

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

December 20, 2013

The Honorable Kevin Lembo
State Comptroller
55 Elm Street
Hartford, Connecticut 06106

Dear Comptroller Lembo:

The following information on the State's General Fund for fiscal year 2014 is provided in accordance with Section 4-66 of the General Statutes. In addition, an analysis of the Special Transportation Fund is included due to the significant nature of this fund. In compliance with Executive Order No. 1, issued January 5, 2011, these projections reflect the state's estimated year-end balance in accordance with Generally Accepted Accounting Principles (GAAP).

General Fund

This month's estimate reflects a positive \$273.3 million balance from operations, an increase of \$137.4 million from last month's letter. Positive revenue trends, particularly from the amnesty program, improve balance by \$145.3 million. Expenditure projections, while remaining well below budgeted levels, have increased very slightly by \$7.9 million over last month's estimate. The federal budget agreement is a welcome development and likely paves the way for quick passage of necessary appropriations bill(s). The agreement eliminates the threat of a federal government shutdown in January, removing a considerable source of economic uncertainty. We remain concerned, however, about the potential economic impact of political confrontation regarding the debt ceiling, which must be addressed in February or March.

Revenues

This month's forecast reflects an upward revision by a net \$145.3 million from the level reported last month. The Sales Tax has been revised upward by \$60 million, as the growth rate in the tax has accelerated from last year's level and the level assumed in the November 8th consensus revenue forecast. In addition, amnesty collections related to the sales tax came in better than forecast. The Corporation Tax has also been revised upward by \$60 million, but this is due exclusively to better than anticipated amnesty collections. Inheritance and Estate tax collections have been outperforming their targets this year resulting in an upward revision of \$10 million. The Refunds of Taxes estimate has been revised downward by \$10 million as non-income tax refunds have performed better than their target. All other changes net to a positive \$5.3 million.

Expenditures

This month's letter includes \$97.9 million in lapses beyond the budgeted level. Foremost among these is the transfer approved on November 7th by the Finance Advisory Committee of funds from the Department of Social Services' Disproportionate Share - Hospital (DSH) account to the Medicaid account in order to maximize payments to hospitals for uncompensated care costs. Because the adopted budget assumed that federal matching funds for the DSH program would accrue to the General Fund, while federal matching funds related to expenditures in the Medicaid account offset state costs, the transfer created a \$67 million lapse in the Medicaid account while reducing General Fund revenue by an equal amount. The Treasurer's Debt Service accounts will lapse \$29.0 million due to favorable interest rates and bond premiums. The Teachers' Retirement Board will lapse \$2.0 million based on lower than budgeted rates for Retiree Healthcare. In the Department of Children and Families, \$16.0 million is expected to lapse across a variety of accounts, primarily as a result of reduced out-of-home placements. Fringe benefit costs budgeted under the Office of the State Comptroller are expected to be below budgeted levels by a total of \$17.0 million in the Higher Education Alternative Retirement Plan, Employer's Social Security Tax, and Unemployment Compensation accounts. The Office of Legislative Management is expected to lapse a total of \$6.0 million in Personal Services and Other Expenses. The Department of Housing will lapse \$3.0 million in the Elderly Renter's account due to the statutory closure of intake into this program. In aggregate, we are projecting lapses in the above agencies of \$140.0 million, and achievement of \$34.7 million of the budgeted Unallocated Lapse target. Notably, we are no longer forecasting achievement of the \$7,400,672 Unallocated Lapse target in the Judicial branch of government.

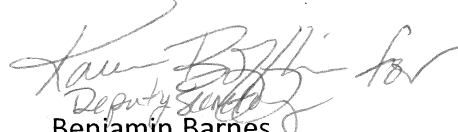
Partially offsetting these lapses are projected deficiencies totaling \$30.7 million across five agencies. The Department of Administrative Services is projecting a shortfall of \$8.0 million in its State Insurance and Risk Operations account as a result of the settlement of two large claims against the state this fiscal year. On November 7th, the Finance Advisory Committee approved a transfer of funds from Personal Services to enable the agency to make timely settlement payments, thereby shifting the shortfall to Personal Services. In addition, we project a shortfall of \$4.0 million in the Department of Emergency Services and Public Protection's Personal Services account as a result of a reduction in casino reimbursements negotiated with the Pequot and Mohegan tribal governments as well as rising overtime costs. The Department of Education is anticipated to experience a shortfall of \$9.0 million in its Magnet Schools account as a result of unbudgeted legislation requiring the state to pick up preschool tuition costs, and also due to supplemental transportation costs for the *Sheff* settlement. Assigned counsel costs in the Public Defender Services Commission are on pace to exceed budgeted levels by \$3.5 million due to capital case costs, efforts to retire the *habeas corpus* case backlog, and one-time costs to catch up on bills from the prior year. Lastly, we anticipate settlement of several claims against the state this fiscal year which would cause a \$6.2 million shortfall in the Comptroller's Adjudicated Claims account.

