



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

November 20, 2012

The Honorable Kevin Lembo
State Comptroller
55 Elm Street
Hartford, Connecticut 06106

Dear Comptroller Lembo:

The following information on the State's General Fund for fiscal year 2013 is provided in accordance with Section 4-66 of the General Statutes. In addition, an analysis of the Special Transportation Fund is included due to the significant nature of this fund. Consistent with Executive Order No. 1 issued January 5, 2011, these projections reflect the state's estimated year-end balance in accordance with Generally Accepted Accounting Principles (GAAP) as well as an estimated balance from operations on a budgetary basis.

General Fund

We are projecting the General Fund will experience a \$412.5 million shortfall on a GAAP basis, and a \$365.0 million shortfall on a budgetary basis, a change of \$304.9 million from last month. This change is due to a combination of weaker revenue collections and an increase in estimated expenditure requirements, most notably for the Medicaid program. As noted in previous months, significant uncertainty exists with regard to the national and global economic picture and, by extension, to the assumptions used in our estimates.

Please note that my office is in the process of developing a plan to mitigate this shortfall, which exceeds one percent of the General Fund budget, in anticipation that you will certify these figures on December 1st. While your certification will trigger the requirements of subsection (b) of Section 4-85 of the General Statutes, namely that a plan to mitigate the deficit be submitted by the Governor to the legislature before the end of the calendar year, we intend to offer a plan as soon as it is finalized.

The adopted budget included a \$3.1 million balance from operations on a budgetary basis. Section 4-30c of the General Statutes requires that up to \$50 million of any surplus that should develop this fiscal year be devoted, if necessary, to freeze the current General Fund GAAP deficit at the June 30, 2011 level, which was approximately \$1.75 billion. Because preliminary estimates of the June 30, 2012 GAAP deficit suggest an improvement over the 2011 level, this section is not anticipated to be operative, and therefore any surplus would be applied to redeeming Economic Recovery Notes issued to finance the FY 2009 deficit in accordance with Section 4-30b of the General Statutes.

Revenues

This month's forecast reflects a downward revision by a net \$144.9 million from the level reported last month, reflective of the consensus estimate reached between OPM and the legislature's Office of Fiscal Analysis on November 9th pursuant to Section 2-36c of the General Statutes. The largest negative revision is in the Refunds of Taxes category, down \$100.0 million. October was a particularly heavy refund month for both Income Taxes and Corporation Taxes related to taxpayers who, pursuant to approved extensions, filed their final return in the month of October. The Corporation Tax has been revised downward by \$51.8 million to reflect weak collections year-to-date and the expectation that the trend will continue, but moderate. As mentioned in prior months, the Sales Tax has exhibited a weakening trend and has therefore been revised downward by \$43.7 million, as its current growth is not at a pace sufficient to meet our target. Federal Grant revenue has been revised upward by \$82.0 million due largely to the increase in the Medicaid deficiency discussed further below. All other revenue changes net to a negative \$31.4 million. As mentioned in prior months, continued political gridlock and brinksmanship at the national level relative to addressing the budget and economy, including the prospects of sequestration and the expiration of tax cut and other significant federal policies in January, coupled with global economic concerns, continue to lend a high level of uncertainty to our revenue forecast.

Expenditures

Overall, expenditures are projected to exceed budgeted appropriations by a total of \$240 million, a net increase of \$160 million over last month's forecast. This month's estimate includes \$294.1 million in deficiencies across four agencies, which are partially offset by lapses which are anticipated to exceed budgeted levels by \$54.1 million.

