



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

January 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 2018. Information regarding the Special Transportation Fund is also presented here due to the significant nature of this fund.

General Fund

We are projecting a deficit from operations of \$240.2 million, up \$17.7 million from last month. This change is due primarily to revised revenues resulting from the consensus revenue forecast reached by my office and the Office of Fiscal Analysis on January 16th. The Governor presented a deficit mitigation plan to the General Assembly on December 13, 2017.

Revenues

Estimated revenues have been revised downward by a net \$16.0 million from the level reported last month, reflective of the January 16th consensus forecast. The largest positive revision is in the Estimates and Finals component of the Personal Income Tax, up \$675.0 million as collections related to January 15th estimated payments will significantly exceed our target by a projected \$1.2 billion. Two factors contributed to this overage relative to target. First, taxpayers sought to maximize their federal tax deduction for state income taxes paid in calendar year 2017 prior to the expiration of the uncapped state and local tax deduction as part of the recently passed federal tax reform package. Overages attributed to this factor are believed to represent an acceleration of tax payments that would have occurred in April, and we have therefore reduced our April collection target by more than \$500 million. Second, one-time payments were received under Section 457A of the Internal Revenue Code, a federal law enacted in October 2008 that required hedge fund managers to bring overseas profits back into the United States by the end of 2017. Overages related to this second factor were not an acceleration, but instead reflected taxable activity from a prior period that had not been budgeted and thus increase our forecast by \$675.0 million.

Of note is that \$664.9 million of the total increase discussed above is slated to be transferred to the Budget Reserve Fund pursuant to the revenue volatility cap enacted last fall. Section 704 of Public Act 17-2, June Spec. Sess., requires that Estimates and Finals collections in excess of \$3.15 billion be transferred to the Budget Reserve Fund (BRF). Although actual receipts have yet to reach the \$3.15 billion figure, the consensus forecast projects that collections will do so prior to the end of the fiscal year and that the overage will be deposited to the BRF as required by the new law. It should be noted that with the projected transfer of \$664.9 million to the BRF, and assuming the legislature takes action to address the projected deficit without utilizing resources from these reserves, the balance in the reserve would reach \$877.8 million, equivalent to 4.6% of General Fund expenditures.

Estimated Inheritance & Estate revenues have also been revised upward by \$20.0 million as collections continue to outperform expectations. Federal Grants estimates have been revised downward by \$39.7 million due to additional requirements to cover the federal share of medical services and a further delay from April to July in implementing changes to the Medicare Savings Program. All other revenue changes net to a negative \$6.4 million.

Expenditures

In aggregate, expenditures are estimated to be \$29.7 million above the budget plan. Additional requirements (deficiencies) total \$37.0 million, and \$22.0 million in claims will be paid from the resources of the General Fund. Anticipated lapses total \$29.3 million beyond the budget plan.

Deficiencies. Shortfalls are forecast in the following agencies:

- Division of Criminal Justice. A \$400,000 shortfall is anticipated in the Personal Services account.
- Department of Emergency Services and Public Protection. A \$3.0 million shortfall is projected in Personal Services due to overtime costs.
- Department of Energy and Environmental Protection. A \$2.45 million shortfall is projected in the Environmental Conservation account for operation of state parks through June. The enacted budget specifies that moneys in the Passport to the Parks account may be expended only pursuant to an appropriation by the General Assembly, but no appropriations were provided therefor.
- Office of the Chief Medical Examiner. A shortfall of \$170,000 is projected in Personal Services due to anticipated hiring of additional pathology staff to address caseloads.
- Department of Correction. A total shortfall of \$10.0 million is anticipated, with \$8.0 million in Personal Services and \$2.0 million in Other Expenses. Budgeted funds for this agency are insufficient to support current staffing and operating costs.
- Department of Children and Families. Net costs for additional social work staff and contractual services required for compliance with the recent court order related to the Juan F. consent decree will exceed available resources by approximately \$12.4 million.
- Public Defender Services Commission. A \$250,000 shortfall is estimated in the Personal Services account.
- State Comptroller – Fringe Benefits. A net \$8.3 million shortfall is anticipated due to cost trends in healthcare costs for retired state employees.

