



# STATE OF CONNECTICUT

## OFFICE OF POLICY AND MANAGEMENT

December 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. We are projecting an operating surplus of \$242.4 million, down \$12.5 million from last month. Revenues have increased by \$6.5 million, while expenditures have also increased by \$19.0 million, primarily due to a revised estimate of Adjudicated Claims requirements.

Our forecast of the transfer to the Budget Reserve Fund pursuant to the statutory 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 nearly \$2.1 billion by fiscal year-end.

	(in millions)
BRF Ending Balance - FY 2018	\$ 1,185.3
Projected Operating Surplus - FY 2019 (12/20/18 Est.)	242.4
Volatility Cap Deposit - FY 2019 (12/20/18 Est.)	<u>648.0</u>
Estimated BRF Total - FY 2019	\$ 2,075.7

### Revenues

Projected revenues have been revised upward by a net \$6.5 million. Our estimate for the Corporation Tax is up \$30.8 million over last month's forecast in recognition of higher than expected collections so far this year. This revision is offset by a \$4.3 million reduction in the Insurance Companies Tax and a \$20 million increase in refunds of taxes. While no change is reflected in this forecast, collections from the withholding component of the Personal Income Tax continue to exceed our targets. As always, the month of April, when final income tax payments are received, is the most significant collection period for the state. The next consensus revenue forecast is due January 15<sup>th</sup>, and any revisions in estimated revenue will be incorporated into next month's forecast.

### Expenditures

We are projecting net expenditures will, in aggregate, exceed the budget plan by \$35.3 million, an increase of \$19.0 million over last month's estimate. An explanation of lapses and deficiencies follows.

*Deficiencies.* Projected shortfalls are forecast in the following agencies:

- Department of Emergency Services and Public Protection. A \$2.6 million deficiency is anticipated in Personal Services as a result of higher than anticipated overtime costs.
- 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 \$32.0 million shortfall is projected. Personal Services is anticipated to have a \$13.0 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 \$3.0 million over budget, and the Inmate Medical account faces a projected shortfall of \$16.0 million related to the transition of services from the UConn Health Center to in-house and contracted alternatives.
- Department of Children and Families. A net deficiency of \$4.4 million is projected across a variety of accounts. This shortfall is due to three 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 in part requires adequate support for community-based programming to address service needs in order to implement the Exit Plan's outcome measures; 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; and 3.) the need to support unanticipated other expenses to implement corrective actions at the Solnit Children's Center.

Additionally, we project \$40.0 million in unappropriated expenditures for Adjudicated Claims, up \$20.0 million from last month. 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, including those related to settlement of *SEBAC v. Rowland*.

*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:

- Department of Revenue Services. A lapse of \$300,000 is expected in Personal Services due to vacancies.
- 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 Administrative Services. A total of \$900,000 will lapse, with \$500,000 in Personal Services due to vacancies and \$400,000 in the Firefighters Fund.
- Department of Consumer Protection. The Personal Services account will lapse \$250,000 due to vacancies.
- Department of Housing. The Housing/Homeless account will lapse \$1.2 million due primarily to a slower than budgeted pace of placements under the Money Follows the Person initiative.
- Department of Public Health. A lapse of \$600,000 is expected in Personal Services due largely to vacancies.
- Department of Social Services. A net total of \$40.0 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 \$7.0 million, and the Temporary Family Assistance program is expected to lapse \$8.0 million.

- Department of Education. Based on enrollment estimates, the Charter Schools account will lapse \$400,000.
- Judicial Department. A lapse of \$1.2 million is forecast in Personal Services due to vacancies.
- State Comptroller – Fringe Benefits. A net lapse of \$17.7 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.

### **Special Transportation Fund**

The adopted budget anticipates a \$3.2 million balance from operations. We estimate a \$66.3 million operating surplus. 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. Expenditures for Active State Employee Healthcare are anticipated to exceed budgeted levels by \$1.0 million. Our revenue estimate is unchanged from last month. We project the Transportation Fund will have a \$312.0 million balance on June 30, 2019.

### **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 more than \$1.6 million because the enacted budget did not include technical adjustments to fringe benefit and indirect overhead appropriations to match the recovery rates established by your office. As a result the following deficiencies are expected:

- In the Banking Fund, the Department of Banking is underfunded by \$324,423 (\$719,000 in Fringe Benefits, and \$150,423 in Indirect Overhead, partially offset by a \$545,000 lapse in Personal Services);
- In the Insurance Fund, the Department of Insurance is underfunded by a net total of \$1,005,099 (a \$1,200,000 shortfall 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 net deficiency of \$289,657 (\$1,041,400 in Fringe Benefits, and \$148,657 in Indirect Overhead, offset by a \$900,000 lapse in Personal Services).

