

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

December 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 2013 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 \$299.5 million shortfall in the General Fund on a GAAP basis, and a \$252.0 million shortfall on a budgetary basis, a decrease of \$113 million from the amount reported last month. This change is the result of allotment rescissions announced by the Governor on November 28th totaling \$170.4 million, which had the effect of reducing the deficit by an estimated \$123.1 million. This is offset by a \$10 million increase in estimated expenditures in the Department of Social Services as explained below. Our deficit estimate does not take into account the impact of House Bill 7001, *An Act Concerning Deficit Mitigation for the Fiscal Year Ending June 30, 2013*—the product of bipartisan negotiations between the Governor and legislative leaders—which was overwhelmingly approved yesterday by the General Assembly. The fiscal note produced by the legislature's Office of Fiscal Analysis estimates the savings from this bill and associated administrative actions at \$252.3 million, effectively resolving the deficit for this fiscal year. Note that an updated consensus revenue forecast is due on January 15th which, in combination with updated expenditure trend information, will influence future forecasts.

Revenues

This month's forecast reflects a minor change in revenues. Federal Grant revenues are expected to decrease by a net \$1.7 million as a result of an updated projection of the Medicaid shortfall, as noted below, and the revenue impact from rescissions announced on November 28th. The revenue forecast otherwise remains unchanged from last month and continues to reflect the consensus estimate reached between OPM and OFA on November 9th. We continue to closely watch collections from both the Sales Tax and Indian Gaming payments, both of which remain weaker than anticipated. Note that HB 7001 is expected to result in an increase of \$30.8 million in General Fund revenue, and this impact, along with any other changes, will be reflected in the updated consensus revenue forecast due on January

15th. As we have noted previously, global and national economic concerns, coupled with lack of progress in resolving the federal budget impasse, continue to lend a high level of uncertainty to our revenue forecast.

Expenditures

Overall, expenditures are projected to exceed budgeted appropriations by a total of \$125.3 million, a net decrease of \$114.7 million from last month's forecast. This month's estimate includes \$309.1 million in deficiencies across four agencies, which are partially offset by lapses (including rescissions) which are anticipated to exceed budgeted levels by \$183.8 million.

Projected Deficiencies

First, and most significantly, a net deficiency of \$270 million is anticipated in the Department of Social Services' Medicaid accounts, up \$10 million from the level reported last month. This shortfall is largely due to increased utilization of medical services and increasing caseloads in the Low-Income Adults (LIA) program. A \$5 million shortfall in Personal Services is also projected as a result of hiring staff to process increased applications, as well as re-determinations, for the department's programs. The Department of Correction is anticipated to incur deficiencies totaling \$20 million in its Personal Services and Other Expenses accounts as a result of overly optimistic expenditure assumptions in the enacted budget. Similarly, the Department of Emergency Services and Public Protection is also anticipated to experience shortfalls in its Personal Services and Other Expenses accounts totaling \$13 million due to aggressive budget assumptions. Finally, the Department of Consumer Protection will likely experience a shortfall of \$1.1 million in its Personal Services account as a result of a restructuring of casino staffing reimbursements.

Projected Lapses

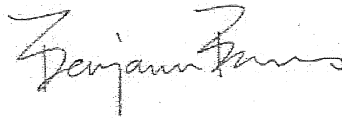
Partially offsetting these shortfalls are several anticipated lapses, which have been adjusted to reflect amounts remaining after rescissions. We continue to anticipate a \$20 million lapse in the Treasurer's debt service accounts attributable to pricing from the fall sale as well as generally favorable market conditions. We are also forecasting lapses totaling \$17.65 million in a variety of accounts in the Department of Children and Families as a result of caseload reductions, \$4.5 million in the Office of Legislative management due to spending trends which are below available appropriations, and \$1.6 million in the Comptroller's fringe benefits accounts attributable to positive trends in healthcare costs for active state employees. Finally, it should be noted that these lapses indicate full achievement of the budgeted unallocated savings target for the Legislative Branch as well as \$27.4 million of the general unallocated lapse target. We continue to assume and fully expect to achieve all remaining lapse targets in the aggregate before year end.

Special Transportation Fund

In the Special Transportation Fund, estimated revenues continue to reflect the November 9th consensus forecast. We continue to project a lapse in the Department of Transportation in the Rail Operations account based on current expenditure trends. New this month is an estimated lapse of \$17.4 million in the Treasurer's debt service account attributable to the December bond sale. This lapse satisfies the unallocated lapse target budgeted for this fund, and results in a net improvement in budgetary balance of \$6.4 million. The fund balance on June 30, 2013 is anticipated to be \$156.1 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 dark ink, appearing to read "Benjamin Barnes", with a stylized, cursive script.

