



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

August 20, 2018

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 2019. An analysis of the Special Transportation Fund is also provided here due to the significance of this fund.

General Fund

The adopted budget anticipates a \$10.5 million balance from operations. Strong revenue collections to date lead us to project a potential operating surplus of \$137.9 million, as discussed further below.

Revenues

Projected revenues are up by a net \$162.9 million relative to the adopted budget plan, largely due to higher than anticipated collections in FY 2018 that form the basis of our FY 2019 forecast. The largest revision is in the withholding portion of the Personal Income Tax, up \$96.9 million relative to the adopted budget. The Sales and Use Tax has been revised upward by \$58.3 million relative to the adopted budget. All other changes net to a positive \$7.7 million. The estimates and finals portion of the Personal Income Tax has also been revised upward by \$84.9 million, but this sum is anticipated to be transferred to the Budget Reserve Fund (BRF) pursuant to the statutory volatility cap. As a result, we now anticipate that the transfer to the BRF as a result of the volatility cap will be \$448.0 million in FY 2019, which will increase our reserves to a projected \$1.6 billion by the end of FY 2019.

Expenditures

We are projecting net expenditures will exceed the budget plan by \$35.5 million. An explanation of lapses and deficiencies follows.

Deficiencies. Shortfalls are forecast in the following agencies:

- Department of Correction. A \$23.5 million shortfall is projected. Personal Services is anticipated to have a \$14.0 million deficiency, as the revised FY 2019 appropriation for Personal Services is \$20 million less than projected expenditures for FY 2018. The Other Expenses account will be short \$500,000, and the Inmate Medical account faces a projected shortfall of \$9.0 million. It should be noted that the budget assumes saving \$8 million immediately through an RFP process for inmate medical services. While many of these services have been brought in-house to DOC, some are being put out to RFP. The transition from UConn to DOC will take some time and may entail costs, making achievement of overall savings unlikely until the next biennium.
- Department of Children and Families. A net deficiency of \$8.0 million is projected across a variety of accounts. This shortfall is due to two factors: 1.) the lack of funding in the revised FY 2019 budget to honor the state's commitment to the 2017 Revised Juan F. Exit Plan, which requires adequate social

worker staffing to oversee abused and neglected children as well as support for community-based programming and to address service needs in order to implement the Exit Plan's outcome measures; and 2.) the legislature did not concur with the Governor's recommendation to restore to DCF a portion of Juvenile Justice Outreach Services funding that was moved to the Judicial Branch in the biennial budget. DCF is committed to maintaining important clinical interventions and other services utilized by non-delinquent youth, and this programming further enables the department to meet Juan F. requirements.

Additionally, we project \$10.0 million in expenditures for Adjudicated Claims. Of this amount, \$6.5 million is for a settlement that was delayed from late FY 2018 into FY 2019, and the remainder is for payment of other claims. Existing law identifies the resources of the General Fund as the source for payments.

Lapses. Our projections reflect the amounts currently withheld from agencies to achieve budgeted lapse targets. Additionally, the following amounts are estimated to remain unspent this fiscal year:

- State Comptroller – Fringe Benefits. A net lapse of \$8.6 million is projected. Recoveries in the Higher Education Alternative Retirement System will exceed the appropriation by \$10.0 million. This is offset by the lack of appropriation for the SERS defined contribution match projected at \$1.2 million and a \$200,000 shortfall in the Pensions and Retirements – Other Statutory account. The defined contribution matching payment is a component of the 2017 SEBAC agreement that created a new retirement tier for state employees with a hybrid defined benefit and defined contribution pension benefit. A similar deficiency was experienced in FY 2018, and the budget was not revised to recognize and support these costs.

Special Transportation Fund

The adopted budget anticipates a \$3.2 million balance from operations. We estimate a \$60.0 million surplus due to improved revenue collection trends that carry over from FY 2018. The largest revenue revision is in the Oil Companies tax, up \$50.2 million relative to the adopted budget due to a rapid acceleration in petroleum prices. Interest income receipts have also been revised upward by \$5.7 million. All other revenue changes net to a positive \$0.9 million. While estimated expenditures remain unchanged relative to the adopted budget, it should be noted that, similar to the General Fund, no appropriation was made in the Special Transportation Fund for the SERS defined contribution match. It is too early in the year, however, to project whether a deficiency appropriation will be needed in the Comptroller's fringe benefits accounts to address this issue, so we will carefully monitor trends as the fiscal year progresses. We project the Transportation Fund balance on June 30, 2019, to be \$284.0 million.

