



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

November 19, 2021

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 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 - Nov. vs. Oct.	Nov. Est. Variance from Budget
	Budget	Oct. Estimate	Nov. Estimate (in millions)		
<u>General Fund</u>					
Revenues	\$ 21,021.3	\$ 21,147.9	\$ 21,549.0	\$ 401.1	\$ 527.7
Expenditures	<u>20,746.4</u>	<u>20,665.6</u>	<u>20,654.3</u>	<u>(11.2)</u>	<u>(92.1)</u>
Operating Results - Surplus/(Deficit)	\$ 274.9	\$ 482.3	\$ 894.7	\$ 389.9	\$ 619.8
<u>Budget Reserve Fund</u>					
Deposits		\$ 1,451.5	\$ 1,863.9	\$ 412.3	
Withdrawals ²		<u>(1,623.3)</u>	<u>(1,623.3)</u> ¹	-	
Proj. Balance 6/30		\$ (171.7)	\$ 4,975.9	\$ 412.3	
<u>Special Transportation Fund</u>					
Revenues	\$ 1,889.7	\$ 1,904.8	\$ 1,953.9	\$ 49.1	\$ 64.2
Expenditures	<u>1,721.8</u>	<u>1,721.8</u>	<u>1,702.6</u>	<u>(19.2)</u>	<u>(19.2)</u>
Operating Results - Surplus/(Deficit)	\$ 167.9	\$ 183.0	\$ 251.3	\$ 29.9	\$ 83.4
Proj. Fund Balance 6/30		\$ 183.0	\$ 492.4	\$ 309.4	
Notes:					
1. BRF withdrawal includes the transfer out of \$1623.3 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 \$894.7 million – 4.3 percent of the General Fund – up \$412.3 million from last month’s forecast, largely as a result of the November 10, 2021, consensus revenue forecast. The operating surplus is comprised of \$802.7 million of excess revenues and \$92 million of net expenditures below the enacted budget.

A significant component of the changes to our projections this month is related to 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. Because at least \$150 million of the projected increase in federal revenue driving this surplus is related to the early receipt of federal Medicaid funding for services that will be rendered in future fiscal years (pursuant to the ARPA reinvestment requirements), we recommend transferring those funds to realign the timing of receipt of federal revenue with expenditures; this would reduce the forecast surplus for FY 2022 to \$744.7 million.

It is important to emphasize that 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 results for FY 2022 would only be modestly positive—estimated at \$185 million, less than 1 percent above the General Fund—and FY 2023 would end with a sizable operating deficit. As noted in previous forecasts, because of this reliance on 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.

General Fund - Structural Balance			
(in millions)			
	FY 2022		FY 2023
	Budget Plan	OPM Nov. Estimate	Budget Plan
<u>General Fund</u>			
Revenues	\$21,021.3	\$21,549.0	\$21,537.2
Expenditures	20,746.4	20,654.3	21,534.3
Operating Balance - Surplus/(Deficit)	\$ 274.9	\$ 894.7	\$ 2.8
Consensus Revenue Adjustment			\$ 253.7
Less One-Time Revenues:			
ARPA Revenue Replacement	(559.9)	(559.9)	(1,194.9)
ARPA HCBS Revenue - reserved for 3-year reinvestment		(150.0)	-
Revised Balance	\$ (285.0)	\$ 184.8	\$ (938.4)

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 pursuant to the 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 \$4.98 billion, or 24 percent of net General Fund appropriations for the current year and 23 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 Starting Balance - FY 2022 (OSC 9/30/21 Est.)	\$ 4,735.4
Deposit to SERS/TRS pursuant to Sec. 4-30a, C.G.S. (OSC 9/30/21 Est.)	\$ (1,623.3)
Projected Operating Surplus - FY 2022 (OPM 11/19/21 Est.)	\$ 894.7
Volatility Cap Deposit - FY 2022 (OPM 11/19/21 Est.)	<u>\$ 969.2</u>
Estimated BRF Ending Balance - FY 2022	\$ 4,975.9

Revenues

Projected revenues have been revised upward by \$401.1 million compared to our estimate last month and are reflective of the November 10th consensus revenue forecast. The largest change is in Federal Grants, up \$350.8 million, due to the inclusion of \$159.5 million from the American Rescue Plan Act HCBS reinvestment plan and \$4.1 million for the SUD waiver. The remaining \$187.2 million increase in Federal Grants is due to greater federal reimbursement than anticipated when the budget was adopted. The Sales and Use Tax has been revised upward by \$59.1 million as collections continue to exceed our target. All other changes net to a negative \$8.8 million. We would also note that October was the first month in which the new gaming initiatives were in operation in the state. Thus far, the state has collected approximately \$1.7 million in revenue of the projected fiscal year target of \$30.5 million of new revenue from the CT Lottery Corporation and both casinos.

