



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

October 19, 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. We are projecting an operating surplus of \$169.9 million, essentially unchanged from last month. Note that my office and the Office of Fiscal Analysis will jointly release a consensus revenue forecast on November 13th, which could materially alter our projections next month.

Revenues

Projected revenues are up by \$3.2 million in aggregate compared to last month. The largest change is in the withholding portion of the Personal Income Tax, up \$67.7 million to reflect better than anticipated collections and a forecasted acceleration in wage growth. This increase is offset by an estimated \$4.5 million decrease in Sales of Commodities, a \$30 million increase in Refunds of Taxes, and a reduction of \$30 million in Licenses, Permits, and Fees as a result of the federal government's recent decision regarding the planned casino in East Windsor that lends uncertainty to collecting the budgeted one-time payment in FY 2019.

Our estimate of the transfer to the Budget Reserve Fund pursuant to the volatility cap is depicted in the table below. We estimate the deposit will be \$648 million in FY 2019, which, when combined with the projected surplus from FY 2019 operations, will increase the state's reserves to over \$2.0 billion by fiscal year end.

	(in millions)
BRF Ending Balance - FY 2018	\$ 1,185.3
Projected Operating Surplus - FY 2019 (10/19 Est.)	169.9
Volatility Cap Deposit - FY 2019 (10/19 Est.)	648.0
Estimated BRF Total - FY 2019	\$ 2,003.2

Expenditures

We are projecting net expenditures will in aggregate exceed the budget plan by \$14.3 million, an increase of \$3.0 million over last month's estimate. An explanation of lapses and deficiencies follows.

Deficiencies. Shortfalls are forecast in the following agencies:

- Department of Emergency Services and Public Protection. A \$2.5 million deficiency is anticipated in Personal Services as a result of higher than anticipated overtime costs.
- Office of the Chief Medical Examiner. A \$300,000 deficiency is expected in Personal Services. The appropriation for FY 2019 is less than FY 2018, expenditures are impacted by overtime, and unbudgeted salary increases were approved by the Commission on Medicolegal Investigations for the Chief Medical Examiner and the Deputy Chief Medical Examiner. These costs are partially offset by the expected receipt of a federal Opioid Surge grant during the current fiscal year.
- Department of Mental Health and Addiction Services. A \$5.0 million deficiency is projected in Personal Services, primarily as a result of overtime and staffing costs at Whiting Forensic Hospital and Connecticut Valley Hospital.
- Office of Early Childhood. A \$14.0 million deficiency is projected in the Care4Kids TANF/CCDF account to reflect spending associated with increased federal Child Care Development Fund receipts.
- Department of Correction. A \$27.0 million shortfall is projected. Personal Services is anticipated to have a \$15.0 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 \$1.0 million over budget, and the Inmate Medical account faces a projected shortfall of \$11.0 million. It should be noted that the enacted 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 bid via RFP. The transition from UConn to DOC will take some time and may entail costs, making achievement of overall savings unlikely before the next biennium.
- Department of Children and Families. A net deficiency of \$5.8 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 \$15.0 million in unappropriated 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.

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:

- Office of Policy and Management. A total of \$3.3 million will lapse, with \$900,000 in the State-Owned PILOT account and \$2.4 million in the Municipal Transition account after all required payments have been made.
- Department of Social Services. A net total of \$32.5 million is projected to lapse. Given favorable expenditure trends, the Medicaid program is expected to end the year \$25.0 million under budget, the Connecticut Home Care Program is projected to lapse \$5.0 million, and the Temporary Family Assistance program is expected to lapse \$2.5 million.
- State Comptroller – Fringe Benefits. A net lapse of \$22.3 million is anticipated and is attributable mainly to lower than anticipated expenditures for Active and Retired State Employee Healthcare as well as recoveries in the Higher Education Alternative Retirement System that exceed the level assumed in the adopted budget.

- Department of Administrative Services – Workers’ Compensation Claims. A \$300,000 lapse is projected as a result of lower than anticipated claims costs during the first quarter of the fiscal year.