Special Transportation Fund

Special Transportation Fund revenues have been revised upward by \$6.1 million as several revenue sources have continually outperformed their targets this fiscal year. The Motor Fuels tax has been revised upward by \$2.0 million, Sales Tax – DMV has been revised upward by \$2.1 million, and Motor Vehicle Receipts have been revised upward by \$2.0 million. On the expenditure side, our estimates remain unchanged overall relative to the adopted budget. However, we are projecting a lapse of \$10.1 million in the Treasurer's Debt Service account and a \$0.9 million lapse in the Department of Motor Vehicles' Personal Services account; these lapses will fully satisfy the budgeted Unallocated Lapse target. While no additional requirements are yet reflected in our estimates, we continue to closely monitor the potential fiscal impact to the Department of Transportation of costs associated with the New Haven line power failure as well as the May 17, 2013 derailment. Based on all of the factors noted above, our estimate of the fund balance on June 30, 2014 is \$172.0 million.

As always, it is important to note that while these projections are the best that can be made at this time, estimates may need to be adjusted as the year progresses to reflect changes in the economy, expenditure patterns, and/or other factors.

Sincerely,


Deputy Secretary
Benjamin Barnes
Secretary

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2014
As of November 30, 2013
(In Millions)

General Fund

Balance from Operations - Prior Month		\$	135.9
Revenues			
Sales & Use Tax	60.0		
Corporation Tax	60.0		
Inheritance and Estate Tax	10.0		
Refunds of Taxes	10.0		
All Other Changes (net)	5.3		145.3
Expenditures			
Additional Requirements	(7.5)		
Estimated Lapses	(0.4)		
Miscellaneous Adjustments/Rounding	0.0		(7.9)
Estimated Balance from Operations - June 30, 2014		\$	273.3

Special Transportation Fund

Fund Balance as of June 30, 2013		\$	164.6
Balance from Operations - Prior Month			1.3
Revenues			
Motor Fuels Tax	2.0		
Sales Tax - DMV	2.1		
Motor Vehicle Receipts	2.0		6.1
Expenditures			
Additional Requirements	0.0		
Estimated Lapses	0.0		
Miscellaneous Adjustments/Rounding	0.0		0.0
Estimated Fund Balance - June 30, 2014		\$	172.0

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2014
As of November 30, 2013
(In Millions)

	General Assembly Budget Plan	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 15,517.5	\$ 15,717.1	\$ 199.6
Less: Refunds	(1,183.5)	(1,173.5)	10.0
Taxes - Net	\$ 14,334.0	\$ 14,543.6	\$ 209.6
Other Revenue	1,153.7	1,148.0	(5.7)
Other Sources ¹	1,705.4	1,703.2	(2.2)
TOTAL Revenue	\$ 17,193.1	\$ 17,394.8	\$ 201.7
EXPENDITURES			
Initial Current Year Appropriations ^{1,2}	\$ 17,361.4	\$ 17,361.4	\$ -
Prior Year Appropriations Continued to FY 2014 ³		112.4	112.4
TOTAL Initial and Continued Appropriations	\$ 17,361.4	\$ 17,473.8	\$ 112.4
Appropriation Adjustments	-	-	-
TOTAL Adjusted Appropriations	\$ 17,361.4	\$ 17,473.8	\$ 112.4
Net Additional Expenditure Requirements		30.7	30.7
Estimated Appropriations Lapsed	(172.6)	(270.5)	(97.9)
Estimated Appropriations to be Continued to FY 2015		-	-
TOTAL Estimated Expenditures	\$ 17,188.7	\$ 17,233.9	\$ 45.2
Net Change in Fund Balances - Continuing Appropriations	-	(112.4)	(112.4)
Miscellaneous Adjustments	-	-	-
Net Change in Unassigned Fund Balance - 6/30/2014	\$ 4.4	\$ 273.3	\$ 268.9

1. Note that, in a departure from the budgets enacted in previous years, the adopted budget "net appropriates" the Medicaid account in the Department of Social Services. This change in practice makes Connecticut's budget treatment of Medicaid consistent with the budgets of other states. A total of \$2,768.7 million was removed from both budgeted revenues and appropriations to accomplish this transition.

