OFFICE OF FISCAL ANALYSIS

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State Budget Projections
General Fund
January 26, 2015

Summary

We are currently projecting a $202.5 million deficit in the General Fund. This reflects an increase in the projected deficit of $142.8 million since our last estimate.[1]

FY 15 General Fund Overview (in millions) [1]

Estimates	Budget	December Projection	January Projection	Difference from December	Difference from Budget
Expenditures					
Agency Appropriations	17,589.8	17,589.8	17,589.8	-	-
Deficiency Requirements	-	97.1	157.5	60.4	157.5
Lapses	(132.1)	(243.2)	(198.8)	44.4	(66.7)
Total Expenditures	**17,457.7**	**17,443.7**	**17,548.5**	**104.8**	**90.8**
Revenues					
Personal Income Tax	9,264.5	9,264.5	9,264.5	-	-
Sales and Use	4,167.4	4,216.2	4,226.2	10.0	58.8
Corporations	704.3	734.3	734.3	-	30.0
Federal Grants	1,299.6	1,237.1	1,238.4	1.3	(61.2)
Other Taxes and Refunds	778.4	709.1	669.6	(39.5)	(108.8)
Other Revenue Sources	1,243.8	1,236.4	1,226.6	(9.8)	(17.2)
Total Revenues	**17,458.0**	**17,397.6**	**17,359.6**	**(38.0)**	**(98.4)**
Operating Surplus/(Deficit)	**0.3**	**(46.1)**	**(188.9)**	**(142.8)**	**(189.2)**
% of Expenditures	0.0%	-0.3%	-1.1%	-0.8%	-1.1%
Carry Forward of Lapse	-	(13.6)	(13.6)	-	(13.6)
Adjusted Surplus/(Deficit)	**0.3**	**(59.7)**	**(202.5)**	**(142.8)**	**(202.8)**

1 Totals may appear to not add up due to a rounding effect

Please note that the projections contained in this report do not reflect the savings impact of the Governor's second round of FY 15 rescissions which were released Friday, January 23,

[1] Pursuant to CGS 2-36b, OFA estimated the FY 15 deficit to be $89.1 million as of November 14, 2014. Subsequent to that estimate, the Governor issued the first round of rescissions on November 20, 2014. The December estimate above includes the impact of these rescissions, in addition to other minor expenditure updates.

2015. Our office will be reviewing the impact of the second round of rescissions and anticipate updating our deficit projection by the end of this week or early next week.

The total amount of rescissions and other reductions included in the Governor's action of January 23, 2015 was $31.6 million. The maximum impact of these actions would be to reduce OFA's projected deficit to $170.9 million. Pursuant to CGS 4-85(b), if the year-end General Fund deficit projected by the State Comptroller on the first of any month exceeds 1% of the budget, the Governor is required to submit a Deficit Mitigation Plan to the General Assembly within 30 days. That threshold is $174.6 million.

Major Expenditure Changes since the December 4th Report on the Impact of Nov 20 Rescissions

Major increases in expenditure projections

- Department of Social Services – The Medicaid projection was increased by $75 million, or 3.2%, from our last projection. This results in a total projected deficiency of $115 million, or 5.0% of the account. The following factors are the primary reasons for the increased cost projection:

    1. Enrollment growth in the Medicaid program continues to be strong. There were 34.3% more Medicaid active assistance units in December, 2014 than in December, 2013. This caseload growth has led to expenditures in excess of budgeted assumptions in many categories of service. Of particular note, pharmacy expenditures continue to track 12.5% above the budgeted assumptions through the first half of the fiscal year.
    2. DSS made a $42.9 million retroactive hospital payment in November, with additional obligations anticipated by the end of the fiscal year.
    3. Estimates for the federal cost share for the Affordable Care Act expansion population has resulted in anticipated state expenditures of approximately $13 million.
    4. FAC #14-32 transferred $10 million out of the Medicaid account to Connecticut Children's Medical Center.

