



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

September 20, 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				
				(in millions)	
	Budget (as Revised Dec. 2019)	Aug. Estimate	Sep. Estimate	Change in Estimate - Sep. vs. Aug.	Sep. Est. from Budget
<u>General Fund</u>					
Revenues	\$ 20,252.5	\$ 18,056.5	\$ 18,056.5	\$ -	\$(2,196.0)
Expenditures	<u>20,086.3</u>	<u>20,127.2</u>	<u>20,081.4</u>	<u>(45.8)</u>	<u>(4.9)</u>
Operating Results - Surplus/(Deficit)	\$ 166.2	\$ (2,070.7)	\$ (2,024.9)	\$ 45.8	\$(2,191.1)
<u>Budget Reserve Fund</u>					
Deposit / (Withdrawal)	\$ 467.7	\$ (2,146.1)	\$ (2,086.5) ¹	\$ 59.6	\$(2,554.2)
Proj. Balance 6/30	\$ 3,542.3	\$ 928.4	\$ 988.0	\$ 59.5	\$(2,554.3)
<u>Special Transportation Fund</u>					
Revenues	\$ 1,880.8	\$ 1,688.3	\$ 1,688.3	\$ -	\$ (192.5)
Expenditures	<u>1,816.3</u>	<u>1,764.3</u>	<u>1,754.2</u>	<u>(10.1)</u>	<u>(62.1)</u>
Operating Results - Surplus/(Deficit)	\$ 64.5	\$ (76.0)	\$ (65.9)	\$ 10.1	\$ (130.4)
Proj. Fund Balance 6/30	\$ 423.4	\$ 93.0	\$ 102.5	\$ 9.5	\$ (320.9)
<u>Tourism Fund</u>					
Revenues	\$ 14.2	\$ 9.0	\$ 9.0	\$ -	\$ (5.2)
Expenditures	<u>13.1</u>	<u>13.1</u>	<u>13.1</u>	<u>-</u>	<u>-</u>
Operating Results - Surplus/(Deficit)	\$ 1.1	\$ (4.1)	\$ (4.1)	\$ -	\$ (5.2)
Proj. Fund Balance 6/30	\$ (0.1)	\$ (6.9)	\$ (11.0)	\$ (4.1)	\$ (10.9)

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 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

The adopted FY 2021 budget anticipates a \$166.2 million balance at year end. We are projecting an operating shortfall of \$2,024.9 million, due primarily to pandemic-influenced revenues that are well below budgeted

levels, an improvement of \$45.8 million from last month’s estimate. The projected shortfall represents 10.1 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 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 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 \$988.0 million, or 4.9% of FY 2021 net General Fund appropriations. Our Budget Reserve Fund projection is depicted below.

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 09/21/20 Est.)	(2,024.9)
Volatility Cap Deposit - FY 2021 (OPM 09/21/20 Est.)	<u>-</u>
Estimated BRF Ending Balance - FY 2021	\$ 988.0

Revenues

Projected FY 2021 revenues remain unchanged from the level reported last month. The state has approximately one month of revenues recorded in FY 2021. Revenues through August 7, 2020, for a majority of tax types are accrued back to FY 2020 and revenues after that date are attributed to FY 2021.

Based on this initial limited data, the favorable trend in certain revenues that existed prior to the close of FY 2020 appears to be continuing for the withholding component of the Personal Income Tax and for the Sales and Use Tax. OPM will monitor the continuation and sustainability of this trend, recognizing that an unprecedented amount of fiscal and monetary stimulus was injected into the nation’s economy by the federal government over the spring and summer months and such stimulus is now waning. In addition, pandemic-related closures of many businesses may have caused deferred consumption of goods and services, resulting in pent-up demand that is now being realized. Until a vaccine for the COVID virus is widely available, and absent further federal measures to stimulate economic activity, significant challenges may remain over the coming months. These challenges include reduced demand for air travel and reduced activity in the leisure and hospitality sectors with the onset of cooler weather and the resultant impact on important segments of the state’s economy. We are also watching tax refunds which continue to outpace our monthly forecasts. Lower tax refunds due to the July 15th filing dates were a contributing factor to a small projected surplus in FY 2020 but may contribute to a shortfall in FY 2021. Estimated income tax payments for the 2020 income year are continuing to decline compared to last year, but not as sharply as projected in the April 30, 2020, consensus forecast. Given that the state only has one month of actual revenue collection data for FY 2021, the November consensus revenue forecast, when two additional months of data are available, will be a key waypoint in our projections.

Expenditures

We are projecting that FY 2021 net expenditures will be below the amended budget plan by \$4.9 million.

Deficiencies. Projected shortfalls totaling \$144.2 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 \$5.1 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 were 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, \$2.0 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. These shortfalls are partially offset by a projected \$2.0 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.
- State Comptroller – Fringe Benefits. A total shortfall of \$67.6 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 \$7.8 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.

Note that our projections this month 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, 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. Additionally, the following sums totaling \$98.2 million are estimated to remain unspent this fiscal year:

- Auditors of Public Accounts. A \$200,000 lapse is projected in Personal Services due to vacancies.
- 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 Social Services. A total of \$95.0 million is projected to lapse. A \$75.0 million lapse is anticipated in the Medicaid account, reflective of the anticipated extension of enhanced federal program reimbursement through the end of calendar year 2020, and lower utilization in the beginning of the year, offset by program costs from anticipated enrollment growth. Reduced

caseloads will result in lapses of \$6.0 million in Aid to the Disabled, \$8.0 million in Temporary Family Assistance, \$3.5 million in the Connecticut Home Care Program and \$1.5 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 \$7.95 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. In addition, a \$5.0 million lapse is projected in the Magnet Schools account based on current enrollment trends. This account lapsed funding in FY 2020.
- 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.
- Department of Children and Families. A net lapse of \$3.5 million is anticipated across a variety of accounts based on current caseload 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 \$65.9 million operating deficit, and that the Transportation Fund balance on June 30, 2021, will be \$102.5 million.

Revenues

Projected revenues are unchanged from the level reported last month. However, two important revenue sources continue to be impacted by the fallout from the COVID pandemic: the Motor Fuels Tax, which remains at approximately 90% of last year's levels due to changes in consumption, and the Oil Companies Tax, which is dependent upon the price of petroleum products which has remained low. The reduction in revenues in the Special Transportation Fund 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 \$102.5 million on June 30, 2021.

Expenditures

Expenditures are projected to be \$62.1 million better than budgeted due to \$74.1 million in debt service savings resulting from reduced interest costs and delayed timing of FY 2020 and anticipated future bond sales. This lapse will more than satisfy the \$12.0 million general lapse anticipated in the enacted budget.

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.

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