Projected Deficiencies

First, and most significantly, a net deficiency of \$260 million is anticipated in the Department of Social Services' Medicaid accounts, up from \$100 million reported last month. This shortfall is largely due to increased utilization of medical services and increasing caseloads in the Low-Income Adults (LIA) program. The Department of Correction is anticipated to incur deficiencies totaling \$20 million in its Personal Services and Other Expenses accounts as a result of overly optimistic expenditure assumptions in the enacted budget. Similarly, the Department of Emergency Services and Public Protection is also anticipated to experience shortfalls in its Personal Services and Other Expenses accounts totaling \$13 million due to aggressive budget assumptions. Finally, the Department of Consumer Protection will likely experience a shortfall of \$1.1 million in its Personal Services account as a result of a restructuring of casino staffing reimbursements.

Projected Lapses

Partially offsetting these shortfalls are several anticipated lapses. We continue to anticipate a \$20 million lapse in the Treasurer's debt service accounts attributable to pricing from the fall sale as well as generally favorable market conditions. This month, we are also forecasting lapses totaling \$30 million in a variety of accounts in the Department of Children and Families as a result of caseload reductions, \$4.5 million in the Office of Legislative management due to

spending trends which are well below available appropriations, and \$30 million in the Comptroller's fringe benefits accounts attributable to positive trends in healthcare costs for active state employees. Finally, it should be noted that these lapses indicate full achievement of the budgeted unallocated savings target for the Legislative Branch as well as \$27.4 million of the general unallocated lapse target. We continue to assume and fully expect to achieve all remaining lapse targets in the aggregate before year end.

Beyond the expenditure factors noted above, we are monitoring potential state costs that may result from Hurricane Sandy. While several agencies have provided preliminary estimates of expenses associated with the hurricane, a significant percentage is likely to be reimbursed by the federal government. Our expenditure estimates in subsequent months will address any unreimbursed state expenses that cannot be addressed within budgeted levels.

Special Transportation Fund

In the Special Transportation Fund, estimated revenues reflect the consensus forecast mentioned above and have been revised upward by \$2.9 million. We continue to project a lapse in the Department of Transportation in the Rail Operations account based on current expenditure trends. The fund balance on June 30, 2013 is anticipated to be \$149.7 million.

As always, it is important to note that while these projections are the best that can be made at this time, estimates may need to be adjusted as the year progresses to reflect changes in the economy, expenditure patterns, and/or other factors.

Sincerely,

A handwritten signature in black ink, appearing to read "Benjamin Barnes". The signature is written in a cursive style with a large initial "B".

Benjamin Barnes
Secretary

Summary
November 20, 2012

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2013
As of October 30, 2012
(In Millions)

General Fund

Balance - Prior Month		\$	(60.1)
Revenues			
Sales and Use Tax	(43.7)		
Corporation Tax	(51.8)		
Refunds of Taxes	(100.0)		
Oil Companies	(14.8)		
Health Provider Tax	(10.7)		
Federal Grants	82.0		
All Other	(5.9)		(144.9)
Expenditures			
Additional Requirements	(194.1)		
Estimated Lapses	34.1		
Miscellaneous Adjustments/Rounding	0.0		(160.0)
Estimated Balance - June 30, 2013 - Budgetary Basis ¹		\$	(365.0)
Conversion to GAAP			(47.5)
Estimated Balance - June 30, 2013 - GAAP Basis		\$	(412.5)

1. Up to \$50,000,000 of any surplus would, if necessary, be reserved for GAAP per Sec. 4-30c of the General Statutes, with the balance applied to Economic Recovery Notes per Sec. 4-30b of the General Statutes.

Special Transportation Fund

Carry Forward FY 2012 Surplus		\$	145.8
Balance - Prior Month			1.0
Revenues			
Motor Fuels Tax	(1.7)		
Motor Vehicle Receipts	2.4		
Licenses, Permits, Fees	2.1		
All Other	0.1		2.9
Expenditures			
Additional Requirements	0.0		
Estimated Lapses	0.0		
Miscellaneous Adjustments/Rounding	0.0		0.0
Estimated Balance - June 30, 2013		\$	149.7

