



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

February 20, 2013

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 a \$103.2 million shortfall in the General Fund on a GAAP basis, and a \$55.7 million shortfall on a budgetary basis, an improvement of \$8.7 million from the amount reported last month. Our estimate reflects the consensus revenue forecast reached between OPM and the legislature's Office of Fiscal Analysis on January 15th pursuant to Section 2-36c of the General Statutes, and includes the impact of rescissions announced November 28, 2012, the deficit mitigation measures adopted in Public Act 12-1, December Special Session, and the impact of hiring and contract restrictions announced January 22nd.

It should be noted that our estimate does not reflect the impact of federal sequestration, scheduled for March 1st, which would if implemented result in reductions to federal spending on defense and nondefense programs. While sequestration is anticipated to result in little immediate state budgetary impact, the economic impact of these cuts, especially in the defense sector of Connecticut's economy, could have a significant effect on revenues going forward. However, there is still some uncertainty as to what actions – if any – Congress will take regarding the sequestration process. Moreover, the debate over sequestration is closely related to efforts to pass a budget for the remainder of federal fiscal year 2013, as the current continuing resolution expires on March 27th. We will continue to monitor federal budgetary issues and will reflect any impact in future forecasts as necessary.

Revenues

This month's forecast remains unchanged from last month. Our estimate includes the impact of the December deficit mitigation plan (P.A. 12-1, DSS) as well as the January consensus forecast. It should be noted that only about one-half of this year's projected income tax receipts has been collected to date, and April remains the most significant month for income tax collections. In addition, changes in taxpayer behavior due to the federal fiscal cliff may

result in potential one-time gains in those April collections; the consensus revenue forecast on which this letter is based did not include any changes associated with this issue.

Expenditures

Overall, expenditures are projected to fall below budgeted appropriations by a total of \$104.9 million, including the impact of revisions adopted as part of the December deficit mitigation plan. This month's estimate includes \$337.6 million in deficiencies across six agencies, which are more than offset by lapses (including rescissions) which are anticipated to exceed budgeted levels by \$442.5 million.

Projected Deficiencies

First, and most significantly, a net deficiency of \$284 million is anticipated in the Department of Social Services' Medicaid accounts, unchanged from the level reported last month. This shortfall is largely due to increased utilization of medical services and increasing caseloads in the Low-Income Adults (LIA) program. A \$5 million shortfall in Personal Services is also projected as a result of hiring staff to process increased applications and eligibility re-determinations for the department's programs. Caseload growth in the LIA program is also driving a projected net shortfall of \$11.3 million in the Department of Mental Health and Addiction Services' General Assistance Managed care account. The Department of Correction is anticipated to incur deficiencies totaling \$22 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. The Department of Consumer Protection will experience a shortfall of \$0.6 million in its Personal Services account as a result of a restructuring of casino staffing reimbursements. Finally, the Office of the State Comptroller is expected to incur deficiencies totaling \$1.7 million in Personal Services and Other Expenses.

Projected Lapses

Offsetting these shortfalls are a number of anticipated lapses, which have been adjusted to reflect amounts remaining after rescissions and deficit mitigation actions. 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. Lapses totaling \$26.2 million are forecast in a variety of accounts in the Department of Children and Families primarily as a result of caseload reductions, and lapses of \$4.5 million in the Office of Legislative Management and \$2.0 million in the Department of Public Health are anticipated due to favorable expenditure trends. Lapses totaling \$54.2 million are forecast in the Comptroller's fringe benefits accounts attributable to positive trends in healthcare costs for active and retired state employees, reduced Social Security tax and unemployment compensation obligations, and reduced pension costs in the higher education Alternative Retirement Plan. There are several new Personal Services lapses to report this month: \$0.3 million is forecast in the Auditors of Public Accounts, \$0.5 million in the Department of Administrative Services, and \$0.3 million in the Division of Criminal Justice. The Office of Policy

and Management is expected to lapse a total of \$1.4 million across a variety of accounts due to reduced expenditure requirements. Lastly, the Teachers' Retirement Board is expected to lapse \$0.8 million, primarily in the Retirees Health Service Cost account due to pharmacy reimbursements. It should be noted that the lapses detailed above indicate full achievement of the budgeted unallocated savings target for the Legislative Branch as well as \$56.6 million of the \$91.7 million general unallocated lapse target. We continue to assume and fully expect to achieve all remaining lapse targets in the aggregate before year end.

Special Transportation Fund

In the Special Transportation Fund, estimated revenues are unchanged from last month's estimate and continue to reflect the January 15th consensus forecast. We continue to forecast lapses of \$2 million in the Department of Transportation's Rail Operations account based on current expenditure trends, and \$17.4 million in the Treasurer's debt service account attributable to the December bond sale. A lapse of \$2.4 million is forecast in the Comptroller's fringe benefit accounts due to reduced Social Security tax and unemployment compensation obligations. Finally, lapses totaling \$7.4 million are forecast based on the December deficit mitigation plan. The fund balance on June 30, 2013 is anticipated to be \$159.0 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, flowing style.