- Office of the State Treasurer –The Debt Service account projection was increased by $36.8 million or 2.5% from our last projection due to a combination of: (1) a $59.4 million reduction in the actual savings for the second Economic Recovery Note (ERN) refinancing because the December 2014 issuance was downsized from $122 million to $61 million and the remaining $61 million in ERNs was paid off, (2) a projected increase of $11 million in lapse due to lower-than-anticipated interest rates on upcoming FY 15 General Obligation (GO) bond issuances and outstanding variable rate bonds, (3) the projected receipt of $10.1 million in bond premium on upcoming FY 15 GO bond issuances, and (4) a $1.5 million saving received from the GO bond refunding done in December 2014. (See background for more information about the ERNs.)

- State Department of Education - The Magnet School account projection was increased by $17 million or 5.7% from our last projection due to requests for supplemental transportation payment(s) to CREC. Outstanding amounts due are approximately $8 million for the second half of CREC's FY2014 deficit payment, and a projected payment of approximately $9 million for the first half of CREC's FY2015 projected magnet transportation shortfall. In order to make these supplemental transportation payments, legislation will be required to reimburse CREC for these costs.

- Department of Developmental Services - The Early Intervention account projection was increased by $2.1 million or 5.5% from our last projection due to an increased number of children with autism receiving specialized services and an increased number of children with developmental delays receiving general services.
- Department of Mental Health and Addiction Servicers - The Personal Services account projection was increased by $1 million or 0.5% from our last projection due to increased overtime expenditures, largely attributable to Connecticut Valley Hospital (CVH). Inclement weather and an early release, as well as an increase in certain clients requiring more one on one services contributed to the increased expenditures.

<u>Major decreases in expenditure projections</u>

- State Department of Education - The Sheff Settlement account projection was reduced by $6.3 million or 30.0% from our last projection due to a planned transfer to the Magnet School account to cover program expansions associated with schools in the Sheff region.
- Office of the State Comptroller – Fringe Benefits – Alternative Retirement System (ARP) – The Higher Education Alternative Retirement System account projection was reduced by $3.6 million or 25.0% from our last projection due to additional expenditure information. The lapse in the ARP is predominately due to the distribution of General Fund funded employees and expenditures being less than was anticipated, likely due to a shift to funding SERS higher education employees versus ARP employees out of the General Fund.
- Office of Policy and Management- The Tax Relief for Elderly Renters account projection was reduced by $3 million, or 11.0%, from our last projection as a result of fewer rebate applicants than anticipated.
- Department of Children and Families – The Board and Care for Children - Residential account projection was reduced by $2.8 million or 2.4% from our last projection due to a reduction in residential placements. Average monthly placements have decreased by 168 from July through December.
- Office of the State Comptroller – Fringe Benefits – Employers' Social Security Tax – The Employers' Social Security Tax account projection was reduced by $2.6 million or 1.2% from our last projection due to additional payroll information reflecting lower than anticipated hiring and other personnel costs across state agencies.
- Department of Mental Health and Addiction Services - The TBI Community Services account projection was reduced by $2.5 million or 15.4% from our last projection. While the number of discharges into the community are on track, they are occurring at a slower rate than originally anticipated.
- State Department of Education - The Open Choice account projection was reduced by $2.5 million or 6.5% from our last projection, due to agreed-upon, target student counts not being achieved, given the variety of choice opportunities available to students.

- State Department of Education - The Education Equalization Grant account projection was reduced by $2.3 million or 0.1% from our last projection due to existing charter schools not meeting their State Board approved maximum enrollments. Statewide, over 100 charter seats were unfilled. Additionally, not all of the start-up funds for local charters will be utilized.
- State Department of Education - The Development in Mastery Exams account projection was reduced by $1.4 million or 7.4% from our last projection, due to the shift to Smarter Balanced testing. Due to timing issues this year, the contract will not be fully implemented and will leave a one-time surplus in the account.
- State Department of Education - The Personal Services account projection was reduced by $1.1 million or 5.8% from our last projection due to delays in filling vacant positions.
- Office of Early Childhood - The Early Childhood account projection was reduced by $1.0 million or 8.9% from our last projection due to school readiness seats being filled at a slower rate than originally anticipated.
- State Department of Education - The Commissioner's Network account projection was reduced by $1.0 million or 5.7% from our last projection due to the acceptance of fewer schools than originally anticipated.