2. P.A. 13-184, as amended by P.A. 13-247.

3. P.A. 13-184, as amended by P.A. 13-247, and other statutory provisions.

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2014
As of November 30, 2013
(In Millions)

	<u>General Assembly Budget Plan</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
TAXES			
Personal Income	\$ 8,808.8	\$ 8,808.8	\$ -
Sales and Use	4,044.0	4,134.0	90.0
Corporation	723.5	813.5	90.0
Public Service Corporations	279.6	279.6	-
Inheritance and Estate	173.2	183.2	10.0
Insurance Companies	271.2	271.2	-
Cigarettes	390.4	386.4	(4.0)
Real Estate Conveyance	143.8	159.4	15.6
Oil Companies	36.8	36.8	-
Electric Generation	17.5	15.5	(2.0)
Alcoholic Beverages	59.8	59.8	-
Admissions and Dues	37.0	37.0	-
Health Provider Tax	512.0	512.0	-
Miscellaneous	19.9	19.9	-
TOTAL - TAXES	\$ 15,517.5	\$ 15,717.1	\$ 199.6
Less: Refunds of Taxes	(1,073.5)	(1,063.5)	10.0
Earned Income Tax Credit	(104.5)	(104.5)	-
R & D Credit Exchange	(5.5)	(5.5)	-
TOTAL - TAXES - NET	\$ 14,334.0	\$ 14,543.6	\$ 209.6
OTHER REVENUE			
Transfers - Special Revenue	\$ 313.9	\$ 313.9	\$ -
Indian Gaming Payments	285.3	285.3	-
Licenses, Permits, Fees	301.2	310.7	9.5
Sales of Commodities and Services	38.2	40.2	2.0
Rents, Fines, Escheats	114.5	114.5	-
Investment Income	1.3	0.1	(1.2)
Miscellaneous	169.1	158.1	(11.0)
Refunds of Payments	(69.8)	(74.8)	(5.0)
TOTAL - OTHER REVENUE	\$ 1,153.7	\$ 1,148.0	\$ (5.7)
OTHER SOURCES			
Federal Grants	\$ 1,312.7	\$ 1,310.5	\$ (2.2)
Transfer from Tobacco Settlement Fund	107.0	107.0	-
Transfers to Other Funds	285.7	285.7	-
TOTAL - OTHER SOURCES	\$ 1,705.4	\$ 1,703.2	\$ (2.2)
TOTAL - GENERAL FUND REVENUE	\$ 17,193.1	\$ 17,394.8	\$ 201.7

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2014
As of November 30, 2013

Department of Administrative Services	\$	8,000,000
Department of Education		9,000,000
Department of Emergency Services and Public Protection		4,000,000
Public Defenders Services Commission		3,500,000
OSC - Miscellaneous		6,200,000
Total	\$	<u>30,700,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2014
As of November 30, 2013

Unallocated Lapse	\$ 60,000,000
Unallocated Lapse - Legislative	-
Unallocated Lapse - Judicial	-
General Other Expenses Reductions - Legislative	140,000
General Other Expenses Reductions - Executive	3,312,000
General Other Expenses Reductions - Judicial	548,000
General Lapse - Legislative	56,251
General Lapse - Executive	13,785,503
General Lapse - Judicial	401,946
GAAP Lapse	5,500,000
Transfer GAAP Funding	40,000,000
Statewide Hiring Reduction - Legislative	190,309
Statewide Hiring Reduction - Executive	5,478,184
Statewide Hiring Reduction - Judicial	1,128,261
Office of Legislative Management	6,000,000
Department of Housing	3,000,000
Department of Social Services	67,000,000
Teachers' Retirement Board	2,000,000
Department of Children and Families	16,000,000
OTT - Debt Service	29,000,000
OSC - Fringe Benefits	17,000,000
Total	<u>\$ 270,540,454</u>

State of Connecticut
2013-14 General Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan 1:	July 2013	August 2013	September 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
REVENUE	\$17,193.1	\$17,193.1	\$17,193.1	\$17,126.1	\$17,249.5	\$17,394.8							
Appropriations	17,361.4	17,361.4	17,361.4	17,361.4	17,361.4	17,361.4							
Additional Requirements	0.0	0.0	0.0	20.0	23.2	30.7							
Less: Estimated Lapses	(172.6)	(172.6)	(172.6)	(266.4)	(270.9)	(270.5)							
TOTAL - Estimated Expenditures	17,188.7	17,188.7	17,188.7	17,114.9	17,113.6	17,121.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	4.4	4.4	4.4	11.2	135.9	273.3							
Misc. Adjustments/Rounding	0.0	0.0	0.0	0.0	0.0	0.0							
Est. Balance from Operations - 6/30/14	\$4.4	\$4.4	\$4.4	\$11.2	\$135.9	\$273.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 13-184, as amended by P.A. 13-247.