Because of the various statutory provisions applicable to the process and timing of industry assessments that support these funds, it is unlikely that deficiency appropriations in FY 2019 could be offset via adjusted assessments late in the fiscal year; appropriations unmatched by revenue are therefore expected to impact the cumulative balances of these funds.

This is my last forecast as Secretary of the Office of Policy and Management. As the year progresses, the estimates offered by my successor will undoubtedly reflect the impact of any changes in the economy, expenditure patterns, and/or other factors.

Sincerely,



Benjamin Barnes  
Secretary

Summary  
December 20, 2018

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

**General Fund**

Balance from Operations - Prior Month		\$	254.9
Revenues			
Corporation Tax	30.8		
Insurance Companies Tax	(4.3)		
Refunds of Taxes	<u>(20.0)</u>		6.5
Expenditures			
Additional Requirements	(3.4)		
Estimated Lapses	4.4		
Miscellaneous Adjustments/Rounding	<u>(20.0)</u>		<u>(19.0)</u>
Estimated Balance from Operations - June 30, 2019		\$	<u>242.4</u>

**Special Transportation Fund**

Fund Balance as of June 30, 2018		\$	245.7
Balance from Operations - Prior Month			67.3
Revenues			
No Changes	<u>0.0</u>		0.0
Expenditures			
Additional Requirements	(1.0)		
Estimated Lapses	0.0		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>(1.0)</u>
Estimated Fund Balance - June 30, 2019		\$	<u>312.0</u>

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

	General Assembly Budget Plan <sup>1</sup>	Revised Estimates OPM	Over/ (Under)
<b>REVENUE</b>			
Taxes	\$ 17,202.1	\$ 17,855.6	\$ 653.5
Less: Refunds	(1,339.8)	(1,407.9)	(68.1)
Taxes - Net	\$ 15,862.3	\$ 16,447.7	\$ 585.4
Other Revenue	1,208.6	1,189.9	(18.7)
Other Sources	1,937.8	1,638.3	(299.5)
<b>TOTAL Revenue</b>	<b>\$ 19,008.7</b>	<b>\$ 19,275.9</b>	<b>\$ 267.2</b>
<b>EXPENDITURES</b>			
Initial Current Year Appropriations	\$ 19,019.7	\$ 19,019.7	\$ -
Prior Year Appropriations Continued to FY 2019 <sup>2</sup>		125.8	125.8
<b>TOTAL Initial and Continued Appropriations</b>	<b>\$ 19,019.7</b>	<b>\$ 19,145.5</b>	<b>\$ 125.8</b>
Appropriation Adjustments	-	-	-
<b>TOTAL Adjusted Appropriations</b>	<b>\$ 19,019.7</b>	<b>\$ 19,145.5</b>	<b>\$ 125.8</b>
Net Additional Expenditure Requirements		58.0	58.0
Estimated Appropriations Lapsed	(21.5)	(84.2)	(62.7)
Estimated Appropriations to be Continued to FY 2020 <sup>2</sup>		-	-
<b>TOTAL Estimated Expenditures</b>	<b>\$ 18,998.2</b>	<b>\$ 19,119.3</b>	<b>\$ 121.1</b>
Net Change in Fund Balance - Continuing Appropriations		(125.8)	(125.8)
Miscellaneous Adjustments/Rounding		(40.0)	(40.0)
<b>Net Change in Unassigned Fund Balance - 6/30/2019</b>	<b>\$ 10.5</b>	<b>\$ 242.4</b>	<b>\$ 231.9</b>

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 November 30, 2018  
(In Millions)