Other Appropriated Funds

While Sec. 4-66, CGS, does not require that we provide analyses of other appropriated funds, it is worth noting that several industry-funded agencies face potential shortfalls totaling \$2.33 million because the General Assembly did not make technical adjustments to fringe benefit and indirect overhead appropriations to match the recovery rates promulgated by your office. As a result the following deficiencies are expected:

- In the Banking Fund, the Department of Banking is underfunded by \$370,108 (\$219,685 in Fringe Benefits, and \$150,423 in Indirect Overhead);
- In the Insurance Fund, the Department of Insurance is underfunded by a net total of \$178,911 (\$373,812 short in Fringe Benefits, offset by \$194,901 over-budgeted in Indirect Overhead);
- In the Consumer Counsel and Public Utility Control Fund, the Office of the Consumer Counsel is underfunded by \$92,876 (\$25,313 in Fringe Benefits, and \$67,563 in Indirect Overhead); and

- In the Workers' Compensation Fund, the Workers' Compensation Commission is short \$1,684,657 (\$1,536,000 in Fringe Benefits, and \$148,657 in Indirect Overhead).

It should be noted that if the General Assembly had adjusted appropriations as noted above, those budgeted amounts would have been included in the annual industry assessments that support the oversight and regulatory functions of these agencies, and would have had no impact on the General Fund budget. Because of the various statutory provisions applicable to the process and timing of industry assessments, it is unclear whether any deficiency appropriations in FY 2019 could be offset via adjusted assessments late in the fiscal year; appropriations unmatched by revenue would therefore affect the cumulative balances of these funds.

It is important to note that this represents the first projection of the state's budget outlook for FY 2019. 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 that reads "Benjamin Barnes". The signature is written in a cursive style with a large initial "B".

Benjamin Barnes
Secretary

Summary
August 20, 2018

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2019
As of July 31, 2018
(In Millions)

General Fund

Balance from Operations - Adopted Budget		\$	10.5
Revenues			
Personal Income Tax - Withholding	96.9		
Personal Income Tax - Estimates and Finals	84.9		
Sales and Use Tax	58.3		
Transfer to BRF - Volatility	(84.9)		
All Other Changes (Net)	7.7		162.9
Expenditures			
Additional Requirements	(31.5)		
Estimated Lapses	6.0		
Miscellaneous Adjustments/Rounding	(10.0)		(35.5)
Estimated Balance from Operations - June 30, 2019		\$	137.9

Special Transportation Fund

Fund Balance as of June 30, 2018		\$	224.0
Balance from Operations - Adopted Budget			3.2
Revenues			
Oil Companies Tax	50.2		
Interest Income	5.7		
All Other Changes (Net)	0.9		56.8
Expenditures			
Additional Requirements	0.0		
Estimated Lapses	0.0		
Miscellaneous Adjustments/Rounding	0.0		0.0
Estimated Fund Balance - June 30, 2019		\$	284.0

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2019
As of July 31, 2018
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 17,202.1	\$ 17,464.4	\$ 262.3
Less: Refunds	(1,339.8)	(1,339.8)	-
Taxes - Net	\$ 15,862.3	\$ 16,124.6	\$ 262.3
Other Revenue	1,208.6	1,194.1	(14.5)
Other Sources	1,937.8	1,852.9	(84.9)
TOTAL Revenue	\$ 19,008.7	\$ 19,171.6	\$ 162.9
EXPENDITURES			
Initial Current Year Appropriations	\$ 19,019.7	\$ 19,019.7	\$ -
Prior Year Appropriations Continued to FY 2019 ²		125.8	125.8
TOTAL Initial and Continued Appropriations	\$ 19,019.7	\$ 19,145.5	\$ 125.8
Appropriation Adjustments	-	-	-
TOTAL Adjusted Appropriations	\$ 19,019.7	\$ 19,145.5	\$ 125.8
Net Additional Expenditure Requirements		31.5	31.5
Estimated Appropriations Lapsed	(21.5)	(27.5)	(6.0)
Estimated Appropriations to be Continued to FY 2020 ²		-	-
TOTAL Estimated Expenditures	\$ 18,998.2	\$ 19,149.5	\$ 151.3
Net Change in Fund Balance - Continuing Appropriations		(125.8)	(125.8)
Miscellaneous Adjustments/Rounding		(10.0)	(10.0)
Net Change in Unassigned Fund Balance - 6/30/2019	\$ 10.5	\$ 137.9	\$ 127.4

