



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

February 20, 2019

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 2019. An analysis of the Special Transportation Fund is also provided here due to the significance of this fund.

General Fund

The adopted budget anticipates a \$10.5 million balance from operations. We are projecting an operating surplus of \$516.1 million, up \$54.2 million from last month due to improved expenditure trends.

Our forecast of the transfer to the Budget Reserve Fund pursuant to the statutory volatility cap is depicted in the table below. We estimate the deposit will be \$648 million in FY 2019, which, when combined with the projected surplus from FY 2019 operations, will increase the state's reserves to over \$2.3 billion by fiscal year-end.

	(in millions)
BRF Ending Balance - FY 2018	\$ 1,185.3
Projected Operating Surplus - FY 2019 (2/20/19 Est.)	516.1
Volatility Cap Deposit - FY 2019 (2/20/19 Est.)	<u>648.0</u>
Estimated BRF Total - FY 2019	\$ 2,349.4

Revenues

Our forecast is unchanged from last month and continues to reflect the January 15th consensus forecast reached by my office and the Office of Fiscal Analysis. While the projection of the estimates and finals portion of the Personal Income Tax remains unchanged at this time, collections are lagging their targets. If taxpayer behavior has shifted as a result of federal tax law changes, the impact may not be evident until the April 30th consensus estimate.

Expenditures

We are projecting net expenditures will, in aggregate, be below the budget plan by \$41.2 million, an improvement of \$54.2 million over last month's estimate. An explanation of lapses and deficiencies follows.

Deficiencies. Projected shortfalls are forecast in the following agencies:

- Department of Administrative Services. A \$600,000 net shortfall is anticipated in the Insurance and Risk Management account.

- Department of Emergency Services and Public Protection. A \$1.7 million deficiency is anticipated in Personal Services as a result of higher than anticipated overtime costs.
- Department of Developmental Services. A \$1.0 million shortfall is projected in Other Expenses.
- Department of Mental Health and Addiction Services. A \$5.0 million deficiency is projected in Personal Services, primarily as a result of overtime and staffing costs at Whiting Forensic Hospital and Connecticut Valley Hospital.
- Department of Correction. A \$32.3 million shortfall is projected. Personal Services is anticipated to have a \$11.3 million deficiency, as the revised FY 2019 appropriation for Personal Services is \$20 million less than projected expenditures for FY 2018. The Other Expenses account will be \$3.0 million over budget, and the Inmate Medical account faces a projected shortfall of \$18.0 million related to the transition of services from the UConn Health Center to in-house and contracted alternatives.
- Department of Children and Families. A net deficiency of \$4.7 million is projected across a variety of accounts. This shortfall is due to three factors: 1.) the lack of funding in the revised FY 2019 budget to honor the state's commitment to the 2017 Revised Juan F. Exit Plan, which in part requires adequate support for community-based programming to address service needs in order to implement the Exit Plan's outcome measures; 2.) maintaining important clinical interventions and other services utilized by non-delinquent youth following the reallocation of all Juvenile Justice Outreach Services funding by the Legislature to the Judicial Branch, further enabling the department to meet Juan F. requirements; and 3.) the need to support other unanticipated expenses to implement corrective actions at the Solnit Children's Center.

Additionally, we project \$40.0 million in unappropriated expenditures for Adjudicated Claims. Of this amount, \$6.5 million is for a settlement that was delayed from late FY 2018 into FY 2019, and the remainder is for payment of other claims, including those related to settlement of *SEBAC v. Rowland*.

Lapses. Our projections reflect the amounts currently withheld from agencies to achieve budgeted lapse targets. Additionally, the following amounts are estimated to remain unspent this fiscal year:

