



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

April 20, 2012

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 2012 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) as well as an estimated balance from operations on a budgetary basis.

General Fund

We are projecting a \$141.9 million operating deficit on a GAAP basis for fiscal year 2012, an increase of \$79.3 million over last month's estimate. On a budgetary basis, a shortfall from operations of \$66.9 million is anticipated. This change in balance is due mainly to two factors: an increase in refunds of taxes and an emerging shortfall in the Medicaid program. Because a consensus revenue estimate is anticipated by the end of the month, and given that the bulk of income tax collections during the April filing period will not be known until after the publication of this letter, we are not revising our income tax estimate at this time. As noted last month, the performance of April collections will be the most significant factor affecting year-end results.

Revenues

Estimated revenues this month reflect an upward revision of \$10.9 million. Refunds of Taxes have been revised downward by \$70.0 million as income tax refunds continue to track significantly higher than previously projected. Offsetting this loss, Federal Grant revenues have been revised upward by \$60.0 million related to a projected Medicaid deficiency (see below). We have also revised our estimate of Insurance Companies revenue upward by \$5.0 million due to higher than anticipated collections in the month of March. The recent Mega Millions jackpot saw a record number of lottery sales in Connecticut, and thus we are revising our estimate for Special Revenue- Lottery Transfers upwards by \$7.2 million. Other miscellaneous revenue adjustments net to a positive \$8.7 million.

As noted above, we have not adjusted our estimate of income tax collections at this time. Based on data through today, however, those collections are currently running at a pace insufficient to achieve our revenue target. Because April income tax collections have such a

significant impact on year-end results, the weakness in collections to date suggests the possibility of ending the year with a significant budget deficit.

Expenditures

Overall, expenditures are estimated at \$40.5 million above appropriated levels, a change of \$90.2 million from last month's estimate. Shortfalls totaling \$197.6 million are largely offset by lapses of \$157.1 million beyond savings programmed in the adopted budget.

Deficiencies: The most significant change to our expenditure forecast is the recognition of an emerging shortfall in the Medicaid program in the Department of Social Services. Beyond Medicaid, relatively minor changes are forecast in other previously-reported deficiencies as detailed below.

- Department of Social Services. After accounting for a number of offsetting lapses, a net Medicaid shortfall of \$93.2 million is expected due to growth in the Medicaid for Low-Income Adults (MLIA) program, and payment of claims at a pace that is faster than was originally anticipated as a result of the recent transition from managed care to an administrative services organization.
- Public Defender Services Commission. A \$1.32 million shortfall is anticipated across a variety of accounts.
- Teachers' Retirement Board. A deficiency of \$2.6 million in the Retirees Health Service Cost account is forecast due to higher than anticipated membership in the plan. Current enrollment is approximately 2,000 more members than anticipated.
- Office of the State Comptroller – Miscellaneous Accounts. The Adjudicated Claims account has additional requirements of \$3.5 million. An appropriation for this purpose is new for the 2012-2013 biennium, and the one-time nature of expenditures and volatility in the amounts of any adjudicated settlements are complicating factors in forecasting and budgeting for this account.
- Office of the State Comptroller – Fringe Benefits. Net deficiencies totaling \$95.0 million are projected in the fringe benefits accounts based on an updated actuarial estimate of the State's required contribution to the State Employees Retirement Fund and revised estimates for retiree healthcare services based on actual claims experience. Regarding the latter item, the proposed holdback to the Retired Employee Health Service Cost account is not attainable, as the agreement reached with SEBAC last year did not impact retirees in any significant way. These shortfalls are mitigated by an anticipated lapse in the Employer Social Security Tax account as a result of limited hiring and the extraordinarily high level of retirements through October 2011.
- Department of Emergency Services and Public Protection. An Other Expenses shortfall of \$1.8 million is forecast largely as a result of rising fuel costs.
- Office of the Chief Medical Examiner. A \$200,000 shortfall in Other Expenses is forecast due to increases in costs for laboratory testing services and body transport services. The former is a result of vacant laboratory positions, requiring use of external laboratory

services at a higher cost. Body transportation costs have increased as a result of a new contract for this service with increased transport fees.

Projected lapses: In addition to savings programmed as part of the adopted budget, this month's letter continues to reflect \$78.7 million in rescissions implemented by the Governor pursuant to Section 4-85(b) of the Connecticut General Statutes. Beyond these amounts, a number of lapses are anticipated in a variety of agencies as detailed below.

