



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

January 21, 2014

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 2014 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. In compliance 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).

General Fund

This month's estimate reflects a positive \$506.1 million balance from operations, an increase of \$232.9 million from last month's letter. This significant change is primarily a result of 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. Additionally, expenditures are projected to drop \$13.3 million from last month's estimate. State law directs any unappropriated surplus to the Budget Reserve Fund, which currently has a balance of \$270.7 million.

Revenues

This month's forecast reflects an upward revision of \$219.4 million from the level reported last month, reflective of the January 15th consensus revenue estimate. The largest positive revision is in the Personal Income Tax, up \$213.1 million due to strong estimated payment collections and the expectation that this trend will continue through the 2014 filing season. At the end of calendar 2012, certain changes to the federal tax code led to better than anticipated income tax collections in FY 2013. In the April consensus forecast which underlies the adopted FY 2014 budget, as well as in the November 2013 consensus forecast, both OPM and the Office of Fiscal Analysis assumed a portion of last year's collections were one-time in nature and reduced this year's forecast accordingly. The strong performance of estimated payments to date suggests that the forecasted reduction will not occur, likely due to the extraordinary gains in the U.S. equity markets this past year, which were up by 29.6% as measured by the S&P 500 index.

Somewhat offsetting the strength in estimated payments, however, is slower growth in the withholding component of the Income Tax. Refunds of Taxes have also been revised downward by \$20 million as a result of lower than forecast business tax refunds. All other changes net to a negative \$13.7 million.

Expenditures

Overall, expenditures are projected to be \$80.6 million below the budget plan. Net additional requirements (deficiencies) of \$44.3 million are more than offset by projected lapsing appropriations of \$124.9 million, as discussed further below.

Lapses. As noted above, this month's letter includes \$124.9 million in lapsing appropriations beyond the targets included in the adopted budget.

- Department of Social Services – A net lapse of \$94.0 million in the Medicaid account is projected, with much of that due to a transfer approved in November by the Finance Advisory Committee from the Disproportionate Share - Hospital (DSH) account in order to maximize payments to hospitals for uncompensated care costs. Because the adopted budget assumed that federal matching funds for the DSH program would accrue to the General Fund, while federal matching funds related to expenditures in the Medicaid account offset state costs, the transfer created a \$67 million lapse in the Medicaid account while reducing General Fund revenue by an equal amount.
- Treasurer – Debt Service – Favorable interest rates and bond premiums result in an expected lapse of \$29.0 million.
- Teachers' Retirement Board – A lapse of \$2.0 million is projected based on lower than budgeted rates for Retiree Healthcare.
- Department of Children and Families – A total of \$17.0 million is expected to lapse across a variety of accounts, primarily as a result of reduced out-of-home placements.
- State Comptroller - Fringe Benefits – Fringe costs are expected to be below budgeted levels by a total of \$21.0 million in the Higher Education Alternative Retirement Plan, Employer's Social Security Tax, and Unemployment Compensation accounts.
- Office of Legislative Management – A total of \$6.0 million is expected to lapse in Personal Services and Other Expenses.
- Department of Housing – A lapse of \$3.0 million is projected in the Elderly Renter's account due to the statutory closure of intake into this program.
- Budgeted lapses – We project that \$39.7 million of the \$94.7 million Unallocated Lapse target for the Legislative and Executive branches of government has been achieved, and anticipate full achievement of this target by year end. However, we do not expect that the \$7,400,672 Unallocated Lapse target in the Judicial branch of government will be achieved.

Deficiencies. Partially offsetting these lapses are projected deficiencies totaling \$44.3 million across six agencies:

- Department of Administrative Services – A deficiency of \$8.0 million is projected in Personal Services. The shortfall is attributable to the settlement of two large claims against the state earlier this fiscal year, which were paid from the State Insurance and Risk Operations account. In November, the Finance Advisory Committee approved a transfer of funds from Personal Services to enable the agency to make timely settlement payments, thus shifting the shortfall from the Insurance and Risk Operations account to Personal Services.