	General Assembly Budget Plan <sup>1</sup>	Revised Estimates OPM	Over/ (Under)
<b>TAXES</b>			
Personal Income - Withholding	\$ 6,147.7	\$ 6,403.1	\$ 255.4
Personal Income - Estimates and Finals	2,959.9	3,244.8	284.9
Sales and Use	4,153.6	4,211.6	58.0
Corporation	920.2	1,000.0	79.8
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	230.0	(4.3)
Cigarettes	381.0	375.5	(5.5)
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	20.2	(1.8)
<b>TOTAL - TAXES</b>	<b>\$ 17,202.1</b>	<b>\$ 17,855.6</b>	<b>\$ 653.5</b>
Less: Refunds of Taxes	(1,215.1)	(1,307.3)	(92.2)
Earned Income Tax Credit	(118.3)	(94.2)	24.1
R & D Credit Exchange	(6.4)	(6.4)	-
<b>TOTAL - TAXES - NET</b>	<b>\$ 15,862.3</b>	<b>\$ 16,447.7</b>	<b>\$ 585.4</b>
<b>OTHER REVENUE</b>			
Transfers - Special Revenue	\$ 352.7	\$ 352.7	\$ -
Indian Gaming Payments	203.6	223.6	20.0
Licenses, Permits, Fees	322.6	292.6	(30.0)
Sales of Commodities and Services	37.7	29.1	(8.6)
Rents, Fines, Escheats	147.2	151.1	3.9
Investment Income	14.5	29.8	15.3
Miscellaneous	189.1	174.1	(15.0)
Refunds of Payments	(58.8)	(63.1)	(4.3)
<b>TOTAL - OTHER REVENUE</b>	<b>\$ 1,208.6</b>	<b>\$ 1,189.9</b>	<b>\$ (18.7)</b>
<b>OTHER SOURCES</b>			
Federal Grants	\$ 2,112.4	\$ 2,097.8	\$ (14.6)
Transfer from Tobacco Settlement Fund	110.2	110.2	-
Transfers From/(To) Other Funds	78.3	78.3	-
Transfers to BRF - Volatility Adjustment <sup>2</sup>	(363.1)	(648.0)	(284.9)
<b>TOTAL - OTHER SOURCES</b>	<b>\$ 1,937.8</b>	<b>\$ 1,638.3</b>	<b>\$ (299.5)</b>
<b>TOTAL - GENERAL FUND REVENUE</b>	<b>\$ 19,008.7</b>	<b>\$ 19,275.9</b>	<b>\$ 267.2</b>

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 November 30, 2018

Department of Emergency Services and Public Protection	\$	2,600,000
Department of Mental Health and Addiction Services		5,000,000
Office of Early Childhood		14,000,000
Department of Correction		32,000,000
Department of Children and Families		4,400,000
Total		<u>\$ 58,000,000</u>

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

Unallocated Lapse	\$ 6,391,080
Unallocated Lapse - Judicial	5,000,000
Statewide Hiring Reduction - Executive	7,000,000
Department of Revenue Services	300,000
Office of Policy and Management	3,300,000
Department of Administrative Services	900,000
Department of Consumer Protection	250,000
Department of Housing	1,200,000
Department of Public Health	600,000
Department of Social Services	40,000,000
Department of Education	400,000
Judicial Department	1,200,000
OSC - Fringe Benefits	17,700,000
Total	<u>\$ 84,241,080</u>



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

	Budget Plan <sup>1</sup>	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	\$ 19,269.4	\$ 19,275.9							
Appropriations	19,019.7	19,019.7	19,019.7	19,019.7	19,019.7	19,019.7							
Additional Requirements	0.0	31.5	35.5	54.6	54.6	58.0							
Less: Estimated Lapses	<u>(21.5)</u>	<u>(27.5)</u>	<u>(60.7)</u>	<u>(76.8)</u>	<u>(79.8)</u>	<u>(84.2)</u>							
TOTAL - Estimated Expenditures	18,998.2	19,023.7	18,994.5	18,997.5	18,994.5	18,993.5	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	274.9	282.4	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>	<u>(20.0)</u>	<u>(40.0)</u>							
Est. Balance from Operations - 6/30/19	\$10.5	\$137.9	\$169.7	\$169.9	\$254.9	\$242.4	\$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 November 30, 2018  
(In Millions)

