



# STATE OF CONNECTICUT

## OFFICE OF POLICY AND MANAGEMENT

August 20, 2020

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 2021. An analysis of the Special Transportation Fund is also provided here due to the significance of this fund. In addition to the information we typically provide each month for current year estimates, an appendix to this letter provides more detailed information about the recently completed fiscal year.

The table below depicts preliminary FY 2020 operating results as well as our initial estimate for FY 2021.

	FY 2020 Estimate			FY 2021 Projection		
	(in millions)			(in millions)		
	Budget (as Revised Dec. 2019)	Aug. Prelim. Estimate	Aug. Est. Variance from Budget	Budget (as Revised Dec. 2019)	Aug. Estimate	Aug. Est. Variance from Budget
<b>General Fund</b>						
Revenues	\$ 19,564.4	\$ 19,199.9	\$ (364.5)	\$ 20,252.5	\$ 18,056.5	\$ (2,196.0)
Expenditures	<u>19,423.3</u>	<u>19,147.7</u>	<u>(275.6)</u>	<u>20,086.3</u>	<u>20,127.2</u>	<u>40.9</u>
Operating Results - Surplus/(Deficit)	\$ 141.1	\$ 52.3	\$ (88.8)	\$ 166.2	\$ (2,070.7)	\$ (2,236.9)
<b>Budget Reserve Fund</b>						
Deposit / (Withdrawal)	\$ 318.3	\$ 582.9	\$ 264.6	\$ 467.7	\$ (2,146.1) <sup>1</sup>	\$ (2,613.8)
Proj. Balance 6/30	\$ 2,823.8	\$ 3,088.4	\$ 264.6	\$ 3,556.1	\$ 942.2	\$ (2,613.9)
<b>Special Transportation Fund</b>						
Revenues	\$ 1,749.1	\$ 1,516.6	\$ (232.5)	\$ 1,880.8	\$ 1,688.3	\$ (192.5)
Expenditures	<u>1,710.3</u>	<u>1,667.7</u>	<u>(42.6)</u>	<u>1,816.3</u>	<u>1,764.3</u>	<u>(52.0)</u>
Operating Results - Surplus/(Deficit)	\$ 38.8	\$ (151.1)	\$ (189.9)	\$ 64.5	\$ (76.0)	\$ (140.5)
Proj. Fund Balance 6/30	\$ 358.9	\$ 169.0	\$ (189.9)	\$ 423.4	\$ 93.0	\$ (330.4)
<b>Tourism Fund</b>						
Revenues	\$ 13.7	\$ 12.6	\$ (1.1)	\$ 14.2	\$ 9.0	\$ (5.2)
Expenditures	<u>13.1</u>	<u>13.1</u>	<u>(0.0)</u>	<u>13.1</u>	<u>13.1</u>	<u>-</u>
Operating Results - Surplus/(Deficit)	\$ 0.6	\$ (0.5)	\$ (1.1)	\$ 1.1	\$ (4.1)	\$ (5.2)
Proj. Fund Balance 6/30	\$ (1.8)	\$ (2.9)	\$ (1.1)	\$ (0.1)	\$ (6.9)	\$ (6.8)

Notes:

1. BRF withdrawal includes the transfer out of \$75.46 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 or the Teachers' Retirement Fund. Estimated draw on BRF based on projected shortfall prior to updated revenue and expenditure estimates and potential mitigation actions.

## General Fund

For FY 2020, General Fund revenues finished up by \$714.8 million relative to the April 30, 2020 consensus forecast. However, \$476.4 million of that change was due to the timing of federal grant collections, which shifted revenue from FY 2021 to FY 2020. In addition, Refunds of Taxes in FY 2020 were reduced by \$150.2 million to reflect that refunds largely shifted from FY 2020 to FY 2021 due to extensions of tax filing due dates to July 15, 2020. The major revenue sources that experienced better than anticipated performance relative to the April 30 consensus forecast were the Estimates and Finals component of the Personal Income Tax, up \$120.5 million; the Withholding component of the Personal Income Tax, up \$95.0 million; Sales and Use Taxes, up \$131.1 million; and the Pass-through Entity Tax, up \$91.8 million. The improvements in Estimates and Finals and the Pass-through Entity taxes benefited the Budget Reserve Fund via operation of the volatility cap.

The adopted FY 2021 budget anticipates a \$166.2 million balance at year end. We are projecting an operating shortfall of \$2,070.7 million due primarily to pandemic-influenced revenues that are well below budgeted levels, as explained further below. The projected shortfall represents 10.3 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 any potential resurgence of the COVID-19 virus or resource requirements beyond existing federal assistance.

Our forecast of the Budget Reserve Fund (BRF) balance at year end, after transfers pursuant to the statutory volatility cap and projected operating results from FY 2020 and FY 2021, is depicted below. We estimate the state's reserves at nearly \$3.09 billion at the close of FY 2020, pending final accounting adjustments as part of the year-end closing process, or 15.4 percent of FY 2021 net General Fund appropriations. Notwithstanding anticipated revisions to estimated revenue as part of the November consensus forecast and any potential mitigation efforts, the potential draw on the BRF at the end of FY 2021 would leave a balance of \$942.2 million, or 4.7% of FY 2021 net General Fund appropriations. Our Budget Reserve Fund projection is depicted below.

