



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

December 21, 2020

The Honorable Kevin Lembo
 State Comptroller
 165 Capitol Avenue
 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 2021. An analysis of the Special Transportation Fund is also provided here due to the significance of this fund.

	FY 2021 Projection			Change in Estimate - Dec. vs. Nov.	Dec. Est. Variance from Budget
	Budget (as Revised Dec. 2019)	Nov. Estimate	(in millions) Dec. Estimate		
<u>General Fund</u>					
Revenues	\$ 20,252.5	\$ 18,837.2	\$ 19,018.1	\$ 180.9	\$(1,234.4)
Expenditures	<u>20,086.3</u>	<u>19,716.6</u>	<u>19,658.3</u>	<u>(58.3)</u>	<u>(428.0)</u>
Operating Results - Surplus/(Deficit)	\$ 166.2	\$ (879.4)	\$ (640.2)	\$ 239.2	\$ (806.4)
<u>Budget Reserve Fund</u>					
Deposit / (Withdrawal)	\$ 467.7	\$ (941.0)	\$ (701.8) ¹	\$ 239.2	\$(1,169.5)
Proj. Balance 6/30	\$ 3,542.3	\$ 2,133.5	\$ 2,372.7	\$ 239.2	\$(1,169.5)
<u>Special Transportation Fund</u>					
Revenues	\$ 1,880.8	\$ 1,690.6	\$ 1,689.6	\$ (1.0)	\$ (191.2)
Expenditures	<u>1,816.3</u>	<u>1,752.4</u>	<u>1,750.2</u>	<u>(2.2)</u>	<u>(66.1)</u>
Operating Results - Surplus/(Deficit)	\$ 64.5	\$ (61.8)	\$ (60.6)	\$ 1.2	\$ (125.1)
Proj. Fund Balance 6/30	\$ 423.4	\$ 106.6	\$ 107.8	\$ 1.2	\$ (315.6)
<u>Tourism Fund</u>					
Revenues	\$ 14.2	\$ 6.2	\$ 6.2	\$ -	\$ (8.0)
Expenditures	<u>13.1</u>	<u>13.1</u>	<u>13.1</u>	<u>-</u>	<u>-</u>
Operating Results - Surplus/(Deficit)	\$ 1.1	\$ (6.9)	\$ (6.9)	\$ -	\$ (8.0)
Proj. Fund Balance 6/30	\$ (0.1)	\$ (13.8)	\$ (13.8)	\$ -	\$ (13.7)
Notes:					
1. BRF withdrawal includes the transfer out of \$61.62 million pursuant to Sec. 4-30a, CGS, as the FY 2020 ending balance exceeds the statutory 15% cap. This sum would be deposited as an additional contribution to the State Employees Retirement Fund. Estimated draw on BRF based on projected shortfall and may not reflect future mitigation actions.					

General Fund

The adopted FY 2021 budget anticipates a \$166.2 million balance at year end. We are projecting an operating shortfall of \$640.2 million, an improvement of \$239.2 million from last month, driven by improved revenue collections and expenditure trends. The projected shortfall represents 3.2 percent of the General Fund.

Our estimates include anticipated state costs for the state's current pandemic response. The table attached to this letter outlines specific measures approved to date as part of that response. It should be noted, however, that this data does not reflect the impact of any potential resurgence of the COVID-19 virus or resource requirements beyond current levels of federal assistance.

Our forecast of the Budget Reserve Fund (BRF) balance at year end is depicted below. The state's reserves at the close of FY 2020 are \$3.07 billion, pending potential audit revisions as prior year results are finalized, or 15.3 percent of FY 2021 net General Fund appropriations. Notwithstanding anticipated revisions to estimated revenue from future consensus forecasts and potential mitigation efforts, the potential draw on the BRF at the end of FY 2021 would leave a balance of \$2.37 billion, or 11.8% of FY 2021 net General Fund appropriations.

