



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

February 18, 2022

The Honorable Natalie Braswell
 State Comptroller
 55 Elm Street
 Hartford, Connecticut 06106

Dear Comptroller Braswell:

Section 4-66 of the General Statutes requires that my office provide information on the state's General Fund for Fiscal Year 2022. An analysis of the Special Transportation Fund is also provided here due to the significance of this fund.

	FY 2022 Projection			Change in Estimate - Feb. vs. Jan.	Feb. Est. Variance from Budget
	Budget	Jan. Estimate	Feb. Estimate (in millions)		
<u>General Fund</u>					
Revenues	\$ 21,021.3	\$ 21,912.0	\$ 21,912.0	\$ -	\$ 890.7
Expenditures	<u>20,746.4</u>	<u>20,428.7</u>	<u>20,401.7</u>	<u>(27.1)</u>	<u>(344.8)</u>
Operating Results - Surplus/(Deficit)	\$ 274.9	\$ 1,483.3	\$ 1,510.4	\$ 27.1	\$ 1,235.5
<u>Budget Reserve Fund</u>					
Deposits		\$ 2,452.5	\$ 2,479.6	\$ 27.1	
Withdrawals		<u>(1,618.3)</u>	<u>(1,618.3)</u> ¹	<u>-</u>	
Proj. Balance 6/30		\$ 834.2	\$ 861.2	\$ 27.1	
<u>Special Transportation Fund</u>					
Revenues	\$ 1,889.7	\$ 1,972.4	\$ 1,972.4	\$ -	\$ 82.7
Expenditures	<u>1,721.8</u>	<u>1,702.7</u>	<u>1,697.5</u>	<u>(5.2)</u>	<u>(24.3)</u>
Operating Results - Surplus/(Deficit)	\$ 167.9	\$ 269.7	\$ 274.9	\$ (5.2)	\$ 107.0
Proj. Fund Balance 6/30		\$ 269.7	\$ 516.0	\$ 246.3	
Notes:					
1. BRF withdrawal includes the transfer out of \$1618.3 million in FY 2022 pursuant to Sec. 4-30a, CGS, as the FY 2021 ending balance exceeds the statutory 15% cap. This sum will be deposited as additional contributions to the State Employees Retirement Fund and the Teachers' Retirement Fund.					

General Fund

The adopted FY 2022 budget anticipated a \$274.9 million balance at year end. We are projecting an operating surplus of \$1,510.3 million – 7.3 percent of the General Fund – up \$27.1 million from last month’s forecast. Revenues continue to reflect the January 18th consensus forecast, and expenditure requirements show minor improvements over previously reported levels. The operating surplus is comprised of \$890.7 million of excess revenues and \$344.8 million of net expenditures below the enacted budget.

As noted in previous months, our projections include additional federal revenues associated with the American Rescue Plan Act home and community-based services (HCBS) reinvestment plan and the new Medicaid 1115 substance use disorder (SUD) waiver. Both of these plans were unbudgeted, resulting in additional revenues as well as increased expenditure requirements in FY 2022 through FY 2024. An attachment to this letter depicts revenues and spending associated with these initiatives. About \$83.2 million of federal revenue in FY 2022 included in the January consensus forecast is related to the early receipt of federal Medicaid funding for services that will be rendered in future fiscal years and would need to be transferred to FY 2023 to support reinvestment costs, reducing the forecast surplus for FY 2022 accordingly.

As we also noted previously, the enacted budget for the current biennium relies on one-time ARPA funds of \$560 million in FY 2022 and \$1.2 billion in FY 2023 to achieve balance. If not for the use of this one-time source, projected General Fund results for FY 2022 would be positive by \$867.1 million, about 4.2 percent, and FY 2023 would end with a sizable operating deficit. While the Governor’s recommended budget as presented to the legislature on February 9th eliminates reliance on this source to balance the General Fund budget in FY 2022 and reduces it by \$250 million in FY 2023, to \$944.9 million, the state will need to experience significant revenue growth this biennium to prevent a large budgetary gap in FY 2024 and beyond.