- Department of Emergency Services and Public Protection – A shortfall of \$4.5 million is projected in the Personal Services account as a result of a reduction in casino reimbursements negotiated with the Pequot and Mohegan tribal governments, rising overtime costs, and payment of costs for assistance from the Pennsylvania and Rhode Island National Guard related to the February 2013 snowstorm.
- Department of Education – A net shortfall of \$18.8 million is anticipated in the Magnet Schools account as a result of unbudgeted legislation requiring the state to pick up preschool tuition costs, and also due to supplemental transportation costs for the *Sheff* settlement.
- Public Defender Services Commission – Assigned counsel costs are on pace to exceed budgeted levels by \$4.0 million due to capital case costs, efforts to retire the *habeas corpus* case backlog, and one-time costs to catch up on bills from the prior year.
- Comptroller – Miscellaneous – Settlement of several claims against the state is expected this fiscal year which would result in a \$6.2 million shortfall in the Adjudicated Claims account.
- DAS – Workers' Compensation – A shortfall of \$2.8 million is projected due to rising claims costs.

Special Transportation Fund

Special Transportation Fund revenues also reflect the consensus estimate reached between OPM and the legislature's Office of Fiscal Analysis on January 15th. In total, revenues have been revised upward by \$1.1 million from last month's projection. On the expenditure side, our estimates remain unchanged overall relative to the adopted budget. A shortfall of \$0.6 million is forecast in the DAS – Workers' Compensation Claims account. More than offsetting this, however, are lapses of \$10.1 million in the Treasurer's Debt Service account and \$1.5 million in the Department of Motor Vehicles' Personal Services account; these lapses will fully satisfy the budgeted Unallocated Lapse target. We continue to closely monitor the potential fiscal impact to the Department of Transportation of costs associated with the New Haven line power failure as well as the May 17, 2013 derailment. Based on all of the factors noted above, our estimate of the fund balance on June 30, 2014 is \$173.1 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,



Benjamin Barnes
Secretary

Summary
January 21, 2014

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2014
As of December 31, 2013
(In Millions)

General Fund

Balance from Operations - Prior Month		\$	273.3
Revenues			
Personal Income Tax	213.1		
Refunds of Taxes	20.0		
All Other Changes (net)	<u>(13.7)</u>		219.4
Expenditures			
Additional Requirements	(13.6)		
Estimated Lapses	27.0		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>13.4</u>
Estimated Balance from Operations - June 30, 2014		\$	<u>506.1</u>

Special Transportation Fund

Fund Balance as of June 30, 2013		\$	164.6
Balance from Operations - Prior Month			7.4
Revenues			
Miscellaneous Changes (net)	<u>1.1</u>		1.1
Expenditures			
Additional Requirements	(0.6)		
Estimated Lapses	0.6		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>0.0</u>
Estimated Fund Balance - June 30, 2014		\$	<u>173.1</u>

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2014
As of December 31, 2013
(In Millions)

	General Assembly Budget Plan	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 15,517.5	\$ 15,925.2	\$ 407.7
Less: Refunds	(1,183.5)	(1,153.5)	30.0
Taxes - Net	\$ 14,334.0	\$ 14,771.7	\$ 437.7
Other Revenue	1,153.7	1,149.8	(3.9)
Other Sources ¹ .	1,705.4	1,692.8	(12.6)
TOTAL Revenue	\$ 17,193.1	\$ 17,614.3	\$ 421.2
EXPENDITURES			
Initial Current Year Appropriations ^{1,2} .	\$ 17,361.4	\$ 17,361.4	\$ -
Prior Year Appropriations Continued to FY 2014 ³ .		112.4	112.4
TOTAL Initial and Continued Appropriations	\$ 17,361.4	\$ 17,473.8	\$ 112.4
Appropriation Adjustments	-	-	-
TOTAL Adjusted Appropriations	\$ 17,361.4	\$ 17,473.8	\$ 112.4
Net Additional Expenditure Requirements		44.3	44.3
Estimated Appropriations Lapsed	(172.6)	(297.5)	(124.9)
Estimated Appropriations to be Continued to FY 2015		-	-
TOTAL Estimated Expenditures	\$ 17,188.7	\$ 17,220.5	\$ 31.8
Net Change in Fund Balances - Continuing Appropriations	-	(112.4)	(112.4)
Miscellaneous Adjustments/Rounding	-	0.1	-
Net Change in Unassigned Fund Balance - 6/30/2014	\$ 4.4	\$ 506.1	\$ 501.8

1. Note that, in a departure from the budgets enacted in previous years, the adopted budget "net appropriates" the Medicaid account in the Department of Social Services. This change in practice makes Connecticut's budget treatment of Medicaid consistent with the budgets of other states. A total of \$2,768.7 million was removed from both budgeted revenues and appropriations to accomplish this transition.