Although this month's increase in revenue is certainly good news, by far the majority is related to receipts from the federal government, not own-source revenues. Moreover, some of these increased federal revenues will be associated with additional expenditure requirements in FY 2022 and future years. For example, the 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. As mentioned in prior months, 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. In order to offset the expiration of that 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 \$92.1 million below the levels anticipated in the adopted budget. This is largely due to the extension of the public health emergency declaration by the federal government, which maintains the enhanced level of federal Medicaid reimbursement through March 31, 2022, thus reducing the state share of program costs. A description of projected shortfalls and lapses follows.

Deficiencies. Shortfalls totaling \$55.7 million are projected in the following agencies:

- 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 \$350,000 shortfall in Personal Services is projected due largely to the addition of durational staff to aid with the agency's COVID-related caseload.
- Office of the Chief Medical Examiner. A \$200,000 shortfall is estimated due to overtime coverage of vacant positions.
- Department of Developmental Services. A net \$15.4 million shortfall is anticipated due to expenditure requirements associated with the implementation of the American Rescue Plan Act HCBS reinvestment plan. The accounts with the largest additional funding requirements are Employment and Day Services, \$12.55 million; Other Expenses, \$7.6 million; and ID Partnership, \$1.25 million. Partially mitigating these additional requirements are projected lapses of \$2.0 million in Personal Services due to turnover, and \$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.
- 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 \$164.55 million beyond programmed lapses are estimated to remain unspent this fiscal year:

- Auditors of Public Accounts. A lapse of \$400,000 is forecast in the Personal Services account due to vacancies.
- Secretary of the State. A lapse of \$200,000 is projected in the Personal Services account due to vacancies.
- Division of Criminal Justice. A lapse of \$1.1 million is forecast in the Personal Services account due to vacancies.
- Department of Revenue Services. A lapse of \$200,000 is estimated in the Personal Services account due to vacancies.
- Department of Public Health. A lapse of \$800,000 is forecast in the Personal Services account due to vacancies.
- Department of Mental Health and Addiction Services. A net lapse of \$3.8 million is anticipated in the Personal Services account due to vacancies. Our estimate includes the impact of additional requirements for the agency to implement the American Rescue Plan Act HCBS reinvestment plan and the SUD waiver.
- Department of Social Services. A total of \$121.2 million is projected to lapse. This is primarily the result of an estimated \$116.0 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 March 31, 2022, thus reducing the state share of program costs, as well as lower levels of service utilization. Medicaid requirements are further reduced by \$34.0 million as a result of the combined impact of the ARPA HCBS reinvestment plan and the SUD waiver; the extra 10% federal reimbursement available on home and community-based services through March 31, 2022, reduces overall state requirements under Medicaid and is partially offset by the anticipated costs to Medicaid under the SUD waiver. The ARPA HCBS reinvestment plan and the SUD waiver will also require additional funding of \$5.2 million under Other Expenses while the ARPA HCBS plan will require an additional \$31.2 million under the Community Residential Services account and \$4.0 million under the Connecticut Home Care program. Reduced caseloads will result in lapses of \$5.0 million in Temporary Family Assistance, \$1.5 million in State Administered General Assistance and \$1.1 million in the Connecticut Home Care program. Reduced caseloads and service utilization, coupled with the extension of enhanced federal reimbursement through March 31, 2022, are expected to result in a \$4.0 million lapse in the HUSKY B account.

- Department of Aging and Disability Services. A \$200,000 lapse is projected in the Educational Aid for Children account due to vacancies.
- Office of Higher Education. A lapse of \$100,000 is estimated in the Personal Services account due to vacancies.
- Teachers' Retirement Board. A lapse of \$8.5 million is anticipated in the Retiree Health Service Cost account due to lower than budgeted health premium costs.
- Department of Children and Families. A total of \$18.4 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.
- Judicial Department. A lapse of \$3.0 million is estimated in the Personal Services account due to vacancies.
- Public Defender Services Commission. A \$400,000 lapse in the Assigned Counsel – Criminal account is projected due to current cost trends.
- State Comptroller – Fringe Benefits. A total lapse of \$6.25 million is projected. The Unemployment Compensation account will lapse \$5 million as a result of increased federal support during the first four months of the fiscal year. All other accounts net to a positive lapse of \$1.25 million.

In addition to the items noted above, there may be additional funding requirements resulting from implementation activities associated with the passage of Public Act 21-1, June Special Session. Future forecasts may be revised to reflect any additional requirements, as well as potential offsetting lapses.

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 \$251.3 million, and that the Transportation Fund balance on June 30, 2022, will be \$492.4 million.

Revenues

Projected revenues have been revised upward by \$49.1 million compared to last month, reflective of the November 10th consensus revenue forecast. The Oil Companies tax has been revised upward by \$20 million as rising motor fuel prices have translated into additional collections under this tax. Sales Tax – DMV has also been revised upward by \$20 million due to continued strength in private party motor vehicle transactions. All other changes net to a positive \$9.1 million.

Expenditures

In aggregate, expenditures are projected to be \$19.2 million below the level assumed in the adopted budget. The items identified below more than satisfy the unassigned, budgeted lapse of \$12.0 million.

- Department of Transportation. A lapse of \$8.8 million in Personal Services is anticipated due to vacancies.
- 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.

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