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations, GAAP and Budgetary Bases
Projected to June 30, 2013
As of October 30, 2012
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 15,483.8	\$ 15,350.6	\$ (133.2)
Less: Refunds	(1,075.6)	(1,172.9)	(97.3)
Taxes - Net	\$ 14,408.2	\$ 14,177.7	\$ (230.5)
Other Revenue	1,158.3	1,130.9	(27.4)
Other Sources	3,576.7	3,706.5	129.8
TOTAL Revenue	\$ 19,143.2	\$ 19,015.1	\$ (128.1)
OTHER FINANCING SOURCES			
Prior Year Appropriations Continued to FY 2013		\$ 130.4	\$ 130.4
Current Year Appropriations Continued to FY 2014		-	-
TOTAL Revenue and Other Financing Sources	\$ 19,143.2	\$ 19,145.5	\$ 2.3
EXPENDITURES			
Current Year Appropriations ¹	\$ 19,256.4	\$ 19,256.4	\$ -
Appropriation Revisions		-	-
Prior Year Appropriations Continued to FY 2013		130.4	130.4
TOTAL Initial and Continued Appropriations	\$ 19,256.4	\$ 19,386.8	\$ 130.4
Net Additional Expenditure Requirements		294.1	294.1
Estimated Lapses	(116.3)	(170.4)	(54.1)
Current Year Appropriations Continued to FY 2014		-	-
TOTAL Estimated Expenditures	\$ 19,140.1	\$ 19,510.5	\$ 370.4
Estimated Balance - Budgetary Basis - 6/30/2013 ²	\$ 3.1	\$ (365.0)	\$ (368.1)
CONVERSION TO GAAP			
Changes in Revenue Accruals		\$ (6.8)	\$ (6.8)
Changes in Expenditure Accruals		(40.7)	(40.7)
Changes in Continuing Appropriations		-	-
Net Change in General Fund Balance - GAAP Basis - 6/30/2013		\$ (412.5)	\$ (415.6)

1. P.A. 12-104, as amended by P.A. 12-1, June Spec. Sess.

2. Up to \$50,000,000 of any surplus would, if necessary, be reserved for GAAP per Sec. 4-30c of the General Statutes, with the balance applied to Economic Recovery Notes per Sec. 4-30b of the General Statutes.

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2013
As of October 30, 2012
(In Millions)

	General Assembly Budget Plan	Revised Estimates OPM	Over/ (Under)
TAXES			
Personal Income	\$ 8,554.3	\$ 8,554.3	\$ -
Sales and Use	4,046.0	4,002.3	(43.7)
Corporation	793.0	726.2	(66.8)
Public Service Corporations	275.2	275.2	-
Inheritance and Estate	166.2	166.2	-
Insurance Companies	234.4	237.6	3.2
Cigarettes	411.1	411.1	-
Real Estate Conveyance	100.3	100.3	-
Oil Companies	182.6	167.8	(14.8)
Electric Generation	71.0	70.6	(0.4)
Alcoholic Beverages	59.3	59.3	-
Admissions and Dues	39.6	39.6	-
Health Provider Tax	530.7	520.0	(10.7)
Miscellaneous	20.1	20.1	-
TOTAL - TAXES	\$ 15,483.8	\$ 15,350.6	\$ (133.2)
Less: Refunds of Taxes	(950.6)	(1,050.6)	(100.0)
Earned Income Tax Credit	(116.5)	(116.5)	-
R & D Credit Exchange	(8.5)	(5.8)	2.7
TOTAL - TAXES - NET	\$ 14,408.2	\$ 14,177.7	\$ (230.5)
OTHER REVENUE			
Transfers - Special Revenue	\$ 305.1	\$ 305.1	\$ -
Indian Gaming Payments	336.2	311.6	(24.6)
Licenses, Permits, Fees	258.8	262.8	4.0
Sales of Commodities and Services	34.8	34.8	-
Rents, Fines, Escheats	107.7	107.7	-
Investment Income	2.8	1.0	(1.8)
Miscellaneous	162.9	162.9	-
Refunds of Payments	(50.0)	(55.0)	(5.0)
TOTAL - OTHER REVENUE	\$ 1,158.3	\$ 1,130.9	\$ (27.4)
OTHER SOURCES			
Federal Grants	\$ 3,629.0	\$ 3,762.9	\$ 133.9
Transfer from Tobacco Settlement Fund	93.1	93.1	-
Transfers to Other Funds ¹	(145.5)	(149.5)	(4.1)
TOTAL - OTHER SOURCES	\$ 3,576.7	\$ 3,706.5	\$ 129.8
TOTAL - GENERAL FUND REVENUE	\$ 19,143.2	\$ 19,015.1	\$ (128.1)