- Office of the State Comptroller. A lapse of \$500,000 is expected in Personal Services due to vacancies.
- Department of Revenue Services. A lapse of \$1.1 million is expected in Personal Services due to vacancies.
- Office of Policy and Management. A total of \$3.3 million will lapse, with \$900,000 in the State-Owned PILOT account and \$2.4 million in the Municipal Transition account after all required payments have been made.
- Department of Veterans' Affairs. A \$300,000 lapse is projected in Personal Services due to vacancies.
- Office of the Attorney General. A lapse of \$500,000 is expected in Personal Services due to vacancies.
- Department of Consumer Protection. The Personal Services account will lapse \$350,000 due to vacancies.
- Department of Energy and Environmental Protection. A total of \$400,000 will lapse across a variety of accounts as a result of favorable spending trends.
- Department of Housing. The Housing/Homeless account will lapse \$1.2 million due primarily to a slower than budgeted pace of placements under the Money Follows the Person initiative.
- Department of Public Health. A lapse of \$600,000 is expected in Personal Services due largely to vacancies.
- Department of Social Services. A net total of \$101.0 million is projected to lapse. Given favorable expenditure trends, the Medicaid program is expected to end the year \$77.0 million under budget, the Connecticut Home Care Program is projected to lapse \$12.0 million, the Temporary Family Assistance program is expected to lapse \$9.0 million, and the Hospital Supplemental Payments account will lapse \$3.0 million.

- Department of Education. Based on enrollment estimates, the Charter Schools account will lapse \$400,000.
- State Comptroller – Fringe Benefits. A net lapse of \$20.0 million is anticipated and is attributable mainly to lower than anticipated expenditures for Active and Retired State Employee Healthcare as well as recoveries in the Higher Education Alternative Retirement System that exceed the level assumed in the adopted budget.

Special Transportation Fund

The adopted budget anticipates a \$3.2 million balance from operations. We estimate a \$73.0 million operating surplus, and a \$318.7 million fund balance on June 30, 2019.

Revenues remain unchanged from last month and continue to reflect the January 15th consensus forecast. In aggregate, spending is estimated to be consistent with the budget plan. Expenditures for Active State Employee Healthcare are anticipated to exceed budgeted levels by \$1.0 million. A net lapse of \$7.5 million is forecast in the Department of Transportation's Personal Services account, and the Department of Motor Vehicles will lapse \$2.0 million in Personal Services. A \$5.5 million lapse is projected in the Treasurer's Debt Service account. DAS' Workers' Compensation Claims account will lapse \$700,000. Together, these lapses more than satisfy the budgeted unallocated lapse requirement.

Other Appropriated Funds

While Sec. 4-66, CGS, does not require that we provide analyses of other appropriated funds, it is worth noting that several industry-funded agencies face potential shortfalls totaling more than \$1.3 million because the enacted budget did not include technical adjustments to fringe benefit and indirect overhead appropriations to match the recovery rates established by your office. While some adjustments can be made through the Finance Advisory Committee process, the following deficiencies are expected:

- In the Banking Fund, the Department of Banking is underfunded by a net total of \$324,423 (\$719,000 in Fringe Benefits and \$150,423 in Indirect Overhead, partially offset by a \$545,000 lapse in Personal Services); and
- In the Insurance Fund, the Department of Insurance is underfunded by a net total of \$1,005,099 (a \$1,200,000 shortfall in Fringe Benefits, offset by \$194,901 over-budgeted in Indirect Overhead).

Because of the various statutory provisions applicable to the process and timing of industry assessments that support these funds, and given that deficiency appropriations for FY 2019 will likely not be enacted until late in the fiscal year, these shortfalls are not expected to be offset via adjusted assessments; appropriations unmatched by revenue are therefore expected to impact the cumulative balances of these funds.

As the year progresses, the estimates offered by my office will be updated to reflect the impact of any changes in the economy, expenditure patterns, and/or other factors.

Sincerely,



Melissa McCaw
Secretary

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2019
As of January 31, 2019
(In Millions)

General Fund

Balance from Operations - Prior Month		\$	461.9
Revenues			
No Changes	<u>0.0</u>		0.0
Expenditures			
Additional Requirements	16.6		
Estimated Lapses	37.5		
Miscellaneous Adjustments/Rounding	<u>0.1</u>		<u>54.2</u>
Estimated Balance from Operations - June 30, 2019		\$	<u>516.1</u>

Special Transportation Fund

Fund Balance as of June 30, 2018		\$	245.7
Balance from Operations - Prior Month			69.6
Revenues			
No Changes	<u>0.0</u>		0.0
Expenditures			
Additional Requirements	(0.3)		
Estimated Lapses	3.7		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>3.4</u>
Estimated Fund Balance - June 30, 2019		\$	<u>318.7</u>