- Office of Legislative Management. A total of \$4.5 million is anticipated to lapse in Personal Services and Other Expenses.
- Auditors of Public Accounts. A total of \$0.65 million will lapse in Personal Services and Other Expenses.
- Secretary of the State. The Commercial Recording Division account will lapse \$0.11 million.
- Office of the Treasurer. A Personal Services lapse of \$0.17 million is expected.
- Office of the Treasurer - Debt Service. A lapse of \$75.0 million is projected as a result of lower than anticipated interest costs and net premiums from bond sales.
- Department of Revenue Services. \$0.8 million will lapse in Other Expenses.
- Office of Governmental Accountability. A total of \$0.34 million will lapse in the Other Expenses and Contracting Standards Board accounts.
- Office of Policy and Management. A total of \$1.2 million is expected to lapse in the Tax Relief for Elderly Renters account due to lower-than-budgeted growth in claims volume. An additional \$0.6 million is expected to lapse in the Other Expenses and Justice Assistance Grant accounts.
- OPM - Reserve for Salary Adjustment. \$85.0 million is available in the account due largely to wage freeze savings negotiated as part of last year's SEBAC agreement as well as funds carried-forward from previous fiscal years which will not be needed this year.
- Department of Administrative Services. A total of \$0.95 million will lapse in Personal Services, Other Expenses and the Rents and Moving account.
- DAS – Workers' Compensation Claims. This account is expected to lapse \$0.25 million.
- Department of Construction Services. A lapse \$0.32 million is expected in Personal Services.
- Office of the Attorney General. A lapse of \$0.35 million is expected in Personal Services.
- Department of Energy and Environmental Protection. A total of \$0.99 million will lapse across the Clean Air, Environmental Quality, and Lobster Restoration accounts.
- Department of Public Health. A total lapse of \$3.45 million is forecast across a variety of accounts, largely due to revised estimates of funding commitments for the year.
- Department of Developmental Services. A total of \$3.8 million will lapse in Personal Services and the Employment and Day Services account.

- Department of Mental Health and Addiction Services. A total lapse of \$5.8 million is expected in the GA Managed Care and Home and Community Based Waiver accounts due to lower than expected utilization and claim costs.
- State Department of Education. A total of \$10.75 million will lapse due to efficiencies and cost saving measures as well as lower than anticipated attendance in certain programs.
- Office of Financial and Academic Affairs for Higher Education. A total of \$0.62 million will lapse across a variety of accounts.
- Department of Children and Families. \$13.8 million is anticipated to lapse across several accounts, largely due to lower-than-budgeted caseloads and delays in program implementation.

Special Transportation Fund

A balance from operations of \$2.8 million is forecast, up \$1.3 million from last month. Revenues continue to reflect the consensus estimate reached January 17th. On the expenditure side, the Department of Motor Vehicles is anticipated to lapse \$0.65 million in its Equipment and Personal Services accounts. The Department of Transportation is expected to lapse \$12.9 million, primarily in the accounts that fund bus and rail operations due to fare increases that reduce required operating subsidies, and in Personal Services. Thirty million dollars is projected to lapse in the Treasurer's Debt Service account in part as a result of refunded bond premium and lower than anticipated interest rates for the December bond sale. Additionally, the Comptroller's fringe benefit accounts are expected to lapse \$4.3 million. The fund balance on June 30, 2012 is anticipated to be \$110.2 million.

It is important to note that while these projections are the best that can be made at this time, the performance of April income tax collections will be the most important influence on year-end balance. We continue to monitor revenue trends as well as expenditure patterns and will, once the April consensus revenue forecast is adopted, take appropriate action to address any projected shortfall that might result.

Sincerely,

A handwritten signature in dark ink, appearing to read "Benjamin Barnes", is written over a light blue horizontal line.

