State of Connecticut

Office of Policy and Management

March 19, 2021

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 (in millions)				
General Fund	Budget (as Revised Dec. 2019)	Feb. Estimate	Mar. Estimate	Change in Estimate - Mar. vs. Feb.	Mar. Est. Variance from Budget
Revenues	$20,252.5	$19,761.7	$19,821.7	$ 60.0	$ (430.8)
Expenditures	20,086.3	19,630.3	19,641.1	10.8	(445.2)
Operating Results - Surplus/(Deficit)	$ 166.2	$ 131.4	$ 180.6	$ 49.2	$ 14.4
Budget Reserve Fund					
Deposit / (Withdrawal)	$ 467.7	$ 424.9	$ 674.1 [1.]	$ 249.2	$ 206.4
Proj. Balance 6/30	$ 3,542.3	$ 3,499.5	$ 3,748.7	$ 249.2	$ 206.4
Special Transportation Fund					
Revenues	$ 1,880.8	$ 1,690.7	$ 1,690.7	$ -	$ (190.1)
Expenditures	1,816.3	1,750.7	1,741.0	(9.7)	(75.3)
Operating Results - Surplus/(Deficit)	$ 64.5	$ (60.0)	$ (50.3)	$ 9.7	$ (114.8)
Proj. Fund Balance 6/30	$ 423.4	$ 108.4	$ 118.1	$ 9.7	$ (305.3)
Tourism Fund					
Revenues	$ 14.2	$ 6.2	$ 6.2	$ -	$ (8.0)
Expenditures	13.1	13.1	13.1	-	-
Operating Results - Surplus/(Deficit)	$ 1.1	$ (6.9)	$ (6.9)	$ -	$ (8.0)
Proj. Fund Balance 6/30	$ (0.1)	$ (9.8)	$ (9.8)	$ -	$ (9.7)

Notes:
1. BRF deposit 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.

General Fund

The adopted FY 2021 budget anticipates a $166.2 million balance at year end. We are projecting an operating surplus of $180.6 million, an improvement of $49.2 million from last month due mainly to revised revenue trends. The projected surplus represents 0.9 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.

Our forecast of the Budget Reserve Fund (BRF) balance at year end is depicted below. The state's reserves at the start of FY 2021 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. The projected Budget Reserve Fund balance at the end of the fiscal year, after transfers pursuant to the statutory volatility cap and the estimated FY 2021 operating surplus, is expected to reach $3.75 billion, or 18.7 percent of current 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 pursuant to Sec. 4-30a, C.G.S. (OSC Est. 9/17/20)	$ (61.6)
Projected Operating Surplus - FY 2021 (OPM 03/19/21 Est.)	180.6
Volatility Cap Deposit - FY 2021 (OPM 03/19/21 Est.)	555.1
Estimated BRF Ending Balance - FY 2021	$ 3,748.6

Revenues

Estimated revenues have been revised upward this month by $60 million. The largest change is in the Pass-Through Entity Tax, up $200.0 million as collections in the months prior to the March due date were positive and collections in the month of March have already exceeded their target. The Real Estate Conveyance tax has been revised upward by $40.0 million as collections remained strong through the winter months and mortgage interest rates remained favorable. Corporation tax revenues have been revised upward by $30.0 million as estimated payments this fiscal year generally outpaced their targets. Offsetting these gains is the projected increase in the transfer to the Budget Reserve Fund by operation of the volatility cap totaling $200.0 million related to the change in the Pass-through Entity Tax cited above.[1] Health Provider taxes have been revised downward by $30.0 million as those collections continue to disappoint. All other changes net to a positive $20.0 million. It should be noted that significant collections remain due under the Estimates and Finals portion of the Income Tax, the due date for which has been shifted by the Internal Revenue Service to May 17, 2021, and such collections will impact the ultimate transfer to the Budget Reserve Fund pursuant to the volatility cap. Projected FY 2021 revenues of $19.76 billion are still $430.8 million less than the adopted budget.

Expenditures

We are projecting that FY 2021 net expenditures will be below the amended budget plan by $445.2 million, as explained further below.

[1] The volatility cap for FY 2021 is $3,404.9 million. Deposits to the Budget Reserve Fund that exceed the 15% statutory cap will result in additional contributions to either the State Employees Retirement Fund or the Teachers' Retirement Fund.

Deficiencies. Projected shortfalls totaling $187.8 million are forecast in the following agencies:

- Department of Economic and Community Development. A $10.5 million shortfall is anticipated in the Capital Region Development Authority account, after the transfer approved January 7th by the Finance Advisory Committee. The remaining shortfall is due to pandemic-related event cancellations 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. In addition, the shortfall reflects the repayment of a temporary operating loan of $1.5 million, and $2.2 million owed for pre-pandemic life safety services provided by the City of Hartford for the XL Center.
- Office of the Chief Medical Examiner. A $485,000 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 $6.3 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 2020 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, $2.8 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 projected lapses of $10.0 million in Personal Services due to vacancies, and $800,000 in the Home and Community Based Services account as a result of fewer referrals and placements due to the pandemic.
- 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 net deficiency of $3.65 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. These lapses are offset by a $365,000 lapse in the Board of Pardons and Paroles account due to vacancies.
- State Comptroller – Fringe Benefits. A total shortfall of $61.9 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 $1.4 million in the Unemployment Compensation account, $3.0 million in the Employers Social Security Tax account, $28.2 million in the 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 $13.0 million in the Higher Education Alternative Retirement System account, $2.0 million in the Retired State Employees Health Service Cost account, $130,000 in the Pensions and Retirements – Other Statutory account, and $2.0 million in the Other Post Employment Benefits account.
- State Comptroller – Miscellaneous. We estimate $30.0 million in expenditures for Adjudicated Claims. No appropriation was made in the enacted budget for payment of these claims.
- Additional COVID Testing Requirements. It is anticipated that $25.0 million of General Fund resources may be needed to support projected costs of COVID-19 testing. Testing costs are paid through several agencies depending on the population being tested, including the departments of Public Health and Social Services as well as the Office of the State Comptroller.