Major Revenue Changes since the December 4th Report on the Impact of Nov 20 Rescissions

- The Oil Companies Tax projection was reduced by $43.6 million or 10.1% from the last projection due to the impact of lower oil prices.
- The Refunds of Taxes projection was increased (with a negative impact on revenues) by $10 million or 0.9% from the last projection due to Income Tax refunds running ahead of targets.
- The Cigarettes Tax projection was reduced by $5.0 million or 1.4% from the last projection to reflect current collections trends.
- The Health Provider Tax was decreased by $3.2 million or 0.7% from the last projection to reflect an updated projection of tax credit utilization by hospitals.
- The Sales and Use Tax projection was increased by $10.0 million or 0.2% from the last projection as a result of year-to-date collections continuing to exceed monthly targets. This growth is attributable to stronger retail sales over last year with an assist from lower gas prices.
- The Licenses, Permits and Fees projection was increased by $7.0 million or 2.7% from the last projection to reflect positive year-over-year growth trends in collections data through January.
- The Public Service Corporations Tax projection was increased by $3.5 million or 1.2% from the last projection to reflect the partial year (January-June) impact of the recent Public Utilities Regulatory Authority's decision allowing certain Connecticut Light & Power electric rate increases.

- The Transfers-Special Revenue (Lottery) projection was increased by $2.0 million or 0.6% from the last projection to reflect current trends.

Deficient Agencies

Given the reduction in available funding that occurs due to budgeted lapses (holdbacks), we currently identify seven agencies that would require $157.5 million in additional expenditure requirements. However, if available funding were to be released, this would reduce the need for deficiency funding to $153.7 million.

FY 15 General Fund Estimated Agency Deficiency Needs

Agency	Budgeted Appropriation $	Available [1] Appropriation $	Estimated Exp. $	Deficiency without release of holdbacks $	Deficiency with release of holdbacks $
Department of Social Services	2,994,518,834	2,991,475,982	3,106,475,982	(115,000,000)	(113,407,490)
State Comptroller - Fringe Benefits	2,465,679,610	2,457,780,714	2,478,704,512	(20,923,798)	(20,923,798)
Department of Correction	675,833,632	680,589,133	691,049,030	(10,459,897)	(9,366,439)
Public Defender Services Commission	63,616,706	63,011,497	68,034,139	(5,022,642)	(4,817,376)
Department of Emergency Services and Public Protection	170,416,519	182,710,482	185,964,746	(3,254,264)	(2,934,154)
State Comptroller - Miscellaneous	4,100,000	4,100,000	6,400,000	(2,300,000)	(2,300,000)
Department of Mental Health and Addiction Services	612,738,559	607,972,410	608,472,410	(500,000)	0
			Total	(157,460,601)	(153,749,257)

[1] Appropriation less budgeted lapses

Background: Economic Recovery Notes

The ERNs, which were issued in November 2009 to finance the FY 09 deficit, would have been paid off between in 2012 and 2016 under the original debt service schedule. However PA 13-184, the budget act, authorized the Office of the State Treasurer (OST) to refinance the FY 14, FY 15 and FY 16 payments and extend the repayment schedule by two years (FY 17 and FY 18).

The OST refinanced the ERNs in two separate issuances in order to minimize the call premium on the original notes. The first $306.9 million refunding was completed in October 2013 and the second was done in December 2014. The OST decided to: (1) downsize the second issuance from $122.0 million to $61.0 million and (2) pay off the remaining $61.0 million. OFA's last estimate assumed the issuance would be $122.0 million and the associated debt service savings would be $125.2 million. The current estimate reflects reduction of the anticipated debt service savings from $125.2 million to the actual savings of $65.8 million (a difference of $59.4 million).

Use the links below to see detailed estimates by agency/account and revenue category.

Expenditures XLS PDF

Revenues XLS PDF