<b>Budget Reserve Fund</b>	
	(in millions)
Estimated BRF Ending Balance - FY 2020 (OPM Est. 8/20/20)	\$ 3,088.4
Deposit to SERS or TRS pursuant to Sec. 4-30a, C.G.S. (OPM 08/20/20 Est.)	\$ (75.5)
Projected Operating Deficit - FY 2021 (OPM 08/20/20 Est.)	(2,070.7)
Volatility Cap Deposit - FY 2021 (OPM 08/20/20 Est.)	-
Estimated BRF Ending Balance - FY 2021	<u>\$ 942.2</u>

### Revenues

Projected FY 2021 revenues have been revised downward by \$2,196.0 million relative to the adopted budget plan (as modified by Public Act 19-1 of the December Special Session) due to the projected impact of COVID-19 on the state's economy. Although this revenue forecast is down \$31.9 million from the consensus revenue forecast issued on April 30, 2020, OPM's starting point for the FY 2021 estimate incorporates approximately \$400 million in improved FY 2020 year-end revenue performance. The largest changes in projections relative to the adopted budget are Estimates and Finals under the Personal Income Tax, down \$919.6 million; Withholding under the Personal Income Tax, down \$667.9 million; Sales and Use Taxes, down \$472.4 million; and Corporation Taxes, down \$318.7 million. Refunds of Taxes has been revised upward by \$150.2 million, but this is primarily due to the shifting of refund payments from FY 2020 to FY 2021 consistent with extensions

of tax filing dates to July 15, 2020. All other changes net to a positive \$332.8 million relative to the budget, however, \$301.5 million of that positive change is because OPM estimates that Estimates and Finals revenue and Pass-through Entity Tax revenue are insufficient to reach the threshold for the volatility cap transfer to the BRF anticipated in the budget plan. Overall, FY 2021 revenues are projected to decline 6.0%, or approximately \$1.1 billion relative to OPM's estimate for FY 2020 year-end revenues.

### Expenditures

We are projecting that FY 2021 net expenditures will exceed the amended budget plan by \$40.9 million.

*Deficiencies.* Projected shortfalls totaling \$139.1 million are forecast in the following agencies:

- Department of Economic and Community Development. An \$11.5 million shortfall is anticipated in the Capital Region Development Authority account. Of this sum, approximately \$3.5 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.
- Department of Mental Health and Addiction Services. A total shortfall of \$6.1 million is projected due 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 was held over for payment in FY 2021. We estimate a \$0.4 million shortfall in Other Expenses due largely to various facility maintenance and repair costs and increased software licensing costs, \$1.0 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.
- 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.
- State Comptroller – Fringe Benefits. A total shortfall of \$61.5 million is anticipated. Of this amount, \$41.0 million is a result of 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 \$1.7 million in the Unemployment Compensation account, \$25.0 million in the State Employees Health Service account, and \$2.4 million in the SERS Defined Contribution Match account. Partially offsetting these shortfalls is a projected \$12.0 million lapse in the Higher Education Alternative Retirement System 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.

*Lapses.* Our projections reflect the amounts currently withheld from agencies to achieve budgeted lapse targets. Additionally, the following sums totaling \$98.2 million are estimated to remain unspent this fiscal year:

- Department of Social Services. Department of Social Services. A total of \$91.7 million is projected to lapse. A \$75.0 million lapse is anticipated in the Medicaid account, reflective of the anticipated extension of the enhanced federal reimbursement through the end of calendar year 2020, and lower utilization in the beginning of the year, offset by other program costs from increased enrollment. Reduced caseloads will result in lapses of \$6.0 million in Aid to the Disabled, \$4.8 million in Temporary Family Assistance, \$3.5 million in the Connecticut Home Care Program and \$1.4 million in Old Age

Assistance. Reduced caseloads and service utilization, coupled with the anticipated extension of enhanced federal reimbursement through the end of calendar year 2020, are expected to result in a \$1.0 million lapse in the HUSKY B account.

- Department of Education. A net total of \$2.95 million is estimated to lapse. The Education Cost Sharing grant amount is underfunded by \$1.55 million, while the Charter School account is expected to lapse \$4.5 million due to the closure of two charter schools and budgeted funding exceeding the number of approved charter school slots.
- Teachers' Retirement Board. A net total of \$3.59 million is projected to lapse. The Retirement Contributions account is underfunded by \$1.8 million, reflective of the adjustment to the employer contribution required by revised valuation adopted after passage of 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.

### **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 \$76.0 million operating deficit. Projected revenues have been revised downward by \$192.5 million relative to the adopted budget plan due to the projected impact of COVID-19 on the state's economy. The largest changes in projections are in the Oil Companies Tax, down \$115.7 million; Sales and Use Tax, down \$48.2 million; and Interest Income, down \$31.0 million. All other changes net to a positive \$2.4 million. Expenditures are projected to be \$52.0 million better than budgeted due to debt service savings resulting from reduced interest costs and delayed timing of FY 2020 and anticipated future bond sales. We project that the Transportation Fund balance on June 30, 2021, will be \$93.0 million, and that the fund balance will likely be exhausted during FY 2022.

### **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 \$4.1 million. When added to the negative fund balance of \$2.9 million at the end of FY 2020, we anticipate the Tourism Fund will end FY 2021 with a \$2.6 million operating deficit and a \$6.9 million negative fund balance.

It is important to note that this represents the first projection of the state's budget outlook for FY 2021. As the year progresses, these estimates will undoubtedly be revised to reflect the impact of changes in the economy, expenditure patterns, and/or other factors.

Sincerely,

A handwritten signature in blue ink, appearing to read "Melissa McCaw".

Melissa McCaw  
Secretary

Attachments:

- COVID Responses – Budget Impact
- Summary Statements, FY 2021 Revenue and Expenditures
- Appendix – FY 2020 Preliminary Operating Results