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2019
As of January 31, 2019
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 17,202.1	\$ 18,034.7	\$ 832.6
Less: Refunds	(1,339.8)	(1,426.9)	(87.1)
Taxes - Net	\$ 15,862.3	\$ 16,607.8	\$ 745.5
Other Revenue	1,208.6	1,225.9	17.3
Other Sources	1,937.8	1,639.3	(298.5)
TOTAL Revenue	\$ 19,008.7	\$ 19,473.0	\$ 464.3
EXPENDITURES			
Initial Current Year Appropriations	\$ 19,019.7	\$ 19,019.7	\$ -
Prior Year Appropriations Continued to FY 2019 ²		125.8	125.8
TOTAL Initial and Continued Appropriations	\$ 19,019.7	\$ 19,145.5	\$ 125.8
Appropriation Adjustments	-	-	-
TOTAL Adjusted Appropriations	\$ 19,019.7	\$ 19,145.5	\$ 125.8
Net Additional Expenditure Requirements		45.30	45.3
Estimated Appropriations Lapsed	(21.5)	(148.04)	(126.5)
Estimated Appropriations to be Continued to FY 2020 ²		-	-
TOTAL Estimated Expenditures	\$ 18,998.2	\$ 19,042.7	\$ 44.6
Net Change in Fund Balance - Continuing Appropriations		(125.8)	(125.8)
Miscellaneous Adjustments/Rounding		(40.0)	(40.0)
Net Change in Unassigned Fund Balance - 6/30/2019	\$ 10.5	\$ 516.1	\$ 505.5

1. P.A. 18-81 as amended by P.A. 18-49.

2. CGS Sec. 4-89 and other statutory provisions.

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2019
As of January 31, 2019
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM	Over/ (Under)
TAXES			
Personal Income - Withholding	\$ 6,147.7	\$ 6,478.1	\$ 330.4
Personal Income - Estimates and Finals	2,959.9	3,244.8	284.9
Sales and Use	4,153.6	4,290.9	137.3
Corporation	920.2	1,009.6	89.4
Pass-through Entity Tax	600.0	600.0	-
Public Service Corporations	243.8	230.8	(13.0)
Inheritance and Estate	176.2	196.2	20.0
Insurance Companies	234.3	223.7	(10.6)
Cigarettes	381.0	375.5	(5.5)
Real Estate Conveyance	209.4	209.4	-
Alcoholic Beverages	63.0	64.0	1.0
Admissions and Dues	41.8	42.3	0.5
Health Provider Tax	1,049.2	1,049.2	-
Miscellaneous	22.0	20.2	(1.8)
TOTAL - TAXES	\$ 17,202.1	\$ 18,034.7	\$ 832.6
Less: Refunds of Taxes	(1,215.1)	(1,327.3)	(112.2)
Earned Income Tax Credit	(118.3)	(94.2)	24.1
R & D Credit Exchange	(6.4)	(5.4)	1.0
TOTAL - TAXES - NET	\$ 15,862.3	\$ 16,607.8	\$ 745.5
OTHER REVENUE			
Transfers - Special Revenue	\$ 352.7	\$ 352.7	\$ -
Indian Gaming Payments	203.6	248.6	45.0
Licenses, Permits, Fees	322.6	292.6	(30.0)
Sales of Commodities and Services	37.7	29.1	(8.6)
Rents, Fines, Escheats	147.2	151.1	3.9
Investment Income	14.5	44.8	30.3
Miscellaneous	189.1	174.1	(15.0)
Refunds of Payments	(58.8)	(67.1)	(8.3)
TOTAL - OTHER REVENUE	\$ 1,208.6	\$ 1,225.9	\$ 17.3
OTHER SOURCES			
Federal Grants	\$ 2,112.4	\$ 2,098.8	\$ (13.6)
Transfer from Tobacco Settlement Fund	110.2	110.2	-
Transfers From/(To) Other Funds	78.3	78.3	-
Transfers to BRF - Volatility Adjustment ²	(363.1)	(648.0)	(284.9)
TOTAL - OTHER SOURCES	\$ 1,937.8	\$ 1,639.3	\$ (298.5)
TOTAL - GENERAL FUND REVENUE	\$ 19,008.7	\$ 19,473.0	\$ 464.3

1. Sec. 27 of P.A. 18-81 as amended by P.A. 18-49. For clarity, OPM has modified this exhibit to separate revenue from the new Pass-through Entity Tax from the Corporation Tax, as the former is a component of the volatility cap.

2. The volatility cap for FY 2019 is \$3,196.8 million. Total revenue from the Estimates and Finals portion of the Personal Income Tax and the Pass-through Entity Tax that exceeds the volatility cap will be deposited into the Budget Reserve Fund.