2. P.A. 13-184, as amended by P.A. 13-247.

3. P.A. 13-184, as amended by P.A. 13-247, and other statutory provisions.

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2014
As of December 31, 2013
(In Millions)

	General Assembly Budget Plan	Revised Estimates OPM	Over/ (Under)
TAXES			
Personal Income	\$ 8,808.8	\$ 9,021.9	\$ 213.1
Sales and Use	4,044.0	4,132.2	88.2
Corporation	723.5	815.4	91.9
Public Service Corporations	279.6	279.6	-
Inheritance and Estate	173.2	185.1	11.9
Insurance Companies	271.2	271.2	-
Cigarettes	390.4	383.4	(7.0)
Real Estate Conveyance	143.8	159.4	15.6
Oil Companies	36.8	36.8	-
Electric Generation	17.5	15.5	(2.0)
Alcoholic Beverages	59.8	59.8	-
Admissions and Dues	37.0	38.0	1.0
Health Provider Tax	512.0	507.0	(5.0)
Miscellaneous	19.9	19.9	-
TOTAL - TAXES	\$ 15,517.5	\$ 15,925.2	\$ 407.7
Less: Refunds of Taxes	(1,073.5)	(1,043.5)	30.0
Earned Income Tax Credit	(104.5)	(104.5)	-
R & D Credit Exchange	(5.5)	(5.5)	-
TOTAL - TAXES - NET	\$ 14,334.0	\$ 14,771.7	\$ 437.7
OTHER REVENUE			
Transfers - Special Revenue	\$ 313.9	\$ 310.1	\$ (3.8)
Indian Gaming Payments	285.3	285.3	-
Licenses, Permits, Fees	301.2	315.2	14.0
Sales of Commodities and Services	38.2	41.2	3.0
Rents, Fines, Escheats	114.5	114.6	0.1
Investment Income	1.3	0.1	(1.2)
Miscellaneous	169.1	158.1	(11.0)
Refunds of Payments	(69.8)	(74.8)	(5.0)
TOTAL - OTHER REVENUE	\$ 1,153.7	\$ 1,149.8	\$ (3.9)
OTHER SOURCES			
Federal Grants	\$ 1,312.7	\$ 1,305.5	\$ (7.2)
Transfer from Tobacco Settlement Fund	107.0	107.0	-
Transfers to Other Funds	285.7	280.3	(5.4)
TOTAL - OTHER SOURCES	\$ 1,705.4	\$ 1,692.8	\$ (12.6)
TOTAL - GENERAL FUND REVENUE	\$ 17,193.1	\$ 17,614.3	\$ 421.2

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2014
As of December 31, 2013

Department of Administrative Services	\$	8,000,000
Department of Education		18,800,000
Department of Emergency Services and Public Protection		4,500,000
Public Defenders Services Commission		4,000,000
OSC - Miscellaneous		6,200,000
DAS - Workers Compensation Claims		2,800,000
Total	\$	<u>44,300,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2014
As of December 31, 2013

Unallocated Lapse	\$ 55,000,000
Unallocated Lapse - Legislative	-
Unallocated Lapse - Judicial	-
General Other Expenses Reductions - Legislative	140,000
General Other Expenses Reductions - Executive	3,312,000
General Other Expenses Reductions - Judicial	548,000
General Lapse - Legislative	56,251
General Lapse - Executive	13,785,503
General Lapse - Judicial	401,946
GAAP Lapse	5,500,000
Transfer GAAP Funding	40,000,000
Statewide Hiring Reduction - Legislative	190,309
Statewide Hiring Reduction - Executive	5,478,184
Statewide Hiring Reduction - Judicial	1,128,261
Office of Legislative Management	6,000,000
Department of Housing	3,000,000
Department of Social Services	94,000,000
Teachers' Retirement Board	2,000,000
Department of Children and Families	17,000,000
OTT - Debt Service	29,000,000
OSC - Fringe Benefits	21,000,000
Total	<u>\$ 297,540,454</u>

State of Connecticut
2013-14 General Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan 1	July 2013	August 2013	September 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
REVENUE	\$17,193.1	\$17,193.1	\$17,193.1	\$17,126.1	\$17,249.5	\$17,394.8	\$17,614.3						
Appropriations	17,361.4	17,361.4	17,361.4	17,361.4	17,361.4	17,361.4	17,361.4						
Additional Requirements	0.0	0.0	0.0	20.0	23.2	30.7	44.3						
Less: Estimated Lapses	(172.6)	(172.6)	(172.6)	(266.4)	(270.9)	(270.5)	(297.5)						
TOTAL - Estimated Expenditures	17,188.7	17,188.7	17,188.7	17,114.9	17,113.6	17,121.5	17,108.2	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	4.4	4.4	4.4	11.2	135.9	273.3	506.1						
Misc. Adjustments/Rounding	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
Est. Balance from Operations - 6/30/14	\$4.4	\$4.4	\$4.4	\$11.2	\$135.9	\$273.3	\$506.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 13-184, as amended by P.A. 13-247.