Benjamin Barnes
Secretary

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2013
As of January 31, 2013
(In Millions)

General Fund

Balance - Prior Month		\$	(64.4)
Revenues			
No change	<u>0.0</u>		0.0
Expenditures			
Additional Requirements	0.3		
Estimated Lapses	8.4		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>8.7</u>
Estimated Balance - June 30, 2013 - Budgetary Basis ^{1.}		\$	(55.7)
Conversion to GAAP			<u>(47.5)</u>
Estimated Balance - June 30, 2013 - GAAP Basis		\$	<u>(103.2)</u>

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			12.8
Revenues			
No change	<u>0.0</u>		0.0
Expenditures			
Additional Requirements	0.0		
Estimated Lapses	0.4		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>0.4</u>
Estimated Balance - June 30, 2013		\$	<u>159.0</u>

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations, GAAP and Budgetary Bases
Projected to June 30, 2013
As of January 31, 2013
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 15,483.8	\$ 15,267.2	\$ (216.6)
Less: Refunds	(1,075.6)	(1,161.0)	(85.4)
Taxes - Net	\$ 14,408.2	\$ 14,106.2	\$ (302.0)
Other Revenue	1,158.3	1,130.4	(27.9)
Other Sources	3,576.7	3,742.9	166.2
TOTAL Revenue	\$ 19,143.2	\$ 18,979.5	\$ (163.7)
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	\$ 19,109.9	\$ (33.4)
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		337.6	337.6
Estimated Lapses	(116.3)	(558.8)	(442.5)
Current Year Appropriations Continued to FY 2014		-	-
TOTAL Estimated Expenditures	\$ 19,140.1	\$ 19,165.6	\$ 25.5
Estimated Balance - Budgetary Basis - 6/30/2013 ²	\$ 3.1	\$ (55.7)	\$ (58.8)
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		\$ (103.2)	\$ (106.3)

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 January 31, 2013
(In Millions)

	<u>General Assembly Budget Plan</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
TAXES			
Personal Income	\$ 8,554.3	\$ 8,554.3	\$ -
Sales and Use	4,046.0	3,886.2	(159.8)
Corporation	793.0	716.2	(76.8)
Public Service Corporations	275.2	278.7	3.5
Inheritance and Estate	166.2	196.2	30.0
Insurance Companies	234.4	247.8	13.4
Cigarettes	411.1	410.1	(1.0)
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	\$ 15,267.2	\$ (216.6)
Less: Refunds of Taxes	(950.6)	(1,040.6)	(90.0)
Earned Income Tax Credit	(116.5)	(115.5)	1.0
R & D Credit Exchange	(8.5)	(4.9)	3.6
TOTAL - TAXES - NET	\$ 14,408.2	\$ 14,106.2	\$ (302.0)
OTHER REVENUE			
Transfers - Special Revenue	\$ 305.1	\$ 315.1	\$ 10.0
Indian Gaming Payments	336.2	300.1	(36.1)
Licenses, Permits, Fees	258.8	262.8	4.0
Sales of Commodities and Services	34.8	35.8	1.0
Rents, Fines, Escheats	107.7	109.2	1.5
Investment Income	2.8	1.0	(1.8)
Miscellaneous	162.9	167.9	5.0
Refunds of Payments	(50.0)	(61.5)	(11.5)
TOTAL - OTHER REVENUE	\$ 1,158.3	\$ 1,130.4	\$ (27.9)
OTHER SOURCES			
Federal Grants	\$ 3,629.0	\$ 3,752.9	\$ 123.9
Transfer from Tobacco Settlement Fund	93.1	93.1	-
Transfers to Other Funds ¹ :	(145.5)	(103.1)	42.4
TOTAL - OTHER SOURCES	\$ 3,576.7	\$ 3,742.9	\$ 166.2
TOTAL - GENERAL FUND REVENUE	\$ 19,143.2	\$ 18,979.5	\$ (163.7)

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

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2013
As of January 31, 2013

Office of the State Comptroller	\$ 1,700,000
Department of Emergency Services and Public Protection	13,000,000
Department of Consumer Protection	600,000
Department of Mental Health and Addiction Services	11,300,000
Department of Social Services	289,000,000
Department of Correction	22,000,000
Total	<u>\$ 337,600,000</u>