1. Assumes transfer of \$15 million from the Budget Reserve Fund per PA 12-104, section 29.

Statement 3
November 20, 2012

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2013
As of October 30, 2012

Department of Emergency Services and Public Protection	\$ 13,000,000
Department of Consumer Protection	1,100,000
Department of Social Services - Medicaid	260,000,000
Department of Correction	20,000,000
Total	<u>\$ 294,100,000</u>

Statement 4
November 20, 2012

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2013
As of October 30, 2012

Unallocated Lapse	\$ 64,300,000
Unallocated Lapse - Legislative	-
Unallocated Lapse - Judicial	7,400,672
General Lapse - Legislative	56,251
General Lapse - Judicial	401,946
General Lapse - Executive	13,785,503
Office of Legislative Management	4,500,000
Department of Children and Families	30,000,000
Office of the State Treasurer - Debt Service	20,000,000
Office of the State Comptroller - Fringe Benefits	30,000,000
Total	<u>\$ 170,444,372</u>

State of Connecticut
2012-13 General Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹	July 2012	August 2012	September 2012	October 2012	November 2012	December 2012	January 2013	February 2013	March 2013	April 2013	May 2013	June 2013
REVENUE	\$ 19,143.2	\$ 19,143.2	\$ 19,193.2	\$ 19,160.0	\$ 19,015.1								
Appropriations	19,256.4	19,256.4	19,256.4	19,256.4	19,256.4								
Additional Requirements	0.0	0.0	100.0	100.0	294.1								
Less: Estimated Lapses	(116.3)	(116.3)	(136.3)	(136.3)	(170.4)								
TOTAL - Estimated Expenditures	19,140.1	19,140.1	19,220.1	19,220.1	19,380.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	3.1	3.1	(26.9)	(60.1)	(365.0)	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Est. Balance 6/30/13 - Budgetary Basis ²	\$ 3.1	\$ 3.1	(\$ 26.9)	(\$ 60.1)	(\$ 365.0)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Conversion to GAAP		(50.0)	(47.5)	(47.5)	(47.5)								
Est. Balance 6/30/13 - GAAP Basis		(\$ 46.9)	(\$ 74.4)	(\$ 107.6)	(\$ 412.5)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0

1. P.A. 12-104, as amended by P.A. 12-1, June Spec. Sess.

2. Up to \$50,000,000 of any surplus would, if necessary, be reserved for GAAP per Sec. 4-30c of the General Statutes, with the balance applied to Economic Recovery Notes per Sec. 4-30b of the General Statutes.

Statement 1T
November 20, 2012

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2013
As of October 30, 2012
(In Millions)