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2014
As of December 31, 2013
(In Millions)

	General Assembly Budget Plan ^{1.}	Revised Estimates OPM	Over/ (Under)
Fund Balance as of June 30, 2013 ^{2.}	\$ 165.9	\$ 164.6	\$ (1.3)
REVENUE			
Taxes	\$ 962.0	\$ 969.0	\$ 7.0
Less: Refunds of Taxes	(6.5)	(6.5)	-
Taxes - Net	955.5	962.5	7.0
Other Revenue	288.2	289.2	1.0
TOTAL - Revenue	\$ 1,243.7	\$ 1,251.7	\$ 8.0
EXPENDITURES			
Appropriations	\$ 1,254.2	\$ 1,254.2	\$ -
Net Additional Requirements	-	0.6	0.6
Less: Estimated Lapses	(11.0)	(11.6)	(0.6)
TOTAL - Expenditures	\$ 1,243.2	\$ 1,243.2	\$ -
Balance from Operations	\$ 0.5	\$ 8.5	\$ 8.0
Miscellaneous Adjustments	-	-	-
Estimated Fund Balance - June 30, 2014	\$ 166.4	\$ 173.1	\$ 6.7

1. P.A. 13-184.

2. Budget plan as estimated by the Office of Policy and Management. Revised estimates per the Comptroller's September 3, 2013 letter.

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2014
As of December 31, 2013
(In Millions)

	<u>General Assembly Budget Plan</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
TAXES			
Motor Fuels	\$ 502.9	\$ 506.7	\$ 3.8
Oil Companies	380.7	380.7	-
Sales Tax DMV	78.4	81.6	3.2
TOTAL - TAXES	<u>962.0</u>	<u>969.0</u>	<u>7.0</u>
Less: Refunds of Taxes	(6.5)	(6.5)	-
TOTAL - TAXES - NET	<u>\$ 955.5</u>	<u>\$ 962.5</u>	<u>\$ 7.0</u>
OTHER REVENUE			
Motor Vehicle Receipts	\$ 234.0	\$ 235.7	\$ 1.7
Licenses, Permits, Fees	138.5	138.3	(0.2)
Interest Income	3.8	4.3	0.5
Federal Grants	13.1	12.1	(1.0)
Transfers (To)/From Other Funds	(98.0)	(98.0)	-
Refunds of Payments	(3.2)	(3.2)	-
TOTAL - OTHER REVENUE	<u>\$ 288.2</u>	<u>\$ 289.2</u>	<u>\$ 1.0</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	\$ 1,243.7	\$ 1,251.7	\$ 8.0

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2014
As of December 31, 2013

DAS - Workers' Compensation Claims	\$ 600,000
Total	<u>\$ 600,000</u>

Statement 4T
January 21, 2014

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2014
As of December 31, 2013

Department of Motor Vehicles	\$ 1,500,000
OTT - Debt Service	10,100,000
Total	<u><u>\$ 11,600,000</u></u>

State of Connecticut
2013-14 Special Transportation Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹	July 2013	August 2013	September 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Beginning Balance ²	\$ 165.9	\$ 165.9	\$ 164.6	\$ 164.6	\$ 164.6	\$ 164.6	\$ 164.6						
Revenue	<u>1,243.7</u>	<u>1,243.7</u>	<u>1,243.7</u>	<u>1,245.8</u>	<u>1,244.5</u>	<u>1,250.6</u>	<u>1,251.7</u>						
Total Available	1,409.6	1,409.6	1,408.3	1,410.4	1,409.1	1,415.2	1,416.3	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations	1,254.2	1,254.2	1,254.2	1,254.2	1,254.2	1,254.2	1,254.2						
Additional Requirements	0.0	0.0	0.0	0.0	0.0	0.0	0.6						
Less: Estimated Lapses	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.6)</u>						
TOTAL - Estimated Expenditures	1,243.2	1,243.2	1,243.2	1,243.2	1,243.2	1,243.2	1,243.2	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	0.5	0.5	0.5	2.6	1.3	7.4	8.5	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>	<u>0.0</u>	<u>0.0</u>						
Estimated Balance 6/30/14	\$166.4	\$166.4	\$165.1	\$167.2	\$165.9	\$172.0	\$173.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 13-184.

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 3, 2013 letter.