations	19,528.3	19,528.3	19,528.3	19,528.3	19,528.3								
Additional Requirements	0.0	0.0	37.8	37.8	51.5								
Less: Estimated Lapses	(209.2)	(209.2)	(210.2)	(210.0)	(214.5)								
TOTAL - Estimated Expenditures	19,319.1	19,319.1	19,355.9	19,356.1	19,365.3	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	10.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Misc. Adjustments/Rounding	0.0	(15.0)	(20.0)	(25.0)	(30.0)								
Est. Operating Balance - 6/30/20	\$141.1	\$126.1	\$84.3	\$79.1	(\$19.6)	\$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 October 31, 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	\$ 1,323.7	\$ (6.4)
Less: Refunds of Taxes	<u>(14.3)</u>	<u>(24.3)</u>	<u>(10.0)</u>
Taxes - Net	1,315.8	1,299.4	(16.4)
Other Revenue	<u>433.3</u>	<u>433.3</u>	<u>-</u>
TOTAL - Revenue	\$ 1,749.1	\$ 1,732.7	\$ (16.4)
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		7.0	7.0
Estimated Appropriations Lapsed	(30.3)	(41.7)	(11.4)
Estimated Appropriations to be Continued to FY 2021 ^{2.}		<u>-</u>	<u>-</u>
TOTAL Estimated Expenditures	\$ 1,710.3	\$ 1,739.2	\$ 28.9
Net Change in Fund Balance - Continuing Appropriations		(33.3)	(33.3)
Miscellaneous Adjustments/Rounding		-	-
Net Change in Unassigned Fund Balance - FY 2020	\$ 38.8	\$ 26.8	\$ (12.0)
Estimated Fund Balance - June 30, 2020	<u>\$ 353.9</u>	<u>\$ 347.0</u>	<u>\$ (7.0)</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 October 31, 2019
(In Millions)

	General Assembly Budget Plan ^{1.}	Revised Estimates OPM	Over/ (Under)
TAXES			
Motor Fuels	\$ 507.2	\$ 510.8	\$ 3.6
Oil Companies	322.9	309.0	(13.9)
Sales & Use Tax	414.3	417.4	3.1
Sales Tax DMV	85.7	86.5	0.8
TOTAL - TAXES	<u>1,330.1</u>	<u>1,323.7</u>	<u>(6.4)</u>
Less: Refunds of Taxes	(14.3)	(24.3)	(10.0)
TOTAL - TAXES - NET	<u>\$ 1,315.8</u>	<u>\$ 1,299.4</u>	<u>\$ (16.4)</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>\$ 1,732.7</u>	<u>\$ (16.4)</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 October 31, 2019

Department of Transportation	\$ 5,000,000
OSC - Fringe Benefits	2,000,000
Total	<u>\$ 7,000,000</u>

Statement 4T
November 20, 2019

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2020
As of October 31, 2019

Unallocated Lapse	\$ 12,000,000
Pension and Healthcare Savings (pension portion)	15,720,000
Pension and Healthcare Savings (healthcare portion)	2,580,000
Department of Motor Vehicles	1,000,000
OTT - Debt Service	10,000,000
DAS - Workers' Compensation Claims	400,000
Total	<u>\$ 41,700,000</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	\$ 320.1								
Revenue	1,749.1	1,749.1	1,749.1	1,749.1	1,732.7								
Total Available	2,064.2	2,064.2	2,069.2	2,069.2	2,052.8	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	1,740.6								
Additional Requirements	0.0	0.0	0.0	0.0	7.0								
Less: Estimated Lapses	(30.3)	(30.3)	(30.3)	(30.3)	(41.7)								
TOTAL - Estimated Expenditures	1,710.3	1,710.3	1,710.3	1,710.3	1,705.9	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	26.8	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	0.0								
Estimated Operating Balance 6/30/20	\$353.9	\$353.9	\$358.9	\$359.0	\$347.0	\$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.