



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

November 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. Consistent 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 \$135.9 million balance from operations, an improvement of \$124.7 million from last month's letter. Aside from adjustments to projected deficiencies and lapses, in aggregate our expenditure estimates are relatively unchanged from last month. On the revenue side, the consensus forecast reached between OPM and the legislature's Office of Fiscal Analysis on November 8th pursuant to section 2-36c of the General Statutes results in an upward adjustment of \$123.4 million. We remain concerned that federal political disagreements regarding the budget and debt ceiling will play out again in January and February, when these issues must be revisited. The uncertainty created in the national and state economies by the lack of a long-term federal fiscal plan could affect our recovery from the recession and have a material effect on state revenues.

Revenues

This month's forecast reflects an upward revision by a net \$123.4 million from the level reported last month, reflective of the November 8th consensus estimate. The largest positive revision is in the Federal Grants category, up \$64.8 million due to a re-estimate of the impact of net budgeting on the state's General Fund. The Sales Tax has been revised upward by \$30 million to reflect a better than anticipated growth rate in those collections since the start of the fiscal year. The Corporation Tax has been revised upward by \$30 million primarily due to collections from the state's amnesty program which has exceeded projections. All other revenue changes net to a negative \$1.4 million. Relative to tax amnesty, collections related to this program have exceeded the original target amount of \$35 million, and both the projections in this letter and the November 8th consensus forecast reflect a total of \$65 million in such collections. Since the time that the consensus forecast on which this letter is based

was reached, the Department of Revenue Services has reported an even higher collection total related to the amnesty program, which will further improve this year's operating results.

Expenditures

This month's letter includes \$98.3 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. In addition, we are projecting lapses in a variety of agency accounts. 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, \$15.0 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 \$14.0 million in the Higher Education Alternative Retirement Plan and Employer's Social Security Tax accounts. The Office of Legislative Management is expected to lapse a total of \$4.0 million in Personal Services and Other Expenses. The Department of Housing will lapse \$2.0 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 \$133.0 million, and achievement of \$34.7 million of budgeted Unallocated Lapses.

Partially offsetting these lapses are projected deficiencies totaling \$23.2 million across four 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, leaving a commensurate shortfall in Personal Services. In addition, we continue to project a shortfall of \$3.0 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. 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 \$3.2 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. Note that we continue to monitor several claims against the state that may be finalized this fiscal year and which would impact expenditure requirements in the Comptroller's Adjudicated Claims account.

Special Transportation Fund

Special Transportation Fund revenues also reflect the consensus estimate reached between OPM and the legislature's Office of Fiscal Analysis on November 8th. In total, revenues have been revised downward by \$1.3 million from last month's projection, with the largest change occurring in the Motor Fuels tax, down \$1.0 million. Estimated expenditures remain unchanged relative to the adopted budget in aggregate. However, we are projecting a lapse of \$10.1 million in the Treasurer's Debt Service account which satisfies a significant portion of the budgeted Unallocated Lapse. We continue to closely monitor the potential fiscal impact to the Department of Transportation of costs associated with the recent power failure on the New Haven line as well as the May 17, 2013 derailment. We currently anticipate the fund balance on June 30, 2014 to be \$165.9 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,

A handwritten signature in black ink, appearing to read "Benjamin Barnes". The signature is fluid and cursive, with the first name being more prominent.

Benjamin Barnes
Secretary

Summary
November 20, 2013

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2014
As of October 31, 2013
(In Millions)

General Fund

Balance from Operations - Prior Month		\$	11.2
Revenues			
Sales & Use Tax	30.0		
Corporation Tax	30.0		
Real Estate Conveyance	15.6		
Miscellaneous Other Revenue	(11.0)		
Federal Revenue	64.8		
All Other Changes (net)	<u>(6.0)</u>		123.4
Expenditures			
Additional Requirements	(3.2)		
Estimated Lapses	4.5		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>1.3</u>
Estimated Balance from Operations - June 30, 2014		\$	135.9

Special Transportation Fund

Fund Balance as of June 30, 2013		\$	164.6
Balance from Operations - Prior Month			2.6
Revenues			
Motor Fuels Tax	(1.0)		
All Other Changes (net)	<u>(0.3)</u>		<u>(1.3)</u>
Expenditures			
Additional Requirements	0.0		
Estimated Lapses	0.0		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>0.0</u>
Estimated Fund Balance - June 30, 2014		\$	<u>165.9</u>

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2014
As of October 31, 2013
(In Millions)

	General Assembly Budget Plan	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 15,517.5	\$ 15,591.1	\$ 73.6
Less: Refunds	(1,183.5)	(1,183.5)	-
Taxes - Net	\$ 14,334.0	\$ 14,407.6	\$ 73.6
Other Revenue	1,153.7	1,138.7	(15.0)
Other Sources ¹	1,705.4	1,703.2	(2.2)
TOTAL Revenue	\$ 17,193.1	\$ 17,249.5	\$ 56.4
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		23.2	23.2
Estimated Appropriations Lapsed	(172.6)	(270.9)	(98.3)
Estimated Appropriations to be Continued to FY 2015		-	-
TOTAL Estimated Expenditures	\$ 17,188.7	\$ 17,226.0	\$ 37.3
Net Change in Fund Balances - Continuing Appropriations	-	(112.4)	(112.4)
Miscellaneous Adjustments	-	-	-
Net Change in Unassigned Fund Balance - 6/30/2014	\$ 4.4	\$ 135.9	\$ 131.5