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

- Office of Policy and Management. Approximately \$5.1 million will remain unspent in the Municipal Transition account.
- Department of Administrative Services. A \$2 million lapse in the Personal Services account is projected due to reduced hiring.
- Department of Social Services. A net lapse of \$37 million is anticipated in the Medicaid program based on current expenditure trends. This figure includes delaying implementation of budgeted Medicare Savings Program changes until the end of the fiscal year.
- Teachers' Retirement Board. \$19.4 million will lapse due to the revised valuation of the Teachers' Retirement Fund adopted pursuant to sections 559 and 587 of Public Act 17-2, June Spec. Sess.

Balance is also impacted by \$22.0 million in estimated requirements for Adjudicated Claims, largely related to payments and attorneys' fees for the SEBAC v. Rowland settlement. Existing law requires that such payments be made from the resources of the General Fund.

In addition to these known shortfalls, achievement of the significant level of lapses included in the adopted budget has proven challenging and will likely lead to Finance Advisory Committee transfers and potentially a need for deficiency appropriations before the end of the fiscal year.

We also note that the federal government has so far failed to reauthorize funding for the Children's Health Insurance Program (CHIP), known in Connecticut as HUSKY B. While temporary funding distributions will likely allow for program continuation through March, there continue to be no assurances of ongoing federal support. If this program is not fully reauthorized and federal support ends as of March, not only will more than 17,000 children and youths lose health insurance coverage, but services currently reimbursed by the federal government at the enhanced CHIP matching rate will be reduced to the regular Medicaid matching rate, resulting in additional state costs of \$10 million in FY 2018, and over \$40 million on an annualized basis.

Special Transportation Fund

We project that the Special Transportation Fund will end the year with an operating surplus of \$56.9 million, and that the fund balance as of June 30, 2018, will be \$154.5 million. Transportation Fund revenues have been revised downward by \$0.2 million, reflective of the January 16th consensus forecast. Expenditure trends are improved over last month by a net \$13.6 million. In addition to \$22.3 million withheld from fringe benefits and agency personal services accounts as a result of savings attributable to the 2017 labor agreement, a \$31.4 million lapse is anticipated in debt service as a result of deferral of the bond sale until February of this fiscal year. These lapses will more than fulfill the \$12 million unallocated lapse budgeted for the Transportation Fund. A net shortfall, after transfers, of \$24.6 million is anticipated in the Department of Transportation's Rail Operations account after deficit mitigation actions undertaken by the agency, and a \$3.5 million shortfall is projected in the fringe benefit accounts administered by the Comptroller due to healthcare cost trends for active state employees.

The foregoing information represents the best forecast that can be made at this time, and future estimates will differ as a result of changes in the economy, expenditure patterns, and/or other factors as the year progresses.

Sincerely,



Benjamin Barnes
Secretary

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2018
As of December 31, 2017
(In Millions)

General Fund

Balance from Operations - Prior Month		\$	(222.5)
Revenues			
January 16, 2018, Consensus Revenue change (net)	<u>(16.0)</u>		(16.0)
Expenditures			
Additional Requirements	(3.7)		
Estimated Lapses	4.0		
Miscellaneous Adjustments/Rounding	<u>(2.0)</u>		(1.7)
Estimated Balance from Operations - June 30, 2018		\$	<u>(240.2)</u>

Special Transportation Fund

Fund Balance as of June 30, 2017		\$	97.6
Balance from Operations - Prior Month			43.5
Revenues			
January 16, 2018, Consensus Revenue change (net)	<u>(0.2)</u>		(0.2)
Expenditures			
Additional Requirements	(28.1)		
Estimated Lapses	41.7		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		13.6
Estimated Fund Balance - June 30, 2018		\$	<u>154.5</u>

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2018
As of December 31, 2017
(In Millions)