	General Assembly <u>Budget Plan</u> <sup>1.</sup>	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
Fund Balance as of June 30, 2018	\$ 224.0	\$ 245.7	\$ 21.7
<b>REVENUE</b>			
Taxes	\$ 1,227.3	\$ 1,280.2	\$ 52.9
Less: Refunds of Taxes	<u>(14.6)</u>	<u>(13.6)</u>	<u>1.0</u>
Taxes - Net	1,212.7	1,266.6	53.9
Other Revenue	<u>407.8</u>	<u>418.0</u>	<u>10.2</u>
<b>TOTAL - Revenue</b>	<b>\$ 1,620.5</b>	<b>\$ 1,684.6</b>	<b>\$ 64.1</b>
<b>EXPENDITURES</b>			
Appropriations	\$ 1,629.3	\$ 1,629.3	\$ -
Prior Year Appropriations Continued to FY 2019 <sup>2.</sup>		<u>28.5</u>	<u>28.5</u>
<b>TOTAL Initial and Continued Appropriations</b>	<b>\$ 1,629.3</b>	<b>\$ 1,657.8</b>	<b>\$ 28.5</b>
Appropriation Adjustments	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL Adjusted Appropriations</b>	<b>\$ 1,629.3</b>	<b>\$ 1,657.8</b>	<b>\$ 28.5</b>
Net Additional Expenditure Requirements		1.0	1.0
Estimated Appropriations Lapsed	(12.0)	(12.0)	-
Estimated Appropriations to be Continued to FY 2020 <sup>2.</sup>		<u>-</u>	<u>-</u>
<b>TOTAL Estimated Expenditures</b>	<b>\$ 1,617.3</b>	<b>\$ 1,646.8</b>	<b>\$ 29.5</b>
Net Change in Fund Balance - Continuing Appropriations		(28.5)	(28.5)
Miscellaneous Adjustments/Rounding		-	-
<b>Net Change in Unassigned Fund Balance - FY 2019</b>	<b>\$ 3.2</b>	<b>\$ 66.3</b>	<b>\$ 63.1</b>
Estimated Fund Balance - June 30, 2019	<u>\$ 227.2</u>	<u>\$ 312.0</u>	<u>\$ 84.8</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 November 30, 2018  
(In Millions)

	<u>General Assembly Budget Plan <sup>1</sup>.</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
<b>TAXES</b>			
Motor Fuels	\$ 502.3	\$ 501.1	\$ (1.2)
Oil Companies	279.8	330.0	50.2
Sales & Use Tax	358.4	362.3	3.9
Sales Tax DMV	86.8	86.8	-
<b>TOTAL - TAXES</b>	<u>1,227.3</u>	<u>1,280.2</u>	<u>52.9</u>
Less: Refunds of Taxes	<u>(14.6)</u>	<u>(13.6)</u>	<u>1.0</u>
<b>TOTAL - TAXES - NET</b>	<u>\$ 1,212.7</u>	<u>\$ 1,266.6</u>	<u>\$ 53.9</u>
<b>OTHER REVENUE</b>			
Motor Vehicle Receipts	\$ 250.6	\$ 252.5	\$ 1.9
Licenses, Permits, Fees	142.8	141.4	(1.4)
Interest Income	12.4	22.4	10.0
Federal Grants	12.1	12.1	-
Transfers (To)/From Other Funds	(5.5)	(5.5)	-
Refunds of Payments	<u>(4.6)</u>	<u>(4.9)</u>	<u>(0.3)</u>
<b>TOTAL - OTHER REVENUE</b>	<u>\$ 407.8</u>	<u>\$ 418.0</u>	<u>\$ 10.2</u>
<b>TOTAL - SPECIAL TRANSPORTATION FUND REVENUE</b>	<u>\$ 1,620.5</u>	<u>\$ 1,684.6</u>	<u>\$ 64.1</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 November 30, 2018

OSC - Fringe Benefits	\$ 1,000,000
Total	<u>\$ 1,000,000</u>

Statement 4T  
December 20, 2018

State of Connecticut  
Special Transportation Fund  
Estimated Lapses  
Projected to June 30, 2019  
As of November 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 <sup>1</sup> .	July 2018 <sup>1</sup> .	August 2018	September 2018	October 2018	November 2018	December 2018	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019
Beginning Balance <sup>2</sup> .	\$ 224.0	\$ 224.0	\$ 245.7	\$ 245.7	\$ 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>	<u>1,684.6</u>	<u>1,684.6</u>							
Total Available	1,844.5	1,901.3	1,923.0	1,923.0	1,930.3	1,930.3	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	1,629.3	1,629.3							
Additional Requirements	0.0	0.0	0.0	0.0	0.0	1.0							
Less: Estimated Lapses	<u>(12.0)</u>	<u>(12.0)</u>	<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	1,617.3	1,618.3	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	67.3	66.3	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>	<u>0.0</u>	<u>0.0</u>							
Estimated Balance 6/30/19	\$227.2	\$284.0	\$305.7	\$305.7	\$313.0	\$312.0	\$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.