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2019
As of January 31, 2019

Department of Administrative Services	\$	600,000
Department of Emergency Services and Public Protection		1,700,000
Department of Developmental Services		1,000,000
Department of Mental Health and Addiction Services		5,000,000
Department of Correction		32,300,000
Department of Children and Families		4,700,000
Total		<u>\$ 45,300,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2019
As of January 31, 2019

Unallocated Lapse	\$ 6,391,080
Unallocated Lapse - Judicial	5,000,000
Statewide Hiring Reduction - Executive	7,000,000
Office of the State Comptroller	500,000
Department of Revenue Services	1,100,000
Office of Policy and Management	3,300,000
Department of Veterans' Affairs	300,000
Office fo the Attorney General	500,000
Department of Consumer Protection	350,000
Department of Energy and Environmental Protection	400,000
Department of Housing	1,200,000
Department of Public Health	600,000
Department of Social Services	101,000,000
Department of Education	400,000
OSC - Fringe Benefits	20,000,000
Total	<u>\$ 148,041,080</u>

State of Connecticut
FY 2019 General Fund
Monthly Summary of Operations
(In Millions)

	Budget Plan ¹	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
REVENUE	\$ 19,008.7	\$ 19,171.6	\$ 19,179.2	\$ 19,182.4	\$ 19,269.4	\$ 19,275.9	\$ 19,473.0	\$ 19,473.0					
Appropriations	19,019.7	19,019.7	19,019.7	19,019.7	19,019.7	19,019.7	19,019.7	19,019.7					
Additional Requirements	0.0	31.5	35.5	54.6	54.6	58.0	61.9	45.3					
Less: Estimated Lapses	<u>(21.5)</u>	<u>(27.5)</u>	<u>(60.7)</u>	<u>(76.8)</u>	<u>(79.8)</u>	<u>(84.2)</u>	<u>(110.5)</u>	<u>(148.0)</u>					
TOTAL - Estimated Expenditures	18,998.2	19,023.7	18,994.5	18,997.5	18,994.5	18,993.5	18,971.1	18,917.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	10.5	147.9	184.7	184.9	274.9	282.4	501.9	556.0	0.0	0.0	0.0	0.0	0.0
Misc. Adjustments/Rounding	<u>0.0</u>	<u>(10.0)</u>	<u>(15.0)</u>	<u>(15.0)</u>	<u>(20.0)</u>	<u>(40.0)</u>	<u>(40.0)</u>	<u>(39.9)</u>					
Est. Balance from Operations - 6/30/19	\$10.5	\$137.9	\$169.7	\$169.9	\$254.9	\$242.4	\$461.9	\$516.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 18-81 as amended by P.A. 18-49

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2019
As of January 31, 2019
(In Millions)

	General Assembly <u>Budget Plan</u> ^{1.}	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
Fund Balance as of June 30, 2018	\$ 224.0	\$ 245.7	\$ 21.7
REVENUE			
Taxes	\$ 1,227.3	\$ 1,270.4	\$ 43.1
Less: Refunds of Taxes	<u>(14.6)</u>	<u>(13.6)</u>	<u>1.0</u>
Taxes - Net	1,212.7	1,256.8	44.1
Other Revenue	<u>407.8</u>	<u>430.8</u>	<u>23.0</u>
TOTAL - Revenue	\$ 1,620.5	\$ 1,687.6	\$ 67.1
EXPENDITURES			
Appropriations	\$ 1,629.3	\$ 1,629.3	\$ -
Prior Year Appropriations Continued to FY 2019 ^{2.}		<u>28.5</u>	<u>28.5</u>
TOTAL Initial and Continued Appropriations	\$ 1,629.3	\$ 1,657.8	\$ 28.5
Appropriation Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL Adjusted Appropriations	\$ 1,629.3	\$ 1,657.8	\$ 28.5
Net Additional Expenditure Requirements		1.0	1.0
Estimated Appropriations Lapsed	(12.0)	(15.7)	(3.7)
Estimated Appropriations to be Continued to FY 2020 ^{2.}		<u>-</u>	<u>-</u>
TOTAL Estimated Expenditures	\$ 1,617.3	\$ 1,643.1	\$ 25.8
Net Change in Fund Balance - Continuing Appropriations		(28.5)	(28.5)
Miscellaneous Adjustments/Rounding		-	-
Net Change in Unassigned Fund Balance - FY 2019	\$ 3.2	\$ 73.0	\$ 69.8
Estimated Fund Balance - June 30, 2019	<u>\$ 227.2</u>	<u>\$ 318.7</u>	<u>\$ 91.5</u>