1. P.A. 18-81 as amended by P.A. 18-49.

2. CGS Sec. 4-89 and other statutory provisions.

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2019
As of July 31, 2018
(In Millions)

	General Assembly Budget Plan ^{1.}	Revised Estimates OPM	Over/ (Under)
TAXES			
Personal Income - Withholding	\$ 6,147.7	\$ 6,244.6	\$ 96.9
Personal Income - Estimates and Finals	2,959.9	3,044.8	84.9
Sales and Use	4,153.6	4,211.9	58.3
Corporation	1,520.2	1,568.1	47.9
Public Service Corporations	243.8	230.8	(13.0)
Inheritance and Estate	176.2	176.2	-
Insurance Companies	234.3	234.3	-
Cigarettes	381.0	370.0	(11.0)
Real Estate Conveyance	209.4	209.4	-
Alcoholic Beverages	63.0	63.0	-
Admissions and Dues	41.8	41.8	-
Health Provider Tax	1,049.2	1,049.2	-
Miscellaneous	22.0	20.3	(1.7)
TOTAL - TAXES	\$ 17,202.1	\$ 17,464.4	\$ 262.3
Less: Refunds of Taxes	(1,215.1)	(1,215.1)	-
Earned Income Tax Credit	(118.3)	(118.3)	-
R & D Credit Exchange	(6.4)	(6.4)	-
TOTAL - TAXES - NET	\$ 15,862.3	\$ 16,124.6	\$ 262.3
OTHER REVENUE			
Transfers - Special Revenue	\$ 352.7	\$ 349.7	\$ (3.0)
Indian Gaming Payments	203.6	203.6	-
Licenses, Permits, Fees	322.6	322.6	-
Sales of Commodities and Services	37.7	34.0	(3.7)
Rents, Fines, Escheats	147.2	155.0	7.8
Investment Income	14.5	17.4	2.9
Miscellaneous	189.1	174.1	(15.0)
Refunds of Payments	(58.8)	(62.3)	(3.5)
TOTAL - OTHER REVENUE	\$ 1,208.6	\$ 1,194.1	\$ (14.5)
OTHER SOURCES			
Federal Grants	\$ 2,112.4	\$ 2,112.4	\$ -
Transfer from Tobacco Settlement Fund	110.2	110.2	-
Transfers From/(To) Other Funds	78.3	78.3	-
Transfers to BRF - Volatility Adjustment	(363.1)	(448.0)	(84.9)
TOTAL - OTHER SOURCES	\$ 1,937.8	\$ 1,852.9	\$ (84.9)
TOTAL - GENERAL FUND REVENUE	\$ 19,008.7	\$ 19,171.6	\$ 162.9

1. Sec. 27 of P.A. 18-81 as amended by P.A. 18-49.

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2019
As of July 31, 2018

Department of Correction	\$ 23,500,000
Department of Children and Families	8,000,000
Total	<u>\$ 31,500,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2019
As of July 31, 2018

Unallocated Lapse	\$ 6,933,390
Unallocated Lapse - Judicial	5,000,000
Statewide Hiring Reduction - Executive	7,000,000
OSC - Fringe Benefits	8,600,000
Total	<u>\$ 27,533,390</u>

State of Connecticut
FY 2019 General Fund
Monthly Summary of Operations
(In Millions)

	Budget Plan ¹	July 2018	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
REVENUE	\$ 19,008.7	\$ 19,171.6											
Appropriations	19,019.7	19,019.7											
Additional Requirements	0.0	31.5											
Less: Estimated Lapses	(21.5)	(27.5)											
TOTAL - Estimated Expenditures	18,998.2	19,023.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	10.5	147.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Misc. Adjustments/Rounding	0.0	(10.0)											
Est. Balance from Operations - 6/30/19	\$10.5	\$137.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 18-81 as amended by P.A. 18-49

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2019
As of July 31, 2018
(In Millions)