Special Transportation Fund

The adopted budget anticipates a \$3.2 million balance from operations. We estimate a \$60.0 million operating surplus, unchanged from last month’s estimate. Projected revenues are unchanged from last month. On the expenditure side, a \$5.5 million lapse in the Treasurer’s Debt Service account and a \$500,000 lapse in DAS’ Workers’ Compensation Claims account are anticipated and will partially satisfy the \$12.0 million unallocated lapse included in the enacted budget. The Transportation Fund balance on June 30, 2019, is projected to be \$305.7 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 nearly \$1.6 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 \$415,423 (\$690,000 in Fringe Benefits, and \$150,423 in Indirect Overhead, partially offset by a \$425,000 lapse in Personal Services);
- 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); and
- In the Workers’ Compensation Fund, the Workers’ Compensation Commission will have a total deficiency of \$979,097 (\$1,330,400 in Fringe Benefits, and \$148,657 in Indirect Overhead, partially offset by a \$500,000 lapse in Personal Services).

If the enacted budget had included appropriation adjustments to accommodate the revised recovery rates, the annual industry assessments in these funds would have reflected the expected costs of oversight and regulatory functions of the affected agencies. Because of the various statutory provisions applicable to the process and timing of industry assessments, it is unlikely that deficiency appropriations in FY 2019 could be offset via adjusted assessments late in the fiscal year; appropriations unmatched by revenue will therefore impact the cumulative balances of these funds.

As the year progresses, the estimates offered by my office will continue to be revised to reflect the impact of changes in the economy, expenditure patterns, and/or other factors.

Sincerely,



Benjamin Barnes
Secretary

Summary
October 19, 2018

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

General Fund

Balance from Operations - Prior Month		\$	169.7
Revenues			
Personal Income Tax - Withholding	67.7		
Refunds of Taxes	(30.0)		
Licenses, Permits and Fees	(30.0)		
Sales of Commodities	<u>(4.5)</u>		3.2
Expenditures			
Additional Requirements	(19.1)		
Estimated Lapses	16.1		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>(3.0)</u>
Estimated Balance from Operations - June 30, 2019		\$	<u>169.9</u>

Special Transportation Fund

Fund Balance as of June 30, 2018		\$	245.7
Balance from Operations - Prior Month			60.0
Revenues			
No Changes	<u>0.0</u>		0.0
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, 2019		\$	<u>305.7</u>

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

	General Assembly Budget Plan ^{1.}	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 17,202.1	\$ 17,732.1	\$ 530.0
Less: Refunds	(1,339.8)	(1,369.8)	(30.0)
Taxes - Net	\$ 15,862.3	\$ 16,362.3	\$ 500.0
Other Revenue	1,208.6	1,167.2	(41.4)
Other Sources	1,937.8	1,652.9	(284.9)
TOTAL Revenue	\$ 19,008.7	\$ 19,182.4	\$ 173.7
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		54.6	54.6
Estimated Appropriations Lapsed	(21.5)	(76.8)	(55.3)
Estimated Appropriations to be Continued to FY 2020 ^{2.}		-	-
TOTAL Estimated Expenditures	\$ 18,998.2	\$ 19,123.3	\$ 125.1
Net Change in Fund Balance - Continuing Appropriations		(125.8)	(125.8)
Miscellaneous Adjustments/Rounding		(15.0)	(15.0)
Net Change in Unassigned Fund Balance - 6/30/2019	\$ 10.5	\$ 169.9	\$ 159.4

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 September 30, 2018
(In Millions)

	General Assembly Budget Plan ^{1.}	Revised Estimates OPM	Over/ (Under)
TAXES			
Personal Income - Withholding	\$ 6,147.7	\$ 6,312.3	\$ 164.6
Personal Income - Estimates and Finals	2,959.9	3,244.8	284.9
Sales and Use	4,153.6	4,211.9	58.3
Corporation	920.2	968.1	47.9
Pass-through Entity Tax	600.0	600.0	-
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	\$ 17,732.1	\$ 530.0
Less: Refunds of Taxes	(1,215.1)	(1,245.1)	(30.0)
Earned Income Tax Credit	(118.3)	(118.3)	-
R & D Credit Exchange	(6.4)	(6.4)	-
TOTAL - TAXES - NET	\$ 15,862.3	\$ 16,362.3	\$ 500.0
OTHER REVENUE			
Transfers - Special Revenue	\$ 352.7	\$ 349.7	\$ (3.0)
Indian Gaming Payments	203.6	203.6	-
Licenses, Permits, Fees	322.6	292.6	(30.0)
Sales of Commodities and Services	37.7	29.5	(8.2)
Rents, Fines, Escheats	147.2	155.0	7.8
Investment Income	14.5	25.0	10.5
Miscellaneous	189.1	174.1	(15.0)
Refunds of Payments	(58.8)	(62.3)	(3.5)
TOTAL - OTHER REVENUE	\$ 1,208.6	\$ 1,167.2	\$ (41.4)
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 ^{2.}	(363.1)	(648.0)	(284.9)
TOTAL - OTHER SOURCES	\$ 1,937.8	\$ 1,652.9	\$ (284.9)
TOTAL - GENERAL FUND REVENUE	\$ 19,008.7	\$ 19,182.4	\$ 173.7