	General Assembly Budget Plan ¹	Revised Estimates OPM	Over/ (Under)
REVENUE			
Taxes	\$ 16,818.5	\$ 17,355.9	\$ 537.4
Less: Refunds	(1,269.1)	(1,213.2)	55.9
Taxes - Net	\$ 15,549.4	\$ 16,142.7	\$ 593.3
Other Revenue	1,253.8	1,258.6	4.8
Other Sources	1,936.1	1,078.3	(857.8)
TOTAL Revenue	\$ 18,739.3	\$ 18,479.6	\$ (259.7)
EXPENDITURES			
Initial Current Year Appropriations	\$ 19,571.7	\$ 19,571.7	\$ -
Prior Year Appropriations Continued to FY 2018 ²		60.2	60.2
TOTAL Initial and Continued Appropriations	\$ 19,571.7	\$ 19,631.9	\$ 60.2
Appropriation Adjustments	-	-	-
TOTAL Adjusted Appropriations	\$ 19,571.7	\$ 19,631.9	\$ 60.2
Net Additional Expenditure Requirements		37.0	37.0
Estimated Appropriations Lapsed	(881.6)	(910.9)	(29.3)
Estimated Appropriations to be Continued to FY 2019		-	-
TOTAL Estimated Expenditures	\$ 18,690.1	\$ 18,758.0	\$ 67.9
Net Change in Fund Balance - Continuing Appropriations		(60.2)	(60.2)
Miscellaneous Adjustments/Rounding		(22.0)	(22.0)
Net Change in Unassigned Fund Balance - 6/30/2018	\$ 49.2	\$ (240.2)	\$ (289.4)

1. P.A. 17-2, June Special Session, as amended by P.A. 17-4, June Special Session.

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

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2018
As of December 31, 2017
(In Millions)

	General Assembly Budget Plan ^{1.}	Revised Estimates OPM	Over/ (Under)
TAXES			
Personal Income	\$ 9,182.5	\$ 9,768.1	\$ 585.6
Sales and Use Corporation	4,220.5	4,150.9	(69.6)
Public Service Corporations	933.3	933.3	-
Inheritance and Estate	284.9	266.9	(18.0)
Insurance Companies	180.1	230.1	50.0
Cigarettes	230.6	230.6	-
Real Estate Conveyance	394.2	394.2	-
Alcoholic Beverages	215.6	203.1	(12.5)
Admissions and Dues	62.6	62.6	-
Health Provider Tax	41.5	40.6	(0.9)
Miscellaneous	1,045.0	1,047.8	2.8
TOTAL - TAXES	\$ 16,818.5	\$ 17,355.9	\$ 537.4
Less: Refunds of Taxes	(1,146.8)	(1,091.5)	55.3
Earned Income Tax Credit	(115.0)	(115.0)	-
R & D Credit Exchange	(7.3)	(6.7)	0.6
TOTAL - TAXES - NET	\$ 15,549.4	\$ 16,142.7	\$ 593.3
OTHER REVENUE			
Transfers - Special Revenue	\$ 339.3	\$ 339.3	\$ -
Indian Gaming Payments	267.3	272.3	5.0
Licenses, Permits, Fees	309.6	308.3	(1.3)
Sales of Commodities and Services	43.8	37.8	(6.0)
Rents, Fines, Escheats	143.0	157.1	14.1
Investment Income	5.9	8.0	2.1
Miscellaneous	207.4	193.3	(14.1)
Refunds of Payments	(62.5)	(57.5)	5.0
TOTAL - OTHER REVENUE	\$ 1,253.8	\$ 1,258.6	\$ 4.8
OTHER SOURCES			
Federal Grants	\$ 1,766.3	\$ 1,567.8	\$ (198.5)
Transfer from Tobacco Settlement Fund	109.7	109.7	-
Transfers From/(To) Other Funds	60.1	65.7	5.6
Transfers to BRF - Volatility Adjustment	-	(664.9)	(664.9)
TOTAL - OTHER SOURCES	\$ 1,936.1	\$ 1,078.3	\$ (857.8)
TOTAL - GENERAL FUND REVENUE	\$ 18,739.3	\$ 18,479.6	\$ (259.7)

1. Secs. 696 and 717 of P.A. 17-2, June Special Session, as amended by P.A. 17-4, June Special Session.

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2018
As of December 31, 2017

Division of Criminal Justice	\$	400,000
Department of Emergency Management and Public Protection		3,000,000
Department of Energy and Environmental Protection		2,450,000
Office of the Chief Medical Examiner		170,000
Department of Correction		10,000,000
Department of Children and Families		12,400,000
Public Defender Services Commission		250,000
OSC - Fringe Benefits		8,300,000
Total	\$	<u>36,970,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2018
As of December 31, 2017