Statement 4
February 20, 2013

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2013
As of January 31, 2013

Unallocated Lapse	\$ 35,000,000
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
Auditors of Public Accounts	300,000
Office of Policy and Management	1,400,000
Department of Administrative Services	500,000
Department of Criminal Justice	300,000
Department of Public Health	2,000,000
Teachers' Retirement Board	800,000
Department of Children and Families	26,200,000
Office of the State Treasurer - Debt Service	20,000,000
Office of the State Comptroller - Fringe Benefits	54,200,000
November 28, 2012 Rescissions	170,444,693
December 19, 2012 DMP Allotment Reductions	210,540,125
December 19, 2012 DMP Holdbacks - Executive	4,000,000
December 19, 2012 DMP Holdbacks - Legislative	2,000,000
December 19, 2012 DMP Holdbacks - Judicial	5,000,000
Total	<u>\$ 558,829,190</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	\$ 19,013.4	\$ 18,979.5	\$ 18,979.5	\$ 18,979.5				
Appropriations	19,256.4	19,256.4	19,256.4	19,256.4	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	309.1	337.9	337.6					
Less: Estimated Lapses	(116.3)	(116.3)	(136.3)	(136.3)	(170.4)	(300.1)	(550.4)	(558.8)					
TOTAL - Estimated Expenditures	19,140.1	19,140.1	19,220.1	19,220.1	19,380.1	19,265.4	19,043.9	19,035.2	0.0	0.0	0.0	0.0	0.0
Balance from Operations	3.1	3.1	(26.9)	(60.1)	(365.0)	(252.0)	(64.4)	(55.7)	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		
Est. Balance 6/30/13 - Budgetary Basis ²	\$3.1	\$3.1	(\$26.9)	(\$60.1)	(\$365.0)	(\$252.0)	(\$64.4)	(\$55.7)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Conversion to GAAP	(50.0)	(50.0)	(47.5)	(47.5)	(47.5)	(47.5)	(47.5)	(47.5)					
Est. Balance 6/30/13 - GAAP Basis	(\$46.9)	(\$46.9)	(\$74.4)	(\$107.6)	(\$412.5)	(\$299.5)	(\$111.9)	(\$103.2)	\$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
February 20, 2013

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2013
As of January 31, 2013
(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	(7.8)	(7.2)	0.6
Taxes - Net	<u>765.5</u>	<u>765.2</u>	<u>(0.3)</u>
Other Revenue	468.2	462.5	(5.7)
TOTAL - Revenue	<u>\$ 1,233.7</u>	<u>\$ 1,227.7</u>	<u>\$ (6.0)</u>
EXPENDITURES			
Appropriations	\$ 1,243.7	\$ 1,243.7	\$ -
Net Additional Requirements	-	-	-
Less: Estimated Lapses	(11.0)	(29.2)	(18.2)
TOTAL - Expenditures	<u>\$ 1,232.7</u>	<u>\$ 1,214.5</u>	<u>\$ (18.2)</u>
Balance from Operations	\$ 1.0	\$ 13.2	\$ 12.2
Miscellaneous Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
Estimated Balance - June 30, 2013	<u>\$ 146.3</u>	<u>\$ 159.0</u>	<u>\$ 12.7</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
February 20, 2013

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2013
As of January 31, 2013
(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)	(7.2)	0.6
TOTAL - TAXES - NET	<u>\$ 765.5</u>	<u>\$ 765.2</u>	<u>\$ (0.3)</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	73.7	(7.5)
Refunds of Payments	(3.4)	(3.2)	0.2
TOTAL - OTHER REVENUE	<u>\$ 468.2</u>	<u>\$ 462.5</u>	<u>\$ (5.7)</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	\$ 1,233.7	\$ 1,227.7	\$ (6.0)

Statement 3T
February 20, 2013

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2013
As of January 31, 2013

No Additional Requirements	\$ -
Total	<u>\$ -</u>

Statement 4T
February 20, 2013

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2013
As of January 31, 2013

Unallocated Lapses	\$	-
Department of Transportation		2,000,000
OSC - Fringe Benefits		2,400,000
OTT - Debt Service		17,400,000
December 19, 2012 DMP Allotment Reductions		7,414,380
Total		<u>\$ 29,214,380</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	\$ 145.8	\$ 145.8	\$ 145.8					
Revenue	1,233.7	1,233.7	1,233.7	1,231.7	1,234.6	1,234.6	1,227.7	1,227.7					
Total Available	1,379.0	1,379.0	1,379.5	1,377.5	1,380.4	1,380.4	1,373.5	1,373.5	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	1,243.7	1,243.7	1,243.7					
Additional Requirements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Less: Estimated Lapses	(11.0)	(11.0)	(11.0)	(13.0)	(13.0)	(19.4)	(28.8)	(29.2)					
TOTAL - Estimated Expenditures	1,232.7	1,232.7	1,232.7	1,230.7	1,230.7	1,224.3	1,214.9	1,214.5	0.0	0.0	0.0	0.0	0.0
Balance from Operations	1.0	1.0	1.0	1.0	3.9	10.3	12.8	13.2	0.0	0.0	0.0	0.0	0.0
Compt's Misc. Adjustments/Rounding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Estimated Balance 6/30/13	\$146.3	\$146.3	\$146.8	\$146.8	\$149.7	\$156.1	\$158.6	\$159.0	\$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.