General Fund - Structural Balance			
(in millions)			
	FY 2022		FY 2023
	Enacted Budget Plan	OPM Feb. Estimate	Enacted Budget Plan
<u>General Fund</u>			
Revenues	\$21,021.3	\$21,912.0	\$21,537.2
Expenditures	<u>20,746.4</u>	<u>20,401.7</u>	<u>21,534.3</u>
Operating Balance - Surplus/(Deficit)	\$ 274.9	\$ 1,510.3	\$ 2.8
Consensus Revenue Adjustment			\$ 253.7
Less One-Time Revenues:			
ARPA Revenue Replacement	(559.9)	(559.9) ¹	(1,194.9) ²
ARPA HCBS Revenue - reserved for FY 2023 reinvestment		(83.2) ³	-
Revised Balance	\$ (285.0)	\$ 867.1	\$ (938.4)
<small>Notes: 1. and 2.) The Governor’s recommended budget adjustments for FY 2023 would, if adopted by the legislature, eliminate reliance on this one-time revenue source in FY 2022, and would reduce it by \$250 million in FY 2023. 3.) Reflects Federal Grants revenue estimated to be received in FY 2022 that must be transferred to FY 2023 to support ARPA HCBS reinvestment costs.</small>			

Our estimates also include anticipated state costs for the state’s current pandemic response through December 31, 2021. Attachments to this letter outline specific measures approved to date as part of that response.

Our forecast of the Budget Reserve Fund (BRF) balance is depicted below. We project that, after transfers out of the fund following close-out of FY 2021 and transfers into the fund pursuant to the statutory volatility cap and the estimated FY 2022 operating surplus, the fund balance at the end of FY 2022 will be almost \$5.6

billion, or 27.0 percent of net General Fund appropriations for the current year and 26.0 percent of FY 2023 appropriations contained in Special Act 21-15. Given that this balance exceeds the statutory 15 percent cap for the Budget Reserve Fund, additional transfers to the State Employees Retirement Fund and/or the Teachers' Retirement Fund are expected during the close-out period for FY 2022.

Budget Reserve Fund	
	(in millions)
Estimated BRF Ending Balance - FY 2020 (CAFR 2/19/21)	\$ 3,074.6
Estimated BRF Starting Balance - FY 2022 (OSC 9/30/21 Est.)	\$ 4,730.3
Deposit to SERS/TRS pursuant to Sec. 4-30a, C.G.S. (OSC 9/30/21 Est.)	\$ (1,618.3)
Projected Operating Surplus - FY 2022 (OPM 2/18/22 Est.)	\$ 1,510.3
Volatility Cap Deposit - FY 2022 (OPM 2/18/22 Est.)	<u>\$ 969.2</u>
Estimated BRF Ending Balance - FY 2022	\$ 5,591.5

Revenues

Estimated revenues remain unchanged from the levels reported last month and continue to reflect the January 18th consensus forecast. Thus far, the state has collected approximately \$14.3 million of the projected fiscal year target of \$27.8 million of new revenue from the CT Lottery Corporation and both casinos.

As noted above, about \$83.2 million in revenue generated under the ARPA HCBS initiative in FY 2022 must be reinvested over the three-year reinvestment period; legislative action to transfer these revenues for use in future years will therefore be required. Additionally, the adopted budget for the biennium was balanced with more than \$1.75 billion in one-time federal funds from the American Rescue Plan Act being used for general revenue replacement. While the Governor proposes reducing this to \$944.9 million, in order to offset the expiration of one-time funding, the state will need to experience significant revenue growth this biennium to prevent a large budgetary gap in FY 2024 and beyond.

Expenditures

We estimate that FY 2022 net expenditures will, in aggregate, be \$344.7 million below the levels anticipated in the adopted budget. This is chiefly due to the extension of the public health emergency declaration by the federal government, which maintains the enhanced level of federal Medicaid reimbursement through June 30, 2022, thus reducing the state share of program costs. A description of projected shortfalls and lapses follows.

Our estimate includes spending to support implementation of recreational cannabis pursuant to Public Act 21-1, June Special Session. While \$15 million is the anticipated budget requirement for FY 2022, the amount and timing of receipt of revenues this year to support these costs is unclear. Given the uncertainty around receipt of revenues, additional funding requirements totaling \$3.8 million are identified below where agencies are unable to absorb costs; this amount may increase as the year progresses.