Benjamin Barnes
Secretary

Summary
April 20, 2012

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2012
As of March 30, 2012
(In Millions)

General Fund

Balance - projected as of Mar. 20, 2012		\$	12.4
Revenues			
Refund of Taxes	(70.0)		
Federal Grants	60.0		
Insurance Companies	5.0		
Earned Income Tax Credit	5.0		
Transfers - Special Revenue	7.2		
All Other Changes (Net)	3.7		10.9
Expenditures			
Additional Requirements	(88.3)		
Estimated Lapses	(1.9)		
Miscellaneous Adjustments/Rounding	0.0		(90.2)
Balance - projected as of Apr. 20, 2012		\$	(66.9)
Reserved Balance ¹			(75.0)
Estimated Balance - June 30, 2012 - GAAP Basis		\$	(141.9)

1. Up to \$75,000,000 is reserved for GAAP per Sec. 46 of P.A. 11-48, with the balance applied to Economic Recovery Notes per Sec. 511, P.A. 09-3, June Spec. Sess.

Special Transportation Fund

Carry Forward FY 2010-11 Surplus		\$	107.4
Balance - projected as of Mar. 20, 2012			1.5
Revenues			
No Change	0.0		0.0
Expenditures			
Additional Requirements	0.0		
Estimated Lapses	1.3		
Miscellaneous Adjustments/Rounding	0.0		1.3
Estimated Balance - June 30, 2012		\$	110.2

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2012
As of March 30, 2012
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM ²	Over/ (Under)
REVENUE			
Taxes	\$14,954.4	\$15,049.0	\$94.6
Less: Refunds	<u>(\$935.3)</u>	<u>(\$1,105.8)</u>	<u>(\$170.5)</u>
Taxes - Net	\$14,019.1	\$13,943.2	(\$75.9)
Other Revenue	\$1,226.5	\$1,150.4	(\$76.1)
Other Sources	<u>\$3,543.0</u>	<u>\$3,587.7</u>	<u>\$44.7</u>
TOTAL Revenue	\$18,788.6	\$18,681.3	(\$107.3)
EXPENDITURES			
Appropriations	\$19,485.6	\$19,485.6	\$0.0
Net Additional Requirements	\$0.0	\$197.6	\$197.6
Less: Estimated Lapses	<u>(\$777.9)</u>	<u>(\$935.0)</u>	<u>(\$157.1)</u>
TOTAL Expenditures	\$18,707.7	\$18,748.2	\$40.5
Balance from Operations	\$80.9	(\$66.9)	(\$147.8)
Miscellaneous Adjustments	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Estimated Balance - Budgetary Basis	\$80.9	(\$66.9)	(\$147.8)
Reserved Balance - GAAP ³	<u>(\$75.0)</u>	<u>(\$75.0)</u>	<u>\$0.0</u>
Estimated Balance - GAAP Basis	\$5.9	(\$141.9)	(\$147.8)
Reserved Balance -Other ³	<u>(\$5.9)</u>	<u>\$0.0</u>	<u>\$5.9</u>
Remaining Balance - 6/30/2012	\$0.0	(\$141.9)	(\$141.9)

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.

2. As amended by P.A. 11-1, October Spec. Sess.

3. Up to \$75,000,000 is reserved for GAAP per Sec. 46 of P.A. 11-48, with the balance applied to Economic Recovery Notes per Sec. 511, P.A. 09-3, June Spec. Sess.

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2012
As of March 30, 2012
(In Millions)

TAXES

Personal Income	\$8,431.0
Sales and Use	3,880.5
Corporation	707.7
Public Service Corporations	268.7
Inheritance and Estate	133.0
Insurance Companies	233.8
Cigarettes	431.3
Real Estate Conveyance	93.1
Oil Companies	156.6
Electric Generation	71.0
Alcoholic Beverages	59.9
Admissions and Dues	36.5
Health Provider Tax	525.9
Miscellaneous	20.0
TOTAL - TAXES	<u>\$15,049.0</u>
Less: Refunds of Taxes	(993.6)
Earned Income Tax Credit	(105.2)
R & D Credit Exchange	(7.0)
TOTAL - TAXES - NET	<u>\$13,943.2</u>

OTHER REVENUE

Transfers - Special Revenue	\$310.0
Indian Gaming Payments	346.4
Licenses, Permits, Fees	269.9
Sales of Commodities and Services	36.4
Rents, Fines, Escheats	110.7
Investment Income	2.0
Miscellaneous	160.0
Refunds of Payments	(85.0)
TOTAL - OTHER REVENUE	<u>\$1,150.4</u>

OTHER SOURCES

Federal Grants	\$3,632.8
Transfer from Tobacco Settlement Fund	97.7
Transfers to Other Funds	(142.8)
TOTAL - OTHER SOURCES	<u>\$3,587.7</u>