Benjamin Barnes
Secretary

Summary
December 20, 2012

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2013
As of November 30, 2012
(In Millions)

General Fund

Balance - Prior Month		\$	(365.0)
Revenues			
Federal Grants	(1.7)		(1.7)
Expenditures			
Additional Requirements	(15.0)		
Estimated Lapses	129.7		
Miscellaneous Adjustments/Rounding	0.0		114.7
Estimated Balance - June 30, 2013 - Budgetary Basis ¹		\$	(252.0)
Conversion to GAAP			(47.5)
Estimated Balance - June 30, 2013 - GAAP Basis		\$	(299.5)

1. Up to \$50,000,000 of any surplus would, if necessary, be reserved for GAAP per Sec. 4-30c of the General Statutes, with the balance applied to Economic Recovery Notes per Sec. 4-30b of the General Statutes.

Special Transportation Fund

Carry Forward FY 2012 Surplus		\$	145.8
Balance - Prior Month			3.9
Revenues			
No change	0.0		0.0
Expenditures			
Additional Requirements	0.0		
Estimated Lapses	6.4		
Miscellaneous Adjustments/Rounding	0.0		6.4
Estimated Balance - June 30, 2013		\$	156.1

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations, GAAP and Budgetary Bases
Projected to June 30, 2013
As of November 30, 2012
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 15,483.8	\$ 15,350.6	\$ (133.2)
Less: Refunds	(1,075.6)	(1,172.9)	(97.3)
Taxes - Net	\$ 14,408.2	\$ 14,177.7	\$ (230.5)
Other Revenue	1,158.3	1,130.9	(27.4)
Other Sources	3,576.7	3,704.8	128.1
TOTAL Revenue	\$ 19,143.2	\$ 19,013.4	\$ (129.8)
OTHER FINANCING SOURCES			
Prior Year Appropriations Continued to FY 2013		\$ 130.4	\$ 130.4
Current Year Appropriations Continued to FY 2014		-	-
TOTAL Revenue and Other Financing Sources	\$ 19,143.2	\$ 19,143.8	\$ 0.6
EXPENDITURES			
Current Year Appropriations ¹	\$ 19,256.4	\$ 19,256.4	\$ -
Appropriation Revisions		-	-
Prior Year Appropriations Continued to FY 2013		130.4	130.4
TOTAL Initial and Continued Appropriations	\$ 19,256.4	\$ 19,386.8	\$ 130.4
Net Additional Expenditure Requirements		309.1	309.1
Estimated Lapses	(116.3)	(300.1)	(183.8)
Current Year Appropriations Continued to FY 2014		-	-
TOTAL Estimated Expenditures	\$ 19,140.1	\$ 19,395.8	\$ 255.7
Estimated Balance - Budgetary Basis - 6/30/2013 ²	\$ 3.1	\$ (252.0)	\$ (255.1)
CONVERSION TO GAAP			
Changes in Revenue Accruals		\$ (6.8)	\$ (6.8)
Changes in Expenditure Accruals		(40.7)	(40.7)
Changes in Continuing Appropriations		-	-
Net Change in General Fund Balance - GAAP Basis - 6/30/2013		\$ (299.5)	\$ (302.6)

1. P.A. 12-104, as amended by P.A. 12-1, June Spec. Sess.

2. Up to \$50,000,000 of any surplus would, if necessary, be reserved for GAAP per Sec. 4-30c of the General Statutes, with the balance applied to Economic Recovery Notes per Sec. 4-30b of the General Statutes.

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2013
As of November 30, 2012
(In Millions)