Lapses. Our projections reflect the amounts currently withheld from agencies to achieve budgeted lapse targets and rescissions implemented by the Governor on October 1st. Given the outlook for a surplus at year-end, we are not anticipating use of federal CARES Act funding to cover $100 million of certain General Fund public health and public safety costs, enabling us to repurpose the CARES Act funding to support COVID testing, vaccine costs, and other critical expenses.

The following sums totaling $607.7 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.
- Commission on Women, Children, Seniors, Equity & Opportunity. $200,000 is projected to lapse.
- State Treasurer- Debt Service. A total lapse of $69.3 million is forecast, with $47.9 million associated with the timing of FY 2021 bond sales and revised estimates of the cost and interest rates for FY 2021 sales, and $21.4 million adjustment in the UConn debt service account associated with moving the spring FY 2020 bond sale to the fall of FY 2021.
- Elections Enforcement Commission. $150,000 is projected to lapse.
- Office of the State Comptroller. A $200,000 lapse is projected in Personal Services due to vacancies.
- Department of Revenue Services. Personal Services will lapse $900,000 due to vacancies.
- Department of Administrative Services. Personal Services will lapse $600,000 due to vacancies.
- Workers' Compensation Claims – Department of Administrative Services. A $600,000 lapse is forecast.
- Department of Consumer Protection. $400,000 is estimated to lapse in Personal Services due to vacancies.
- Department of Labor. A net total of $586,823 will lapse in a variety of accounts, including $300,000 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 turnover savings.
- Department of Housing. A $3.5 million lapse is forecast in the Housing/Homeless Services due to fewer transitions than budgeted in the Money Follows the Person program and a delay in the CHESS program.
- Department of Public Health. A net $1.57 million will lapse in Personal Services primarily as a result of vacancies.
- Department of Developmental Services. A net total of $4.6 million will lapse, with $4.0 million in Personal Services due to vacancies and $600,000 in the Behavioral Services Program as more individuals are served in their own homes rather than in residential settings.
- Department of Social Services. A total of $438.9 million is projected to lapse. This is primarily the result of an estimated $400.0 million lapse in the Medicaid account due to the extension of the public health emergency declaration by the federal government, which maintains the enhanced level of federal reimbursement through June 30, 2021, thus reducing the state share of program costs, as well as lower levels of service utilization. Reduced caseloads will result in lapses of $14.2 million in Temporary Family Assistance, $8.8 million in Aid to the Disabled, $5.7 million in the Connecticut Home Care Program, $3.9 million in Old Age Assistance and $2.3 million in State Administered General Assistance. Reduced caseloads and service utilization, coupled with the extension of enhanced federal reimbursement through June 30, 2021, are expected to result in a $3.0 million lapse in the HUSKY B account. Personal Services will lapse $500,000 due to vacancies. Other minor lapses total $465,100.
- Department of Aging and Disability Services. A total lapse of $850,000 is projected across a variety of accounts.

- Department of Education. A net total of $17.6 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 $11.5 million in the Magnet Schools account are projected based on current enrollment trends. Both accounts lapsed funding in FY 2020. Lastly, $200,000 is projected to lapse in Personal Services due to vacancies.
- Office of Early Childhood. A total of $7.3 million is projected to remain unspent. $6.2 million will lapse in the Early Care and Education account due to natural turnover in enrollment that impacts funding requirements, as well as the availability of federal funding that will reduce state expenditures. The Birth to Three account will lapse $1.0 million due to reduced service utilization, and Personal Services will lapse $100,000 as a result of turnover savings.
- Office of Higher Education. A total of $220,000 will lapse, with $120,000 in Personal Services and $100,000 in Other Expenses.
- Teachers' Retirement Board. A net total of $3.79 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 $5.1 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 $44.5 million is anticipated across a variety of accounts due primarily to current caseload trends and reduced overtime expenses.
- Judicial Department. An overall lapse of $6.6 million is projected. Personal Services is projected to lapse $7.6 million and Other Expenses will lapse $211,000, offset by a $1.24 million shortfall in Workers' Compensation Claims.
- Public Defender Services Commission. A total lapse of $2.24 million 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 $50.3 million operating deficit, and that the Transportation Fund balance on June 30, 2021, will be $118.1 million.

Revenues

Projected revenues remain unchanged from last month and continue to reflect the January 15th consensus revenue forecast. As noted in prior forecasts, the overall reduction in revenues in the Special Transportation Fund compared to budgeted levels, coupled with the projected FY 2021 deficit, will require another significant drawdown from fund balance, 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 $118.1 million on June 30, 2021.

Expenditures

Our expenditure estimate has improved by $9.7 million from last month's forecast. Expenditures are projected to be $75.3 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. Other projected lapses include: $9.0 million in the Department of Transportation's Personal Services account due to vacancies, $3.5 million in the Department of Motor Vehicles' Personal Services account due to vacancies, $700,000 in the State Employees Health Service Cost account in the Office of the State Comptroller due to current expenditure trends, and $1.0 million in the DAS – Workers' Compensation Claims account. These lapses will more than satisfy the $12.0 million general lapse anticipated in the enacted budget. Offsetting these positive variances is a $1.0 million shortfall in the State Insurance and Risk Management account under the Department of Administrative Services due to increased premiums.

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 $2.9 million at the end of FY 2020, we anticipate the Tourism Fund will end FY 2021 with a $9.8 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