1. Sec. 27 of P.A. 18-81 as amended by P.A. 18-49. For clarity, OPM has modified this exhibit to separate revenue from the new Pass-through Entity Tax from the Corporation Tax, as the former is a component of the volatility cap.

2. The volatility cap for FY 2019 is \$3,196.8 million. Total revenue from the Estimates and Finals portion of the Personal Income Tax and the Pass-through Entity Tax that exceeds the volatility cap will be deposited into the Budget Reserve Fund.

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

Department of Emergency Services and Public Protection	\$	2,500,000
Office of the Chief Medical Examiner		300,000
Department of Mental Health and Addiction Services		5,000,000
Office of Early Childhood		14,000,000
Department of Correction		27,000,000
Department of Children and Families		5,800,000

Total	\$	<u>54,600,000</u>
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State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2019
As of September 30, 2018

Unallocated Lapse	\$ 6,391,080
Unallocated Lapse - Judicial	5,000,000
Statewide Hiring Reduction - Executive	7,000,000
Office of Policy and Management	3,300,000
Department of Social Services	32,500,000
OSC - Fringe Benefits	22,300,000
DAS - Workers' Compensation Claims	300,000
Total	<u>\$ 76,791,080</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	\$ 19,179.2	\$ 19,182.4									
Appropriations	19,019.7	19,019.7	19,019.7	19,019.7									
Additional Requirements	0.0	31.5	35.5	54.6									
Less: Estimated Lapses	<u>(21.5)</u>	<u>(27.5)</u>	<u>(60.7)</u>	<u>(76.8)</u>									
TOTAL - Estimated Expenditures	18,998.2	19,023.7	18,994.5	18,997.5	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	184.7	184.9	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>(10.0)</u>	<u>(15.0)</u>	<u>(15.0)</u>									
Est. Balance from Operations - 6/30/19	\$10.5	\$137.9	\$169.7	\$169.9	\$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 September 30, 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	\$ 245.7	\$ 21.7
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>	<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>	<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>\$ 305.7</u>	<u>\$ 78.5</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 September 30, 2018
(In Millions)

	General Assembly Budget Plan ^{1.}	Revised Estimates OPM	Over/ (Under)
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	1,227.3	1,278.1	50.8
Less: Refunds of Taxes	(14.6)	(13.7)	0.9
TOTAL - TAXES - NET	\$ 1,212.7	\$ 1,264.4	\$ 51.7
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	(4.6)	(5.0)	(0.4)
TOTAL - OTHER REVENUE	\$ 407.8	\$ 412.9	\$ 5.1
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	\$ 1,620.5	\$ 1,677.3	\$ 56.8

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

Statement 3T
October 19, 2018

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

No additional requirements	\$ -
Total	<u>\$ -</u>

Statement 4T
October 19, 2018

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

Unallocated Lapse	\$ 6,000,000
OTT - Debt Service	5,500,000
DAS - Workers' Compensation Claims	500,000
 Total	 <u>\$ 12,000,000</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	\$ 245.7	\$ 245.7									
Revenue	<u>1,620.5</u>	<u>1,677.3</u>	<u>1,677.3</u>	<u>1,677.3</u>									
Total Available	1,844.5	1,901.3	1,923.0	1,923.0	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	1,629.3	1,629.3									
Additional Requirements	0.0	0.0	0.0	0.0									
Less: Estimated Lapses	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>									
TOTAL - Estimated Expenditures	1,617.3	1,617.3	1,617.3	1,617.3	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	60.0	60.0	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>	<u>0.0</u>	<u>0.0</u>									
Estimated Balance 6/30/19	\$227.2	\$284.0	\$305.7	\$305.7	\$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. August per communications with the Office of the State Comptroller.