



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

October 20, 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 - Oct. vs. Sep.	Oct. Est. Variance from Budget
	Budget	Sep. Estimate	Oct. Estimate	(in millions)		
<u>General Fund</u>						
Revenues	\$ 21,021.3	\$ 21,021.7	\$ 21,147.9		\$ 126.2	\$ 126.6
Expenditures	<u>20,746.4</u>	<u>20,746.4</u>	<u>20,665.6</u>	1.	(80.8)	(80.8)
Operating Results - Surplus/(Deficit)	\$ 274.9	\$ 275.3	\$ 482.3		\$ 45.4	\$ 207.4
<u>Budget Reserve Fund</u>						
Deposits		\$ 1,244.5	\$ 1,451.5		\$ 207.0	
Withdrawals ^{2.}		<u>(1,623.3)</u>	<u>(1,623.3)</u>	2.	-	
Proj. Balance 6/30		\$ (378.8)	\$ 4,563.6		\$ 207.0	
<u>Special Transportation Fund</u>						
Revenues	\$ 1,889.7	\$ 1,889.7	\$ 1,904.8		\$ 15.1	\$ 15.1
Expenditures	<u>1,721.8</u>	<u>1,721.8</u>	<u>1,721.8</u>		-	-
Operating Results - Surplus/(Deficit)	\$ 167.9	\$ 167.9	\$ 183.0		\$ 15.1	\$ 15.1
Proj. Fund Balance 6/30		\$ 167.9	\$ 424.1		\$ 256.2	
Notes:						
1. Expenditure estimate does not include resources estimated at approx. \$40 million required to support the home and community based services (HCBS) reinvestment opportunity authorized by Section 9817 of the American Rescue Plan Act (ARPA), or the new Medicaid 1115 substance use disorder (SUD) demonstration waiver anticipated to begin this year.						
2. 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 anticipates a \$274.9 million balance at year end. We are projecting an operating surplus of \$482.3 million, up \$207.0 million from last month's forecast. Revenues have increased by \$126.2 million, and estimated expenditures have decreased by \$80.8 million, as explained further below. The projected surplus represents 2.4 percent of the General Fund.

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 \$4.56 billion, or 22 percent of net General Fund appropriations for the current year and 21 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 10/20/21 Est.)	\$ 482.3
Volatility Cap Deposit - FY 2022 (OPM 10/20/21 Est.)	\$ 969.2
Estimated BRF Ending Balance - FY 2022	\$ 4,563.6

Revenues

Projected revenues have been revised upward by \$126.2 million compared to last month's estimate. The largest change is in the Sales and Use Tax, up \$96.2 million, as the tax continues to exceed its target and FY 2021 ended better than anticipated when the FY 2022 - FY 2023 biennial budget was adopted. Federal grants have been revised upward by \$30.0 million as the state now expects to receive an additional calendar quarter of enhanced Medicaid matching payments due to the extension of the public health emergency through the quarter ending March 31, 2022. All other revenues remain unchanged. Overall, it still remains early in the fiscal year to determine whether the positive revenue trends experienced in FY 2021 will continue into the new fiscal year, particularly with expiration of previous federal stimulus measures. In addition, the adopted budget was balanced with an anticipated \$559.9 million in general revenue replacement from the federal American Rescue Plan Act in FY 2022, and an even larger sum is anticipated to be utilized for balance in FY 2023. Without these one-time funds, the state's budget would not be balanced and therefore 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 \$80.8 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 \$40.35 million are projected in the following agencies:

- Department of Labor. A \$15 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 at the agency 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.
- 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 \$123.7 million beyond programmed lapses are estimated to remain unspent this fiscal year:

- Department of Public Health. A lapse of \$400,000 is forecast in the Personal Services account due to vacancies.
- Department of Mental Health and Addiction Services. A lapse of \$7.7 million is anticipated in the Personal Services account due to vacancies.
- Department of Social Services. A total of \$95.5 million is projected to lapse. This is primarily the result of an estimated \$85.0 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. Reduced caseloads will result in lapses of \$5.0 million in Temporary Family Assistance and \$1.5 million in State Administered General Assistance. 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.
- Teachers' Retirement Board. A lapse of \$8.0 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 \$12.1 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.

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.

Section 9817 of the American Rescue Plan Act provides states the opportunity to earn an extra 10% federal reimbursement on a range of waiver and related services from April 1, 2021, through March 31, 2022. This extra federal reimbursement must be reinvested in new qualifying services which support community-based long-term services and supports over a three-year period beginning April 1, 2021 through March 31, 2024. In addition to this initiative, a new Medicaid 1115 substance use disorder (SUD) demonstration waiver is expected to be implemented later this year. This waiver will allow the state to leverage additional federal reimbursement to be reinvested in the state's SUD treatment and service system. Both of these initiatives are still pending full federal approval and would eventually require legislative action. Once approved, projected costs of approximately \$40 million in FY 2022 will need to be appropriated and will reduce the lapse reported this month, but these costs will be offset by additional federal revenue.

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 \$183.0 million, and that the Transportation Fund balance on June 30, 2022, will be \$424.1 million.

Revenues

Projected revenues have been revised upward by \$15.1 million and reflect the Transportation Fund's portion of the overall improvement in Sales and Use Tax collections to date. All other revenues remain unchanged.

Expenditures

In aggregate, expenditures are projected to be consistent with the adopted budget. A lapse of \$8.9 million in the Department of Transportation's Personal Services account due to vacancies will satisfy a significant portion of the unassigned, budgeted lapse of \$12.0 million.

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:

Summary Statements, FY 2022 Revenue and Expenditures
COVID Responses – Budget Impact