Budget Reserve Fund	
	(in millions)
Estimated BRF Ending Balance - FY 2020 (OSC Est. 9/17/20)	\$ 3,074.6
Deposit to SERS or TRS pursuant to Sec. 4-30a, C.G.S. (OSC Est. 9/17/20)	\$ (61.6)
Projected Operating Deficit - FY 2021 (OPM 12/21/20 Est.)	(640.2)
Volatility Cap Deposit - FY 2021 (OPM 12/21/20 Est.)	-
Estimated BRF Ending Balance - FY 2021	<u>\$ 2,372.7</u>

Revenues

Projected revenues have been revised upward by \$180.9 million compared to our estimate last month. The largest change is in the Corporation Tax, up \$100 million as both the September and December estimated payments exceeded their targets. The Sales Tax continues to outpace its target each month and is being revised upward by \$90.9 million. Trends in Real Estate Conveyance taxes have also remained favorable and that projection is being revised upward by \$25.0 million. Offsetting this positive news, non-income tax refunds are being revised upward by \$25.0 million. All other changes net to a negative \$10.0 million. The next consensus revenue projection is due January 15th, and any revisions in estimated revenue will be incorporated into next month's forecast.

In general, the positive revisions in the revenue streams noted above reflect the favorable trends through November. The current forecast remains conservative for the second half of the fiscal year relative to the continued outperformance of major revenue sources to date. Furthermore, the approval of effective COVID vaccines and the apparent agreement on an additional round of fiscal stimulus by the federal government should bolster the economy and increase the likelihood that revenue will continue to overperform in the second half of the fiscal year, which would lead to upward revisions in future forecasts.

Expenditures

We are projecting that FY 2021 net expenditures will be below the amended budget plan by \$428.0 million, as explained further below.

Deficiencies. Projected shortfalls totaling \$183.5 million are forecast in the following agencies:

- Department of Administrative Services. A \$1.6 million shortfall is anticipated in the Insurance and Risk Management account due to an increase in property insurance rates.
- Department of Economic and Community Development. A \$10.4 million shortfall is anticipated in the Capital Region Development Authority account. Of this sum, approximately \$2.55 million was the result of the failure to enact FY 2020 deficiency appropriations, resulting in bills that carried over to FY 2021. The remainder is the result of event cancellations due to COVID-19 that have impacted and are expected to continue to impact attendance and associated revenues at the Pratt and Whitney Stadium at Rentschler Field, the XL Center and the CT Convention Center.
- Office of the Chief Medical Examiner. A \$500,000 deficiency is estimated in Personal Services. This represents the annualized impact of the shortfall experienced in FY 2020.
- Department of Mental Health and Addiction Services. A total shortfall of \$10.2 million is projected due largely to the failure to enact FY 2020 deficiency appropriations and lack of FY 2021 budget adjustments addressing direct care costs. While June Finance Advisory Committee action addressed a portion of the FY 2020 deficiency, over \$2.1 million in prior year bills were held over for payment in FY 2021. We estimate a \$5.6 million shortfall in Other Expenses due largely to various facility maintenance and repair costs and increased software licensing costs, \$5.9 million in the Professional Services account for contracted medical services including contracted psychiatrists, \$1.7 million in the Workers' Compensation Claims account to reflect claim trends, and \$3.0 million in the Discharge and Diversion account to assist with discharges from Connecticut Valley Hospital to community settings for those no longer needing inpatient care. These shortfalls are partially offset by a projected \$6.0 million lapse in Personal Services due to vacancies.
- University of Connecticut Health Center. A shortfall of at least \$50.0 million is forecast. The FY 2020 budget included a fringe benefit subsidy of \$33.2 million to assist with stabilizing the Health Center's finances, but no subsidy was included in the FY 2021 budget plan. While deficiencies at higher education institutions do not have a direct impact on the General Fund, the magnitude and recurring nature of the Health Center's deficiencies may put additional pressure on state resources in FY 2021.
- Department of Correction. A total deficiency of \$4.0 million is projected. Shortfalls of \$2.0 million in Personal Services and \$2.0 million in Inmate Medical Services are forecast due to increased staff overtime, influenced in part by the impact of COVID-19 on operations.
- State Comptroller – Fringe Benefits. A total shortfall of \$96.8 million is anticipated. Of this amount, \$41.0 million is due to revised contribution requirements for the State Employees' Retirement System resulting from the June 30, 2019 valuation of the fund. A \$3.4 million shortfall is anticipated in the Judges Retirement System, also reflective of the June 30, 2019, valuation for that system. In addition, we anticipate shortfalls of \$2.8 million in the Unemployment Compensation account, \$27,000 in the Insurance – Group Life account, \$4.8 million in the Employers Social Security Tax account, \$33.4 million in the State Employees Health Service account, \$21.9 million in the Retired State Employees Health Service Cost account, and \$2.0 million in the SERS Defined Contribution Match account. Partially offsetting these shortfalls are projected lapses of \$11.5 million in the Higher Education Alternative Retirement System account, \$42,000 in the Pensions and Retirements – Other Statutory account, and \$1.0 million in the Other Post Employment Benefits account.
- State Comptroller – Miscellaneous. We estimate \$10.0 million in expenditures for Adjudicated Claims. No appropriation was made in the enacted budget for payment of these claims.