TOTAL - GENERAL FUND REVENUE \$18,681.3

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2012
As of March 30, 2012

Department of Emergency Services and Public Protection	\$ 1,800,000
Office of the Chief Medical Examiner	200,000
Department of Social Services	93,200,000
Teachers' Retirement Board	2,600,000
Public Defender Services Commission	1,320,000
OSC-Fringe Benefits	95,000,000
OSC-Miscellaneous - Adjudicated Claims	3,500,000
Total	<u>\$ 197,620,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2012
As of March 30, 2012

Unallocated Lapse	\$ -
Unallocated Lapse - Legislative	-
Unallocated Lapse - Judicial	2,545,000
General Personal Services Reduction - Legislative	476,000
General Personal Services Reduction - Executive	11,538,800
General Other Expenses Reduction - Legislative	374,000
General Other Expenses Reduction - Executive	9,066,200
Labor-Management Savings - Legislative	4,586,734
Labor-Management Savings - Executive	590,617,354
Labor-Management Savings - Judicial	27,670,929
February 28, 2012 Rescissions	78,690,872
Office of Legislative Management	4,500,000
Auditors of Public Accounts	650,000
Secretary of the State	110,000
Office of the State Treasurer	170,000
Department of Revenue Services	800,000
Office of Government Accountability	340,000
Office of Policy and Management	1,800,000
OPM - Reserve for Salary Adjustment	85,000,000
Department of Administrative Services	950,000
DAS - Workers' Compensation Claims	250,000
Department of Construction Services	320,000
Office of the Attorney General	350,000
Department of Energy and Environmental Protection	990,000
Department of Public Health	3,450,000
Department of Developmental Services	3,800,000
Department of Mental Health and Addiction Services	5,800,000
State Department of Education	10,750,000
Office of Financial and Academic Affairs for Higher Education	620,000
Department of Children and Families	13,800,000
State Treasurer - Debt Service	75,000,000
Total	<u>\$ 935,015,889</u>

State of Connecticut
2011-12 General Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹	July 2011	August 2011	September 2011	October 2011 ²	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012
REVENUE	\$18,788.6	\$18,788.6	\$18,788.6	\$18,786.0	\$18,777.5	\$18,777.0	\$18,693.9	\$18,693.9	\$18,670.4	\$18,681.3			
Appropriations	19,485.6	19,485.6	19,485.6	19,485.6	19,485.6	19,485.6	19,485.6	19,485.6	19,485.6	19,485.6			
Additional Requirements	0.0	0.0	17.0	33.0	12.0	7.2	107.6	107.6	109.3	197.6			
Less: Estimated Lapses	(777.9)	(777.9)	(792.9)	(808.2)	(799.2)	(799.5)	(900.7)	(935.2)	(936.9)	(935.0)			
TOTAL - Estimated Expenditures	18,707.7	18,707.7	18,709.7	18,710.4	18,698.4	18,693.3	18,692.5	18,658.0	18,658.0	18,748.2	0.0	0.0	0.0
Balance from Operations	80.9	80.9	78.9	75.6	79.1	83.7	1.4	35.9	12.4	(66.9)	0.0	0.0	0.0
Misc. Adjustments/Rounding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Est. Balance 6/30/12 - Budgetary Basis	\$80.9	\$80.9	\$78.9	\$75.6	\$79.1	\$83.7	\$1.4	\$35.9	\$12.4	(\$66.9)	\$0.0	\$0.0	\$0.0
Reserved Balance - GAAP ³	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)	(75.0)			
Est. Balance 6/30/12 - GAAP Basis	\$5.9	\$5.9	\$3.9	\$0.6	\$4.1	\$8.7	(\$73.6)	(\$39.1)	(\$62.6)	(\$141.9)	\$0.0	\$0.0	\$0.0

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.

2. As amended by P.A. 11-1, October Spec. Sess.

3. Up to \$75,000,000 is reserved for GAAP per Sec. 46 of P.A. 11-48, with the balance applied to Economic Recovery Notes per Sec. 511, P.A. 09-3, June Spec. Sess.