	General Assembly <u>Budget Plan</u>	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
TAXES			
Personal Income	\$ 8,554.3	\$ 8,554.3	\$ -
Sales and Use	4,046.0	4,002.3	(43.7)
Corporation	793.0	726.2	(66.8)
Public Service Corporations	275.2	275.2	-
Inheritance and Estate	166.2	166.2	-
Insurance Companies	234.4	237.6	3.2
Cigarettes	411.1	411.1	-
Real Estate Conveyance	100.3	100.3	-
Oil Companies	182.6	167.8	(14.8)
Electric Generation	71.0	70.6	(0.4)
Alcoholic Beverages	59.3	59.3	-
Admissions and Dues	39.6	39.6	-
Health Provider Tax	530.7	520.0	(10.7)
Miscellaneous	20.1	20.1	-
TOTAL - TAXES	\$ 15,483.8	\$ 15,350.6	\$ (133.2)
Less: Refunds of Taxes	(950.6)	(1,050.6)	(100.0)
Earned Income Tax Credit	(116.5)	(116.5)	-
R & D Credit Exchange	(8.5)	(5.8)	2.7
TOTAL - TAXES - NET	\$ 14,408.2	\$ 14,177.7	\$ (230.5)
OTHER REVENUE			
Transfers - Special Revenue	\$ 305.1	\$ 305.1	\$ -
Indian Gaming Payments	336.2	311.6	(24.6)
Licenses, Permits, Fees	258.8	262.8	4.0
Sales of Commodities and Services	34.8	34.8	-
Rents, Fines, Escheats	107.7	107.7	-
Investment Income	2.8	1.0	(1.8)
Miscellaneous	162.9	162.9	-
Refunds of Payments	(50.0)	(55.0)	(5.0)
TOTAL - OTHER REVENUE	\$ 1,158.3	\$ 1,130.9	\$ (27.4)
OTHER SOURCES			
Federal Grants	\$ 3,629.0	\$ 3,761.2	\$ 132.2
Transfer from Tobacco Settlement Fund	93.1	93.1	-
Transfers to Other Funds ¹	(145.5)	(149.5)	(4.1)
TOTAL - OTHER SOURCES	\$ 3,576.7	\$ 3,704.8	\$ 128.1
TOTAL - GENERAL FUND REVENUE	\$ 19,143.2	\$ 19,013.4	\$ (129.8)

1. Assumes transfer of \$15 million from the Budget Reserve Fund per PA 12-104, section 29.

Statement 3
December 20, 2012

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2013
As of November 30, 2012

Department of Emergency Services and Public Protection	\$ 13,000,000
Department of Consumer Protection	1,100,000
Department of Social Services - Medicaid	275,000,000
Department of Correction	20,000,000
Total	<u>\$ 309,100,000</u>

Statement 4
December 20, 2012

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2013
As of November 30, 2012

Unallocated Lapse	\$ 64,300,000
Unallocated Lapse - Legislative	-
Unallocated Lapse - Judicial	7,400,672
General Lapse - Legislative	56,251
General Lapse - Judicial	401,946
General Lapse - Executive	13,785,503
Office of Legislative Management	4,500,000
Department of Children and Families	17,650,000
Office of the State Treasurer - Debt Service	20,000,000
Office of the State Comptroller - Fringe Benefits	1,600,000
November 28, 2012 Rescissions	170,444,693
Total	<u>\$ 300,139,065</u>

State of Connecticut
2012-13 General Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹	July 2012	August 2012	September 2012	October 2012	November 2012	December 2012	January 2013	February 2013	March 2013	April 2013	May 2013	June 2013
REVENUE	\$ 19,143.2	\$ 19,143.2	\$ 19,193.2	\$ 19,160.0	\$ 19,015.1	\$ 19,013.4							
Appropriations	19,256.4	19,256.4	19,256.4	19,256.4	19,256.4	19,256.4							
Additional Requirements	0.0	0.0	100.0	100.0	294.1	309.1							
Less: Estimated Lapses	(116.3)	(116.3)	(136.3)	(136.3)	(170.4)	(300.1)							
TOTAL - Estimated Expenditures	19,140.1	19,140.1	19,220.1	19,220.1	19,380.1	19,265.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	3.1	3.1	(26.9)	(60.1)	(365.0)	(252.0)	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0
Est. Balance 6/30/13 - Budgetary Basis ²	\$ 3.1	\$ 3.1	(\$ 26.9)	(\$ 60.1)	(\$ 365.0)	(\$ 252.0)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Conversion to GAAP		(50.0)	(47.5)	(47.5)	(47.5)	(47.5)							
Est. Balance 6/30/13 - GAAP Basis		(\$ 46.9)	(\$ 74.4)	(\$ 107.6)	(\$ 412.5)	(\$ 299.5)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0

1. P.A. 12-104, as amended by P.A. 12-1, June Spec. Sess.

2. Up to \$50,000,000 of any surplus would, if necessary, be reserved for GAAP per Sec. 4-30c of the General Statutes, with the balance applied to Economic Recovery Notes per Sec. 4-30b of the General Statutes.