	General Assembly <u>Budget Plan</u> ^{1.}	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
Fund Balance as of June 30, 2018	\$ 224.0	\$ 224.0	\$ -
REVENUE			
Taxes	\$ 1,227.3	\$ 1,278.1	\$ 50.8
Less: Refunds of Taxes	<u>(14.6)</u>	<u>(13.7)</u>	<u>0.9</u>
Taxes - Net	1,212.7	1,264.4	51.7
Other Revenue	<u>407.8</u>	<u>412.9</u>	<u>5.1</u>
TOTAL - Revenue	\$ 1,620.5	\$ 1,677.3	\$ 56.8
EXPENDITURES			
Appropriations	\$ 1,629.3	\$ 1,629.3	\$ -
Prior Year Appropriations Continued to FY 2019 ^{2.}		<u>28.5</u>	<u>28.5</u>
TOTAL Initial and Continued Appropriations	\$ 1,629.3	\$ 1,657.8	\$ 28.5
Appropriation Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL Adjusted Appropriations	\$ 1,629.3	\$ 1,657.8	\$ 28.5
Net Additional Expenditure Requirements		-	-
Estimated Appropriations Lapsed	(12.0)	(12.0)	-
Estimated Appropriations to be Continued to FY 2020 ^{2.}		<u>-</u>	<u>-</u>
TOTAL Estimated Expenditures	\$ 1,617.3	\$ 1,645.8	\$ 28.5
Net Change in Fund Balance - Continuing Appropriations		(28.5)	(28.5)
Miscellaneous Adjustments/Rounding		-	-
Net Change in Unassigned Fund Balance - FY 2019	\$ 3.2	\$ 60.0	\$ 56.8
Estimated Fund Balance - June 30, 2019	<u>\$ 227.2</u>	<u>\$ 284.0</u>	<u>\$ 56.8</u>

1. P.A. 18-81 as amended by P.A. 18-49.

2. CGS Sec. 4-89 and other statutory provisions.

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2019
As of July 31, 2018
(In Millions)

	<u>General Assembly Budget Plan ¹.</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
TAXES			
Motor Fuels	\$ 502.3	\$ 499.9	\$ (2.4)
Oil Companies	279.8	330.0	50.2
Sales & Use Tax	358.4	361.4	3.0
Sales Tax DMV	86.8	86.8	-
TOTAL - TAXES	<u>1,227.3</u>	<u>1,278.1</u>	<u>50.8</u>
Less: Refunds of Taxes	<u>(14.6)</u>	<u>(13.7)</u>	<u>0.9</u>
TOTAL - TAXES - NET	<u>\$ 1,212.7</u>	<u>\$ 1,264.4</u>	<u>\$ 51.7</u>
OTHER REVENUE			
Motor Vehicle Receipts	\$ 250.6	\$ 253.2	\$ 2.6
Licenses, Permits, Fees	142.8	140.0	(2.8)
Interest Income	12.4	18.1	5.7
Federal Grants	12.1	12.1	-
Transfers (To)/From Other Funds	(5.5)	(5.5)	-
Refunds of Payments	<u>(4.6)</u>	<u>(5.0)</u>	<u>(0.4)</u>
TOTAL - OTHER REVENUE	<u>\$ 407.8</u>	<u>\$ 412.9</u>	<u>\$ 5.1</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	<u>\$ 1,620.5</u>	<u>\$ 1,677.3</u>	<u>\$ 56.8</u>

1. Sec. 28 of P.A. 18-81 as amended by P.A. 18-49.

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2019
As of July 31, 2018

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

Statement 4T
August 20, 2018

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2019
As of July 31, 2018

Unallocated Lapse	\$ 12,000,000
Total	<u><u>\$ 12,000,000</u></u>

State of Connecticut
FY 2019 Special Transportation Fund
Monthly Summary of Operations
(In Millions)

	Budget Plan ¹ .	July 2018 ¹ .	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
Beginning Balance ² .	\$ 224.0	\$ 224.0											
Revenue	<u>1,620.5</u>	<u>1,677.3</u>											
Total Available	1,844.5	1,901.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations	1,629.3	1,629.3											
Additional Requirements	0.0	0.0											
Less: Estimated Lapses	<u>(12.0)</u>	<u>(12.0)</u>											
TOTAL - Estimated Expenditures	1,617.3	1,617.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	3.2	60.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Misc. Adjustments/Rounding	<u>0.0</u>	<u>0.0</u>											
Estimated Balance 6/30/19	\$227.2	\$284.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 18-81 as amended by P.A. 18-49.

2. Budget plan and July as estimated by the Office of Policy and Management based on the Comptroller's August 1, 2018 letter.