Unallocated Lapse ¹ .	\$ 42,250,000
Unallocated Lapse - Legislative ¹ .	1,000,000
Unallocated Lapse - Judicial ¹ .	358,533
Statewide Hiring Reduction	6,487,714
Targeted Savings	111,299,810
Reflect Delay	8,200,000
Achieve Labor Concessions	669,537,104
Municipal Contribution to Renters' Rebate Program	8,285,113
Office of Policy and Management	5,055,686
Department of Administrative Services	2,000,000
Department of Social Services	37,000,000
Teachers' Retirement Board	19,396,000
Total	<u>\$ 910,869,960</u>

1. Allocable pursuant to Public Act 17-2, June Special Session, Section 13.

State of Connecticut
FY 2018 General Fund
Monthly Summary of Operations
(In Millions)

	Budget Plan ¹ .	July 2017 ² .	August 2017 ² .	September 2017 ² .	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018
REVENUE	\$ 18,739.3	\$ 17,160.0	\$ 17,160.0	\$ 17,160.0	\$ 18,512.3	\$ 18,495.6	\$ 18,479.6						
Appropriations	19,571.7	17,253.9	17,253.9	17,253.9	19,571.7	19,571.7	19,571.7						
Additional Requirements	0.0	0.0	0.0	0.0	10.0	33.3	37.0						
Less: Estimated Lapses	<u>(881.6)</u>	<u>(6.9)</u>	<u>(6.9)</u>	<u>(6.9)</u>	<u>(881.6)</u>	<u>(906.9)</u>	<u>(910.9)</u>						
TOTAL - Estimated Expenditures	18,690.1	17,247.0	17,247.0	17,247.0	18,700.1	18,698.1	18,697.8	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	49.2	(87.0)	(87.0)	(87.0)	(187.8)	(202.5)	(218.2)	0.0	0.0	0.0	0.0	0.0	0.0
Misc. Adjustments/Rounding	<u>0.0</u>	<u>(6.9)</u>	<u>(6.9)</u>	<u>(6.9)</u>	<u>(15.0)</u>	<u>(20.0)</u>	<u>(22.0)</u>						
Est. Balance from Operations - 6/30/18	\$49.2	(\$93.9)	(\$93.9)	(\$93.9)	(\$202.8)	(\$222.5)	(\$240.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 17-2, June Special Session, as amended by P.A. 17-4, June Special Session.

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2018
As of December 31, 2017
(In Millions)

	General Assembly <u>Budget Plan</u> ^{1.}	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
Fund Balance as of June 30, 2017	\$ 97.6	\$ 97.6	\$ -
REVENUE			
Taxes	\$ 1,192.9	\$ 1,167.5	\$ (25.4)
Less: Refunds of Taxes	<u>(12.6)</u>	<u>(13.9)</u>	<u>(1.3)</u>
Taxes - Net	1,180.3	1,153.6	(26.7)
Other Revenue	<u>412.3</u>	<u>400.6</u>	<u>(11.7)</u>
TOTAL - Revenue	\$ 1,592.6	\$ 1,554.2	\$ (38.4)
EXPENDITURES			
Appropriations	\$ 1,522.9	\$ 1,522.9	\$ -
Prior Year Appropriations Continued to FY 2018 ^{2.}		30.4	30.4
TOTAL Initial and Continued Appropriations	\$ 1,522.9	\$ 1,553.3	\$ 30.4
Appropriation Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL Adjusted Appropriations	\$ 1,522.9	\$ 1,553.3	\$ 30.4
Net Additional Expenditure Requirements		28.1	28.1
Estimated Appropriations Lapsed	(12.0)	(53.7)	(41.7)
Estimated Appropriations to be Continued to FY 2019		<u>-</u>	<u>-</u>
TOTAL Estimated Expenditures	\$ 1,510.9	\$ 1,527.7	\$ 16.8
Net Change in Fund Balance - Continuing Appropriations		(30.4)	(30.4)
Miscellaneous Adjustments/Rounding		-	-
Net Change in Unassigned Fund Balance - FY 2018	\$ 81.7	\$ 56.9	\$ (24.8)
Estimated Fund Balance - June 30, 2018	<u>\$ 179.3</u>	<u>\$ 154.5</u>	<u>\$ (24.8)</u>

1. P.A. 17-2, June Special Session, as amended by P.A. 17-4, June Special Session.

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

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2018
As of December 31, 2017
(In Millions)