Deficiencies. Shortfalls totaling \$94.2 million are projected in the following agencies:

- Department of Administrative Services. A net \$49.45 million deficiency is anticipated in Other Expenses due to the purchase of rapid COVID-19 test kits and personal protective equipment. While the agency will seek reimbursement from the Federal Emergency Management Agency (FEMA) to the maximum extent allowed, under current FEMA policy it is unlikely that the majority of these costs will be reimbursed.
- Department of Consumer Protection. A shortfall of \$1.3 million is projected as a result of cannabis regulation activities associated with the passage of Public Act 21-1, June Special Session.

- Department of Labor. A net \$14.75 million deficiency is projected in the Personal Services account due to the expiration of approximately \$16.3 million in federal funds supporting additional temporary staff responsible for responding to the increased and ongoing pandemic-related demand in the Unemployment Insurance program.
- Commission on Human Rights and Opportunities. A \$250,000 shortfall in Personal Services is projected due largely to the addition of durational staff to aid with the agency's COVID-related caseload.
- Department of Energy and Environmental Protection. A \$250,000 deficiency is anticipated in Other Expenses due to costs to outfit Environmental Conservation officers with body and dashboard cameras per the requirements of Public Act 20-1.
- Department of Economic and Community Development. A total shortfall of \$500,000 is forecast, with \$300,000 in Personal Services related to staffing of the Social Equity Council and \$200,000 in Other Expenses for a third party to conduct a study and provide findings of fact on specified matters as required by Public Act 21-1, June Special Session.
- Agricultural Experiment Station. A \$40,000 deficiency is anticipated as a result of cannabis regulatory testing activities associated with the passage of Public Act 21-1, June Special Session.
- Office of the Chief Medical Examiner. A \$250,000 shortfall is estimated due to overtime coverage of vacant positions.
- Department of Developmental Services. A net \$2.37 million shortfall is anticipated due to expenditure requirements associated with the implementation of the American Rescue Plan Act HCBS reinvestment plan. The accounts with additional funding requirements are Employment and Day Services, \$10.27 million and ID Partnership, \$0.1 million. Partially mitigating these additional requirements are projected lapses of \$3.0 million in Personal Services due to turnover, \$4.0 million in the Behavioral Services Program due to lower caseloads and more individuals receiving services in their homes rather than in more expensive residential settings, and \$1.0 million in Emergency Placements based on timing of initiatives.
- State Comptroller – Miscellaneous. We estimate \$25.0 million in expenditures for Adjudicated Claims. No appropriation was made in the enacted budget for payment of these claims.

Lapses. The following sums totaling \$455.8 million beyond programmed lapses are estimated to remain unspent this fiscal year:

- Office of Legislative Management. Personal Services will lapse \$5.0 million.
- Auditors of Public Accounts. A lapse of \$450,000 is forecast in the Personal Services account due to vacancies.
- Secretary of the State. A lapse of \$150,000 is projected in the Personal Services account due to vacancies.
- Department of Veterans Affairs. A lapse of \$400,000 is estimated in Personal Services due to vacancies and reduced census in the skilled nursing facility.
- Division of Criminal Justice. A lapse of \$1.2 million is forecast in the Personal Services account due to vacancies.
- Department of Public Health. A net lapse of \$1.72 million is forecast in the Personal Services account due to vacancies.
- Department of Social Services. A total of \$237.1 million is projected to lapse. After factoring in the extension of the public health emergency declaration by the federal government, which maintains the enhanced level of federal reimbursement through June 30, 2022 (reducing the state share of program costs), as well as lower levels of service utilization, combined with the impacts of the ARPA HCBS reinvestment plan and the SUD waiver, the Medicaid account is projected to lapse \$250 million. The ARPA HCBS reinvestment plan and the SUD waiver will also require additional funding of \$2.6 million under Other Expenses while the ARPA HCBS plan will require an additional \$22.4 million under

the Community Residential Services account and \$2.9 million under the Connecticut Home Care program. Total requirements for the Connecticut Home Care program are reduced to \$1.1 million due to lower-than-budgeted caseload levels. Personal Services is expected to lapse \$4.0 million due to vacancies. Reduced caseloads and service utilization, coupled with the extension of enhanced federal reimbursement through June 30, 2022, are expected to result in a \$4.0 million lapse in the HUSKY B account. We are projecting lapses of \$4.4 million in Temporary Family Assistance, \$2.2 million in State Administered General Assistance, \$60,000 in Aid to the Blind, and \$700,000 in Aid to the Disabled due to lower caseload levels than had been budgeted. Lastly, we are projecting a deficiency of \$2.3 million in Old Age Assistance because Medicaid billing for medical services provided by residential care homes is not expected to occur until next fiscal year.