As noted in previous months, our projections do not include a significant potential shortfall in the Connecticut State Colleges and Universities system, primarily due to pandemic-related impacts on enrollment and residential occupancy resulting in declines in tuition and fee revenue. Depending on measures the system may adopt to address the issue as well as potential assistance from federal CARES Act funding, the scale of this deficiency could materially impact our estimates later this year.

Lapses. Our projections reflect the amounts currently withheld from agencies to achieve budgeted lapse targets, rescissions implemented by the Governor on October 1st, and use of federal CARES Act funding to cover \$100 million of certain public health and public safety costs that would otherwise have been borne by the General Fund. Additionally, the following sums totaling \$486.2 million are estimated to remain unspent this fiscal year:

- Office of Legislative Management. A total of \$3.0 million is projected to lapse, with \$2.0 million in Personal Services and \$1.0 million in Other Expenses.
- State Treasurer- Debt Service. A total lapse of \$38.4 million is forecast, with \$23.4 million associated with the timing of FY 2021 bond sales and revised estimates of the cost and interest rates for FY 2021 sales based on FY 2020 results, and \$15 million adjustment in the UConn debt service account associated with moving the spring FY 2020 bond sale to the fall of FY 2021.
- Department of Revenue Services. A \$340,000 lapse is projected in Personal Services due to vacancies.
- Department of Consumer Protection. \$125,000 is estimated to lapse in Personal Services due to vacancies.
- Department of Labor. A net total of \$542,540 will lapse in a variety of accounts, including \$395,717 that will lapse in the Workforce Training Authority account as the Authority has not yet been formed.
- Commission on Human Rights and Opportunities. \$100,000 will lapse in Personal Services due to vacancies.
- Department of Public Health. \$1.5 million will lapse in Personal Services primarily as a result of vacancies.
- Department of Developmental Services. \$2.6 million will lapse in Personal Services due to vacancies.
- Department of Social Services. A total of \$384.6 million is projected to lapse. This is primarily the result of an estimated \$350.0 million lapse in the Medicaid account due to the extension of the public health emergency declaration by the federal government, which extends the enhanced level of federal reimbursement through March 31, 2021, thus reducing the state share of program costs, as well as lower levels of service utilization. Reduced caseloads will result in lapses of \$12.5 million in Temporary Family Assistance, \$9.3 million in Aid to the Disabled, \$5.0 million in the Connecticut Home Care Program, \$4.0 million in Old Age Assistance and \$1.8 million in State Administered General Assistance. Reduced caseloads and service utilization, coupled with the extension of enhanced federal reimbursement through March 31, 2021, are expected to result in a \$1.9 million lapse in the HUSKY B account.
- Department of Aging and Disability Services. A total lapse of \$800,000 is projected across a variety of accounts.
- Department of Education. A net total of \$16.9 million is projected to lapse. The Education Cost Sharing grant is underfunded by \$1.55 million. This is offset by a projected lapse of \$4.5 million in the Charter School account due to the closure of two charter schools and budgeted funding exceeding the number of approved charter school slots. A lapse of \$1.26 million is anticipated in the Bilingual Education account pursuant to section 10-17g of the General Statutes, as the budget included funds for several programs that are no longer in operation. In addition, lapses of \$1.7 million in the Open Choice Program account and \$11.0 million in the Magnet Schools account are projected based on current enrollment trends. Both accounts lapsed funding in FY 2020.
- Office of Early Childhood. \$500,000 will lapse in the Early Care and Education account due to natural turnover in enrollment that impacts funding requirements.
- Office of Higher Education. A total of \$200,000 will lapse, with \$100,000 in Personal Services and \$100,000 in Other Expenses.
- Teachers' Retirement Board. A net total of \$3.58 million is projected to lapse. The Retirement Contributions account is underfunded by \$1.8 million, reflective of the employer contribution adjustment required due to the revised valuation adopted after passage of the biennial budget. This is offset by a \$5.0 million lapse in the Retiree Health Service Cost account due to health premiums