	General Assembly <u>Budget Plan</u> ¹	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
Surplus Carried Forward from FY 2012 ²	\$ 145.3	\$ 145.8	\$ 0.5
REVENUE			
Taxes	\$ 773.3	\$ 772.4	\$ (0.9)
Less: Refunds of Taxes	<u>(7.8)</u>	<u>(7.8)</u>	<u>-</u>
Taxes - Net	765.5	764.6	(0.9)
Other Revenue	<u>468.2</u>	<u>470.0</u>	<u>1.8</u>
TOTAL - Revenue	\$ 1,233.7	\$ 1,234.6	\$ 0.9
EXPENDITURES			
Appropriations	\$ 1,243.7	\$ 1,243.7	\$ -
Net Additional Requirements	-	-	-
Less: Estimated Lapses	<u>(11.0)</u>	<u>(13.0)</u>	<u>(2.0)</u>
TOTAL - Expenditures	\$ 1,232.7	\$ 1,230.7	\$ (2.0)
Balance from Operations	\$ 1.0	\$ 3.9	\$ 2.9
Miscellaneous Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
Estimated Balance - June 30, 2012	<u>\$ 146.3</u>	<u>\$ 149.7</u>	<u>\$ 3.4</u>

1. P.A. 12-104, as amended by P.A. 12-1, June Spec. Sess.

2. Budget plan as estimated by the Office of Policy and Management. Revised estimates per the Comptroller's Sept. 4, 2012 letter.

Statement 2T
November 20, 2012

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2013
As of October 30, 2012
(In Millions)

	<u>General Assembly Budget Plan</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
TAXES			
Motor Fuels	\$ 497.5	\$ 495.8	\$ (1.7)
Oil Companies	199.4	199.4	-
Sales Tax DMV	76.4	77.2	0.8
TOTAL - TAXES	<u>773.3</u>	<u>772.4</u>	<u>(0.9)</u>
Less: Refunds of Taxes	(7.8)	(7.8)	-
TOTAL - TAXES - NET	<u>\$ 765.5</u>	<u>\$ 764.6</u>	<u>\$ (0.9)</u>
OTHER REVENUE			
Motor Vehicle Receipts	\$ 233.4	\$ 235.8	\$ 2.4
Licenses, Permits, Fees	137.9	140.0	2.1
Interest Income	6.0	3.1	(2.9)
Federal Grants	13.1	13.1	-
Transfers (To)/From Other Funds	81.2	81.2	-
Refunds of Payments	(3.4)	(3.2)	0.2
TOTAL - OTHER REVENUE	<u>\$ 468.2</u>	<u>\$ 470.0</u>	<u>\$ 1.8</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	\$ 1,233.7	\$ 1,234.6	\$ 0.9

Statement 3T
November 20, 2012

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2013
As of October 30, 2012

No Additional Requirements
Total

\$	-
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\$	-
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Statement 4T
November 20, 2012

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2013
As of October 30, 2012

Unallocated Lapses	\$ 11,000,000
Department of Transportation	\$ 2,000,000
Total	<u>\$ 13,000,000</u>

State of Connecticut
2012-13 Special Transportation Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹	July 2012	August 2012	September 2012	October 2012	November 2012	December 2012	January 2013	February 2013	March 2013	April 2013	May 2013	June 2013
Beginning Balance ²	\$ 145.3	\$ 145.3	\$ 145.8	\$ 145.8	\$ 145.8								
Revenue	<u>1,233.7</u>	<u>1,233.7</u>	<u>1,233.7</u>	<u>1,231.7</u>	<u>1,234.6</u>								
Total Available	1,379.0	1,379.0	1,379.5	1,377.5	1,380.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations	1,243.7	1,243.7	1,243.7	1,243.7	1,243.7								
Additional Requirements	0.0	0.0	0.0	0.0	0.0								
Less: Estimated Lapses	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>	<u>(13.0)</u>	<u>(13.0)</u>								
TOTAL - Estimated Expenditures	1,232.7	1,232.7	1,232.7	1,230.7	1,230.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	1.0	1.0	1.0	1.0	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Compt's Misc. Adjustments/Rounding	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>								
Estimated Balance 6/30/13	\$146.3	\$146.3	\$146.8	\$146.8	\$149.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 12-104, as amended by P.A. 12-1, June Spec. Sess.

2. Budget Plan and the month of July as estimated by the Office of Policy and Management. August and thereafter per the Comptroller's September 4, 2012 Letter.