- Department of Aging and Disability Services. A total lapse of \$400,000 is projected across various accounts, with about three-quarters of the total related to vacancies.
- Department of Education. A total of \$8.0 million will lapse, with \$5 million in the Magnet School account, \$2.5 million in the Open Choice account, \$500,000 in the Charter School account and \$30,000 in the Local Charter School account due to enrollment below budgeted levels.
- Office of Early Childhood. The Early Care and Education account will lapse \$1.0 million due to enrollment below budgeted levels.
- Office of Higher Education. A lapse of \$100,000 is estimated in the Personal Services account due to vacancies.
- Teachers' Retirement Board. A total lapse of \$8.95 million is anticipated, with \$8.8 million in the Retiree Health Service Cost account due to lower than budgeted health premium costs, and \$150,000 in the Municipal Retiree Insurance Costs account.
- Department of Correction. Personal Services will lapse \$51.5 million due to expenditure offsets from the Coronavirus Relief Fund for allowable public safety costs.
- Department of Children and Families. A total of \$42.495 million is anticipated to lapse across a variety of accounts, primarily those related to board and care, due to the continuing impact of the pandemic on agency caseloads and service utilization as well as position vacancies.
- Judicial Department. A lapse of \$5.0 million is estimated in the Personal Services account due to vacancies.
- Public Defender Services Commission. A total of \$1.45 million will lapse, with the bulk of the under-expenditure occurring in the Assigned Counsel – Criminal and Expert Witnesses accounts due to current cost trends.
- State Treasurer – Debt Service. A total of \$39.7 million will lapse, primarily due to low interest rates resulting from the most recent bond sale. Of the total, \$33.3 million is in the Debt Service account and \$6.5 million in UConn 2000 Debt Service.
- State Comptroller – Fringe Benefits. A total lapse of \$50.34 million is projected across a variety of accounts, with \$30.0 million of the total in the active employees' health services account, partly due to increasing retirements.
- DAS – Workers' Compensation Claims. A net lapse of \$915,000 will occur due to current claim cost trends.

Special Transportation Fund

The adopted budget anticipates a \$167.9 million balance from operations. We estimate that the Special Transportation Fund will end the year with an operating surplus of \$274.9 million, and that the Transportation Fund balance on June 30, 2022, will be \$516.0 million.

Revenues

Estimated revenues remain unchanged from the levels reported last month and continue to reflect the January 18th consensus revenue forecast.

Expenditures

In aggregate, expenditures are projected to be \$24.3 million below the level assumed in the adopted budget.

Deficiencies. A \$1.0 million deficiency is forecast in the Department of Administrative Services' Insurance and Risk Management account due to increases in automobile liability insurance costs.

Lapses. The following sums totaling \$37.34 million beyond programmed lapses are estimated to remain unspent this fiscal year. The items identified below more than satisfy the unassigned, budgeted lapse of \$12.0 million.

- Department of Motor Vehicles. A lapse of \$2.0 million in Personal Services is anticipated due to vacancies.
- Department of Transportation. A net lapse of \$10.5 million is projected, with \$6.0 million in Personal Services due to vacancies, and \$4.5 million in ADA Para-transit based on current ridership trends.
- State Treasurer – Debt Service. A lapse of \$22.4 million is projected primarily due to a reduction in the par amount and timing of the Fall 2022 Special Tax Obligation bond sale. The projected lapse also includes savings associated with lower than anticipated interest rates for that sale.
- State Comptroller – Fringe Benefits. A net lapse of \$740,000 is projected across a variety of accounts.
- DAS – Workers' Compensation Claims. A lapse of \$1.7 million is estimated due to current claim trends.

As the year progresses, these estimates 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:

American Rescue Plan Act HCBS Reinvestment Plan and Substance Use Disorder Waiver
Summary Statements, FY 2022 Revenue and Expenditures
COVID Responses – Budget Impact