1. P.A. 18-81 as amended by P.A. 18-49.

2. CGS Sec. 4-89 and other statutory provisions.

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2019
As of January 31, 2019
(In Millions)

	<u>General Assembly Budget Plan ¹.</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
TAXES			
Motor Fuels	\$ 502.3	\$ 505.1	\$ 2.8
Oil Companies	279.8	312.5	32.7
Sales & Use Tax	358.4	367.6	9.2
Sales Tax DMV	86.8	85.2	(1.6)
TOTAL - TAXES	<u>1,227.3</u>	<u>1,270.4</u>	<u>43.1</u>
Less: Refunds of Taxes	<u>(14.6)</u>	<u>(13.6)</u>	<u>1.0</u>
TOTAL - TAXES - NET	<u>\$ 1,212.7</u>	<u>\$ 1,256.8</u>	<u>\$ 44.1</u>
OTHER REVENUE			
Motor Vehicle Receipts	\$ 250.6	\$ 252.5	\$ 1.9
Licenses, Permits, Fees	142.8	144.2	1.4
Interest Income	12.4	32.4	20.0
Federal Grants	12.1	12.1	-
Transfers (To)/From Other Funds	(5.5)	(5.5)	-
Refunds of Payments	<u>(4.6)</u>	<u>(4.9)</u>	<u>(0.3)</u>
TOTAL - OTHER REVENUE	<u>\$ 407.8</u>	<u>\$ 430.8</u>	<u>\$ 23.0</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	<u>\$ 1,620.5</u>	<u>\$ 1,687.6</u>	<u>\$ 67.1</u>

1. Sec. 28 of P.A. 18-81 as amended by P.A. 18-49.

Statement 3T
February 20, 2019

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2019
As of January 31, 2019

OSC - Fringe Benefits	\$ 1,000,000
Total	<u>\$ 1,000,000</u>

Statement 4T
February 20, 2019

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2019
As of January 31, 2019

Unallocated Lapse	\$	-
Department of Motor Vehicles	\$	2,000,000
Department of Transportation		7,500,000
OTT - Debt Service		5,500,000
DAS - Workers' Compensation Claims		700,000
Total		<u>\$ 15,700,000</u>

State of Connecticut
FY 2019 Special Transportation Fund
Monthly Summary of Operations
(In Millions)

	Budget Plan ¹ .	July 2018 ¹ .	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
Beginning Balance ² .	\$ 224.0	\$ 224.0	\$ 245.7	\$ 245.7	\$ 245.7	\$ 245.7	\$ 245.7	\$ 245.7					
Revenue	<u>1,620.5</u>	<u>1,677.3</u>	<u>1,677.3</u>	<u>1,677.3</u>	<u>1,684.6</u>	<u>1,684.6</u>	<u>1,687.6</u>	<u>1,687.6</u>					
Total Available	1,844.5	1,901.3	1,923.0	1,923.0	1,930.3	1,930.3	1,933.3	1,933.3	0.0	0.0	0.0	0.0	0.0
Appropriations	1,629.3	1,629.3	1,629.3	1,629.3	1,629.3	1,629.3	1,629.3	1,629.3					
Additional Requirements	0.0	0.0	0.0	0.0	0.0	1.0	0.7	1.0					
Less: Estimated Lapses	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(15.7)</u>					
TOTAL - Estimated Expenditures	1,617.3	1,617.3	1,617.3	1,617.3	1,617.3	1,618.3	1,618.0	1,614.6	0.0	0.0	0.0	0.0	0.0
Balance from Operations	3.2	60.0	60.0	60.0	67.3	66.3	69.6	73.0	0.0	0.0	0.0	0.0	0.0
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>	<u>0.0</u>					
Estimated Balance 6/30/19	\$227.2	\$284.0	\$305.7	\$305.7	\$313.0	\$312.0	\$315.3	\$318.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 18-81 as amended by P.A. 18-49.

2. Budget plan and July as estimated by the Office of Policy and Management based on the Comptroller's August 1, 2018 letter. August per communications with the Office of the State Comptroller.