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 October 31, 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	4,074.0	30.0
Corporation	723.5	753.5	30.0
Public Service Corporations	279.6	279.6	-
Inheritance and Estate	173.2	173.2	-
Insurance Companies	271.2	271.2	-
Cigarettes	390.4	390.4	-
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	<u>\$ 15,517.5</u>	<u>\$ 15,591.1</u>	<u>\$ 73.6</u>
Less: Refunds of Taxes	(1,073.5)	(1,073.5)	-
Earned Income Tax Credit	(104.5)	(104.5)	-
R & D Credit Exchange	(5.5)	(5.5)	-
TOTAL - TAXES - NET	<u>\$ 14,334.0</u>	<u>\$ 14,407.6</u>	<u>\$ 73.6</u>
OTHER REVENUE			
Transfers - Special Revenue	\$ 313.9	\$ 313.9	\$ -
Indian Gaming Payments	285.3	285.3	-
Licenses, Permits, Fees	301.2	302.7	1.5
Sales of Commodities and Services	38.2	38.2	-
Rents, Fines, Escheats	114.5	114.5	-
Investment Income	1.3	0.8	(0.5)
Miscellaneous	169.1	158.1	(11.0)
Refunds of Payments	(69.8)	(74.8)	(5.0)
TOTAL - OTHER REVENUE	<u>\$ 1,153.7</u>	<u>\$ 1,138.7</u>	<u>\$ (15.0)</u>
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	<u>\$ 1,705.4</u>	<u>\$ 1,703.2</u>	<u>\$ (2.2)</u>
TOTAL - GENERAL FUND REVENUE	<u>\$ 17,193.1</u>	<u>\$ 17,249.5</u>	<u>\$ 56.4</u>

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2014
As of October 31, 2013

Department of Administrative Services	\$	8,000,000
Department of Education		9,000,000
Department of Emergency Services and Public Protection		3,000,000
Public Defenders Services Commission		3,200,000
Total	\$	<u>23,200,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2014
As of October 31, 2013

Unallocated Lapse	\$ 60,000,000
Unallocated Lapse - Legislative	-
Unallocated Lapse - Judicial	7,400,672
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	4,000,000
Department of Housing	2,000,000
Department of Social Services	67,000,000
Teachers' Retirement Board	2,000,000
Department of Children and Families	15,000,000
OTT - Debt Service	29,000,000
OSC - Fringe Benefits	14,000,000
Total	<u>\$ 270,941,126</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								
Appropriations	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								
Less: Estimated Lapses	(172.6)	(172.6)	(172.6)	(266.4)	(270.9)								
TOTAL - Estimated Expenditures	17,188.7	17,188.7	17,188.7	17,114.9	17,113.6	0.0	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								
Misc. Adjustments/Rounding	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	\$0.0	\$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.

Statement 1T
November 20, 2013

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2014
As of October 31, 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	\$ 963.6	\$ 1.6
Less: Refunds of Taxes	<u>(6.5)</u>	<u>(6.5)</u>	<u>-</u>
Taxes - Net	955.5	957.1	1.6
Other Revenue	<u>288.2</u>	<u>287.4</u>	<u>(0.8)</u>
TOTAL - Revenue	\$ 1,243.7	\$ 1,244.5	\$ 0.8
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	\$ 1.3	\$ 0.8
Miscellaneous Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
Estimated Fund Balance - June 30, 2014	<u>\$ 166.4</u>	<u>\$ 165.9</u>	<u>\$ (0.5)</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
November 20, 2013

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2014
As of October 31, 2013
(In Millions)

	<u>General Assembly Budget Plan</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
TAXES			
Motor Fuels	\$ 502.9	\$ 504.0	\$ 1.1
Oil Companies	380.7	380.7	-
Sales Tax DMV	78.4	78.9	0.5
TOTAL - TAXES	<u>962.0</u>	<u>963.6</u>	<u>1.6</u>
Less: Refunds of Taxes	(6.5)	(6.5)	-
TOTAL - TAXES - NET	<u>\$ 955.5</u>	<u>\$ 957.1</u>	<u>\$ 1.6</u>
OTHER REVENUE			
Motor Vehicle Receipts	\$ 234.0	\$ 234.0	\$ -
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>\$ 287.4</u>	<u>\$ (0.8)</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	\$1,243.7	\$1,244.5	\$ 0.8

Statement 3T
November 20, 2013

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2014
As of October 31, 2013

No Additional Requirements	\$	-
Total	<u>\$</u>	<u>-</u>

Statement 4T
November 20, 2013

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2014
As of October 31, 2013

Unallocated Lapse	\$ 900,000
OTT - Debt Service	10,100,000
Total	<u><u>\$ 11,000,000</u></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								
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>								
Total Available	1,409.6	1,409.6	1,408.3	1,410.4	1,409.1	0.0	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								
Additional Requirements	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>								
TOTAL - Estimated Expenditures	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	0.0
Balance from Operations	0.5	0.5	0.5	2.6	1.3	0.0	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>								
Estimated Balance 6/30/14	\$166.4	\$166.4	\$165.1	\$167.2	\$165.9	\$0.0	\$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.