that are lower than assumed in the adopted budget, as well as a \$400,000 lapse in the Municipal Retiree Health Insurance Costs account due to a decrease in the number of retired teachers eligible for the municipal subsidy.

- Department of Children and Families. A net lapse of \$31.55 million is anticipated across a variety of accounts due primarily to current caseload trends and reduced overtime expenses.
- Judicial Department. An overall lapse of \$1.0 million is projected. Personal Services is projected to lapse \$3.75 million, offset by a \$1.3 million shortfall in Other Expenses and a \$1.45 million shortfall in Workers' Compensation Claims.
- Public Defender Services Commission. A total lapse of \$459,000 is projected across several accounts due to current cost trends.

Special Transportation Fund

The adopted budget anticipates a \$64.5 million balance from operations. We estimate that the Special Transportation Fund will end the year with a \$60.6 million operating deficit, and that the Transportation Fund balance on June 30, 2021, will be \$107.8 million.

Revenues

Revenues in the Transportation Fund have been revised downward by \$1 million compared to our estimate last month. The sales tax has been revised upward by \$9.0 million and reflects the portion of the favorable trends from that source that is due to the Transportation Fund. The Motor Fuels Tax has been revised downward by \$10.0 million reflecting the continued weakness in fuel consumption in the state. All other revenue sources remain unchanged. The next consensus revenue projection is due January 15th, and any revisions in estimated revenue will be incorporated into next month's forecast.

As noted last month, the overall reduction in revenues in the Special Transportation Fund compared to budgeted levels will require another significant drawdown from reserves, accelerating the timeframe for a long-term financial and infrastructure investment solution. The FY 2020 Transportation Fund starting balance on July 1, 2019, was \$320.1 million and—as noted above—is estimated to close at \$106.6 million on June 30, 2021.

Expenditures

Expenditures are projected to be \$66.1 million better than budgeted due primarily to \$74.1 million in debt service savings attributable to reduced interest costs and delayed timing of FY 2020 and anticipated future bond sales. In addition, \$3.0 million is forecast to remain unspent in the Department of Motor Vehicles' Personal Services account due to vacancies, and \$1.0 million will lapse in the DAS – Workers' Compensation Claims account. These lapses will more than satisfy the \$12.0 million general lapse anticipated in the enacted budget. There are no deficiencies forecast this month.

Other Appropriated Funds

While Sec. 4-66, CGS, does not require that we provide analyses of other appropriated funds, we offer the following information about the status of the Regional Market Operation Fund and the Tourism Fund.

- Regional Market Operation Fund. Pursuant to Section 10 of Public Act 18-154, the Hartford Regional Market was conveyed to the Capital Region Development Authority and CRDA has assumed operation of that market. As a result, appropriations totaling \$1.1 million will lapse.
- Tourism Fund. The fund's revenue source is the Hotel Occupancy Tax, which has underperformed as a result of the pandemic's impact on the hospitality industry. As a result, expenditures from

the fund are estimated to exceed available revenues by approximately \$6.9 million. When added to the negative fund balance of \$6.9 million at the end of FY 2020, we anticipate the Tourism Fund will end FY 2021 with a \$13.8 million negative fund balance.

As the year progresses, the estimates offered by my office 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:

COVID Responses – Budget Impact

Summary Statements, FY 2021 Revenue and Expenditures