Statement 1T
April 20, 2012

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2012
As of March 30, 2012
(In Millions)

	General Assembly <u>Budget Plan</u> ^{1.}	Revised Estimates <u>OPM</u>	Over/ (Under)
Surplus Carried Forward from 2010-11 ^{2.}	\$107.5	\$107.4	(\$0.1)
REVENUE			
Taxes	\$805.8	\$793.0	(\$12.8)
Less: Refunds of Taxes	<u>(7.2)</u>	<u>(7.4)</u>	<u>(0.2)</u>
Taxes - Net	798.6	785.6	(13.0)
Other Revenue	<u>463.9</u>	<u>442.2</u>	<u>(21.7)</u>
TOTAL - Revenue	\$1,262.5	\$1,227.8	(\$34.7)
EXPENDITURES			
Appropriations	\$1,315.4	\$1,315.4	\$0.0
Net Additional Requirements	0.0	0.0	0.0
Less: Estimated Lapses	<u>(53.5)</u>	<u>(90.4)</u>	<u>(36.9)</u>
TOTAL - Expenditures	\$1,261.9	\$1,225.0	(\$36.9)
Balance from Operations	\$0.6	\$2.8	\$2.2
Miscellaneous Adjustments	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Estimated Balance - June 30, 2012	<u>\$108.1</u>	<u>\$110.2</u>	<u>\$2.1</u>

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.

2. Budget plan as estimated by the Office of Policy and Management. Revised estimates per the Comptroller's Sept. 1, 2011 letter.

Statement 2T
April 20, 2012

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2012
As of March 30, 2012
(In Millions)

TAXES

Motor Fuels	\$491.8
Oil Companies	226.9
Sales Tax DMV	<u>74.3</u>
TOTAL - TAXES	793.0
Less: Refunds of Taxes	<u>(7.4)</u>
TOTAL - TAXES - NET	\$785.6

OTHER REVENUE

Motor Vehicle Receipts	\$230.0
Licenses, Permits, Fees	137.5
Interest Income	5.0
Federal Grants	13.1
Transfers (To)/From Other Funds	60.1
Refunds of Payments	<u>(3.5)</u>
TOTAL - OTHER REVENUE	\$442.2

TOTAL - SPECIAL TRANSPORTATION FUND REVENUE \$1,227.8

Statement 3T
April 20, 2012

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2012
As of March 30, 2012

No Additional Requirements
Total

\$	-
\$	-

Statement 4T
April 20, 2012

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2012
As of March 30, 2012

Labor-Management Savings	\$ 42,536,383
Department of Motor Vehicles	650,000
Department of Transportation	12,900,000
OSC - Fringe Benefits	4,300,000
State Treasurer - Debt Service	30,000,000
Total	<u>\$ 90,386,383</u>

State of Connecticut
2011-12 Special Transportation Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹	July 2011	August 2011	September 2011	October 2011	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012
Beginning Balance ²	\$107.5	\$107.5	\$107.4	\$107.4	\$107.4	\$107.4	\$107.4	\$107.4	\$107.4	\$107.4			
Revenue	1,262.5	1,262.5	1,262.5	1,243.7	1,243.7	1,243.7	1,227.8	1,227.8	1,227.8	1,227.8			
Total Available	1,370.0	1,370.0	1,369.9	1,351.1	1,351.1	1,351.1	1,335.2	1,335.2	1,335.2	1,335.2	0.0	0.0	0.0
Appropriations	1,315.4	1,315.4	1,315.4	1,315.4	1,315.4	1,315.4	1,315.4	1,315.4	1,315.4	1,315.4			
Additional Requirements	0.0	0.0	0.0	0.0	0.0	0.0	1.8	0.0	0.0	0.0			
Less: Estimated Lapses	(53.5)	(53.5)	(53.5)	(73.5)	(73.5)	(83.5)	(91.1)	(89.1)	(89.1)	(90.4)			
TOTAL - Estimated Expenditures	1,261.9	1,261.9	1,261.9	1,241.9	1,241.9	1,231.9	1,226.1	1,226.3	1,226.3	1,225.0	0.0	0.0	0.0
Balance from Operations	0.6	0.6	0.6	1.8	1.8	11.8	1.7	1.5	1.5	2.8	0.0	0.0	0.0
Compt's Misc. Adjustments/Rounding	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Estimated Balance 6/30/12	\$108.1	\$108.1	\$108.0	\$109.2	\$109.2	\$119.2	\$109.1	\$108.9	\$108.9	\$110.2	\$0.0	\$0.0	\$0.0

1. P.A. 11-6, as amended by P.A. 11-61 and P.A. 11-1, June Spec. Sess.

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 1, 2011 Letter.