Statement 1T
December 20, 2012

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2013
As of November 30, 2012
(In Millions)

	General Assembly <u>Budget Plan</u> ^{1.}	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
Surplus Carried Forward from FY 2012 ^{2.}	\$ 145.3	\$ 145.8	\$ 0.5
REVENUE			
Taxes	\$ 773.3	\$ 772.4	\$ (0.9)
Less: Refunds of Taxes	<u>(7.8)</u>	<u>(7.8)</u>	<u>-</u>
Taxes - Net	765.5	764.6	(0.9)
Other Revenue	<u>468.2</u>	<u>470.0</u>	<u>1.8</u>
TOTAL - Revenue	\$ 1,233.7	\$ 1,234.6	\$ 0.9
EXPENDITURES			
Appropriations	\$ 1,243.7	\$ 1,243.7	\$ -
Net Additional Requirements	-	-	-
Less: Estimated Lapses	<u>(11.0)</u>	<u>(19.4)</u>	<u>(8.4)</u>
TOTAL - Expenditures	\$ 1,232.7	\$ 1,224.3	\$ (8.4)
Balance from Operations	\$ 1.0	\$ 10.3	\$ 9.3
Miscellaneous Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
Estimated Balance - June 30, 2012	<u>\$ 146.3</u>	<u>\$ 156.1</u>	<u>\$ 9.8</u>

1. P.A. 12-104, as amended by P.A. 12-1, June Spec. Sess.

2. Budget plan as estimated by the Office of Policy and Management. Revised estimates per the Comptroller's Sept. 4, 2012 letter.

Statement 2T
December 20, 2012

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2013
As of November 30, 2012
(In Millions)

	General Assembly <u>Budget Plan</u>	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
TAXES			
Motor Fuels	\$ 497.5	\$ 495.8	\$ (1.7)
Oil Companies	199.4	199.4	-
Sales Tax DMV	76.4	77.2	0.8
TOTAL - TAXES	<u>773.3</u>	<u>772.4</u>	<u>(0.9)</u>
Less: Refunds of Taxes	(7.8)	(7.8)	-
TOTAL - TAXES - NET	<u>\$ 765.5</u>	<u>\$ 764.6</u>	<u>\$ (0.9)</u>
OTHER REVENUE			
Motor Vehicle Receipts	\$ 233.4	\$ 235.8	\$ 2.4
Licenses, Permits, Fees	137.9	140.0	2.1
Interest Income	6.0	3.1	(2.9)
Federal Grants	13.1	13.1	-
Transfers (To)/From Other Funds	81.2	81.2	-
Refunds of Payments	(3.4)	(3.2)	0.2
TOTAL - OTHER REVENUE	<u>\$ 468.2</u>	<u>\$ 470.0</u>	<u>\$ 1.8</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	\$ 1,233.7	\$ 1,234.6	\$ 0.9

Statement 3T
December 20, 2012

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2013
As of November 30, 2012

No Additional Requirements
Total

\$	-
\$	-

Statement 4T
December 20, 2012

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2013
As of November 30, 2012

Unallocated Lapses	\$	-
Department of Transportation		2,000,000
OTT - Debt Service		17,400,000
Total	\$	<u>19,400,000</u>

State of Connecticut
2012-13 Special Transportation Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹	July 2012	August 2012	September 2012	October 2012	November 2012	December 2012	January 2013	February 2013	March 2013	April 2013	May 2013	June 2013
Beginning Balance ²	\$ 145.3	\$ 145.3	\$ 145.8	\$ 145.8	\$ 145.8	\$ 145.8							
Revenue	<u>1,233.7</u>	<u>1,233.7</u>	<u>1,233.7</u>	<u>1,231.7</u>	<u>1,234.6</u>	<u>1,234.6</u>							
Total Available	1,379.0	1,379.0	1,379.5	1,377.5	1,380.4	1,380.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations	1,243.7	1,243.7	1,243.7	1,243.7	1,243.7	1,243.7							
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>(13.0)</u>	<u>(13.0)</u>	<u>(19.4)</u>							
TOTAL - Estimated Expenditures	1,232.7	1,232.7	1,232.7	1,230.7	1,230.7	1,224.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	1.0	1.0	1.0	1.0	3.9	10.3	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 6/30/13	\$146.3	\$146.3	\$146.8	\$146.8	\$149.7	\$156.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 12-104, as amended by P.A. 12-1, 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 4, 2012 Letter.