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2014
As of November 30, 2013
(In Millions)

	General Assembly Budget Plan ^{1.}	Revised Estimates OPM	Over/ (Under)
Fund Balance as of June 30, 2013 ^{2.}	\$ 165.9	\$ 164.6	\$ (1.3)
REVENUE			
Taxes	\$ 962.0	\$ 967.7	\$ 5.7
Less: Refunds of Taxes	<u>(6.5)</u>	<u>(6.5)</u>	<u>-</u>
Taxes - Net	955.5	961.2	5.7
Other Revenue	<u>288.2</u>	<u>289.4</u>	<u>1.2</u>
TOTAL - Revenue	\$ 1,243.7	\$ 1,250.6	\$ 6.9
EXPENDITURES			
Appropriations	\$ 1,254.2	\$ 1,254.2	\$ -
Net Additional Requirements	-	-	-
Less: Estimated Lapses	<u>(11.0)</u>	<u>(11.0)</u>	<u>-</u>
TOTAL - Expenditures	\$ 1,243.2	\$ 1,243.2	\$ -
Balance from Operations	\$ 0.5	\$ 7.4	\$ 6.9
Miscellaneous Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
Estimated Fund Balance - June 30, 2014	<u>\$ 166.4</u>	<u>\$ 172.0</u>	<u>\$ 5.6</u>

1. P.A. 13-184.

2. Budget plan as estimated by the Office of Policy and Management. Revised estimates per the Comptroller's September 3, 2013 letter.

Statement 2T
December 20, 2013

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2014
As of November 30, 2013
(In Millions)

	<u>General Assembly Budget Plan</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
TAXES			
Motor Fuels	\$ 502.9	\$ 506.0	\$ 3.1
Oil Companies	380.7	380.7	-
Sales Tax DMV	78.4	81.0	2.6
TOTAL - TAXES	<u>962.0</u>	<u>967.7</u>	<u>5.7</u>
Less: Refunds of Taxes	(6.5)	(6.5)	-
TOTAL - TAXES - NET	<u>\$ 955.5</u>	<u>\$ 961.2</u>	<u>\$ 5.7</u>
OTHER REVENUE			
Motor Vehicle Receipts	\$ 234.0	\$ 236.0	\$ 2.0
Licenses, Permits, Fees	138.5	138.5	-
Interest Income	3.8	4.0	0.2
Federal Grants	13.1	12.1	(1.0)
Transfers (To)/From Other Funds	(98.0)	(98.0)	-
Refunds of Payments	(3.2)	(3.2)	-
TOTAL - OTHER REVENUE	<u>\$ 288.2</u>	<u>\$ 289.4</u>	<u>\$ 1.2</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	<u>\$ 1,243.7</u>	<u>\$ 1,250.6</u>	<u>\$ 6.9</u>

Statement 3T
December 20, 2013

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2014
As of November 30, 2013

No Additional Requirements
Total

\$	-
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\$	-
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Statement 4T
December 20, 2013

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2014
As of November 30, 2013

Department of Motor Vehicles	\$ 900,000
OTT - Debt Service	10,100,000
Total	<u>\$ 11,000,000</u>

State of Connecticut
2013-14 Special Transportation Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹	July 2013	August 2013	September 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014	April 2014	May 2014	June 2014
Beginning Balance ²	\$ 165.9	\$ 165.9	\$ 164.6	\$ 164.6	\$ 164.6	\$ 164.6							
Revenue	<u>1,243.7</u>	<u>1,243.7</u>	<u>1,243.7</u>	<u>1,245.8</u>	<u>1,244.5</u>	<u>1,250.6</u>							
Total Available	1,409.6	1,409.6	1,408.3	1,410.4	1,409.1	1,415.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations	1,254.2	1,254.2	1,254.2	1,254.2	1,254.2	1,254.2							
Additional Requirements	0.0	0.0	0.0	0.0	0.0	0.0							
Less: Estimated Lapses	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>							
TOTAL - Estimated Expenditures	1,243.2	1,243.2	1,243.2	1,243.2	1,243.2	1,243.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	0.5	0.5	0.5	2.6	1.3	7.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Compt's 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>							
Estimated Balance 6/30/14	\$166.4	\$166.4	\$165.1	\$167.2	\$165.9	\$172.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 13-184.

2. Budget Plan and the month of July as estimated by the Office of Policy and Management. August and thereafter per the Comptroller's September 3, 2013 letter.