	<u>General Assembly Budget Plan ¹.</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
TAXES			
Motor Fuels	\$ 505.3	\$ 501.4	\$ (3.9)
Oil Companies	271.8	256.7	(15.1)
Sales & Use Tax	327.8	323.4	(4.4)
Sales Tax DMV	88.0	86.0	(2.0)
TOTAL - TAXES	<u>1,192.9</u>	<u>1,167.5</u>	<u>(25.4)</u>
Less: Refunds of Taxes	<u>(12.6)</u>	<u>(13.9)</u>	<u>(1.3)</u>
TOTAL - TAXES - NET	<u>\$ 1,180.3</u>	<u>\$ 1,153.6</u>	<u>\$ (26.7)</u>
OTHER REVENUE			
Motor Vehicle Receipts	\$ 251.8	\$ 247.2	\$ (4.6)
Licenses, Permits, Fees	144.4	141.5	(2.9)
Interest Income	9.5	9.5	-
Federal Grants	12.1	12.1	-
Transfers (To)/From Other Funds	(5.5)	(5.5)	-
Refunds of Payments	<u>-</u>	<u>(4.2)</u>	<u>(4.2)</u>
TOTAL - OTHER REVENUE	<u>\$ 412.3</u>	<u>\$ 400.6</u>	<u>\$ (11.7)</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	<u>\$ 1,592.6</u>	<u>\$ 1,554.2</u>	<u>\$ (38.4)</u>

1. Sec. 718 of P.A. 17-2, June Special Session, as amended by P.A. 17-4, June Special Session.

Statement 3T
January 19, 2018

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2018
As of December 31, 2017

Department of Transportation	\$ 24,600,000
OSC - Fringe Benefits	3,500,000
Total	<u>\$ 28,100,000</u>

Statement 4T
January 19, 2018

State of Connecticut
Special Transportation Fund
Estimated Lapses
Projected to June 30, 2018
As of December 31, 2017

Achieve Labor Concessions	\$ 22,256,912
OTT - Debt Service	31,400,000
Total	<u><u>\$ 53,656,912</u></u>

State of Connecticut
FY 2018 Special Transportation Fund
Monthly Summary of Operations
(In Millions)

	Budget Plan ^{1.}	July 2017 ^{3.}	August 2017 ^{3.}	September 2017 ^{3.}	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018	April 2018	May 2018	June 2018
Beginning Balance ^{2.}	\$ 97.6	\$ 102.9	\$ 97.6	\$ 97.6	\$ 97.6	\$ 97.6	\$ 97.6						
Revenue	<u>1,592.6</u>	<u>1,564.4</u>	<u>1,564.4</u>	<u>1,564.4</u>	<u>1,554.4</u>	<u>1,554.4</u>	<u>1,554.2</u>						
Total Available	1,690.2	1,667.3	1,662.0	1,662.0	1,652.0	1,652.0	1,651.8	0.0	0.0	0.0	0.0	0.0	0.0
Appropriations	1,522.9	1,532.0	1,532.0	1,532.0	1,522.9	1,522.9	1,522.9						
Additional Requirements	0.0	0.0	0.0	0.0	0.0	0.0	28.1						
Less: Estimated Lapses	<u>(12.0)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(53.7)</u>						
TOTAL - Estimated Expenditures	1,510.9	1,532.0	1,532.0	1,532.0	1,510.9	1,510.9	1,497.3	0.0	0.0	0.0	0.0	0.0	0.0
Balance from Operations	81.7	32.4	32.4	32.4	43.5	43.5	56.9	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>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>						
Estimated Balance 6/30/18	\$179.3	\$135.3	\$130.0	\$130.0	\$141.1	\$141.1	\$154.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

1. P.A. 17-2, June Special Session, as amended by P.A. 17-4, June Special Session.

2. Months of July and August as estimated by the Office of Policy and Management. Budget plan and September and thereafter per the Comptroller's September 29, 2017, letter.

3. July, August and September represent results as compared to the Governor's Executive Order Resource Allocation Plan, August 18, 2017; revenues are consistent with the May 1, 2017, consensus revenue forecast issued pursuant to CGS 2-36c, as modified by P.A. 17-51 and Executive Order 58.