Office of Fiscal Analysis

FY 18 GENERAL FUND BUDGET PROJECTION February 26, 2018

Summary

We are projecting a FY 18 deficit of $162.7 million once the transfer (volatility adjustment) of $664.9 million from the General Fund to the Budget Reserve Fund is taken into account.

Highlights

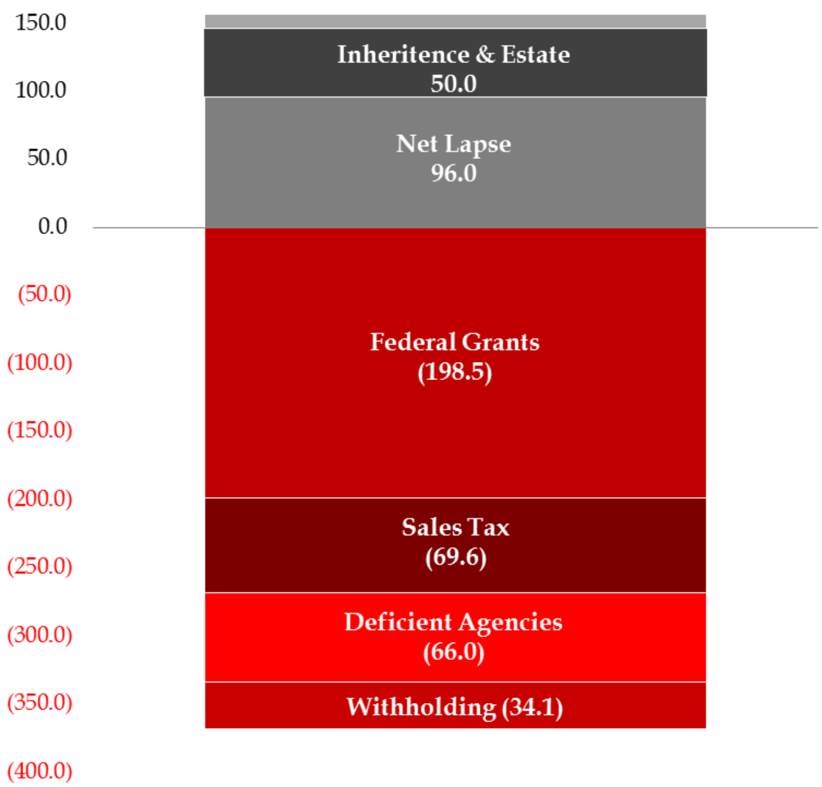
FY 18 Outlook Improves

The current projected deficit of $162.7 million is an improvement relative to last month's projected deficit of $206.1 million. Total spending is projected to be $25.6 million less than last month's projection primarily due to improvements in state employee and retiree health accounts. Additional FY 18 revenues of $17.8 million result from recent elimination of the FY 18 to FY 19 transfer that was budgeted.

Figure 1. General Fund Overview
In Millions of Dollars

	Budget	February Estimate	Difference from Budget $	Difference from Budget %
Revenues	18,739.3	18,497.4	(241.9)	-1.3%
Expenditures	18,690.1	18,660.1	(30.0)	-0.2%
Surplus/(Deficit)	**49.2**	**(162.7)**	**(211.9)**	**-1.1%**

Figure 2. Major Items Contributing to Surplus/ (Deficit)
In Millions of Dollars



Budgeted Surplus	49.2
Positive Adjustments	
Net Other Revenue	10.3
Inheritance and Estate	50.0
Net Lapse	96.0
Subtotal	**156.3**
Negative Adjustments	
Federal Grants	(198.5)
Sales Tax	(69.6)
Deficient Agencies	(66.0)
Withholding	(34.1)
Subtotal	**(368.2)**
Surplus/(Deficit)	**(162.7)**

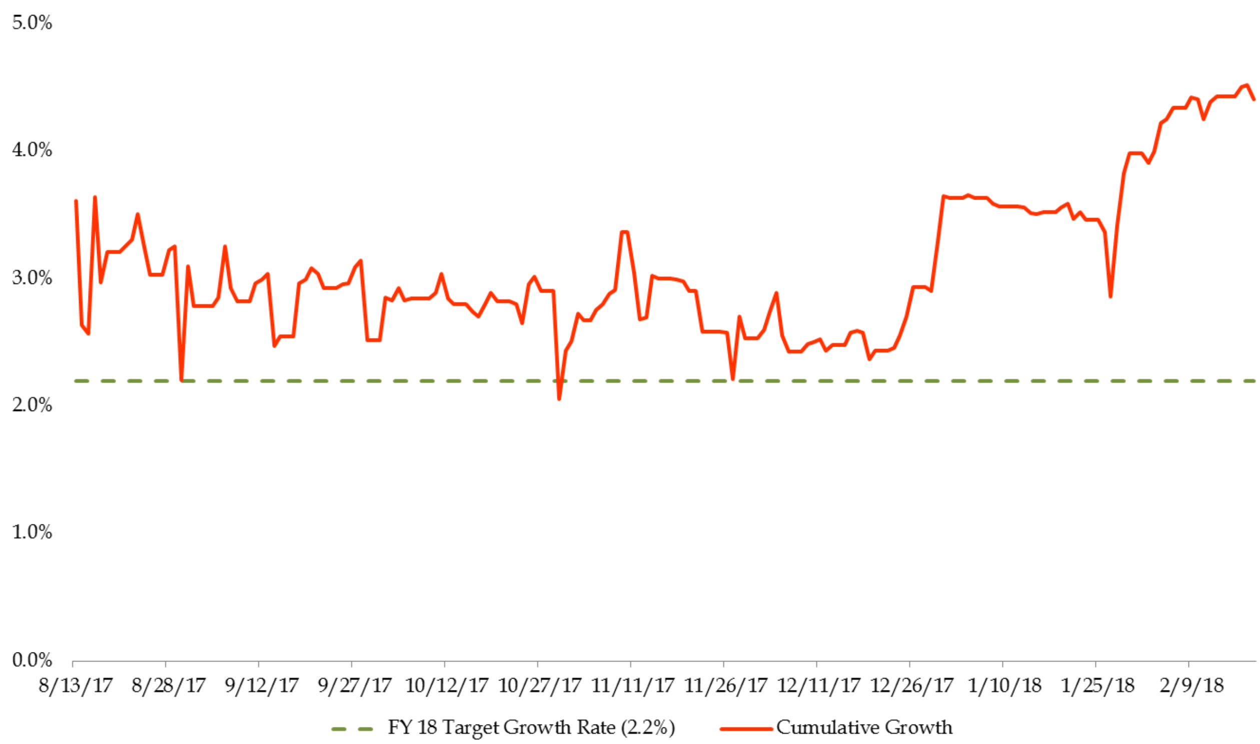
Notable Revenue Issues

Veto override reflected

Section 7 of PA 17-1 (January 2018 Special Session) repealed the budgeted credit of $17.8 million in revenue from FY 18 to FY 19.

Withholding collections above target

We note relatively strong growth (year-to-date) in Withholding Income Tax although we make no adjustment for it in the current estimate pending further collections data. Collections during the first two months of 2018 have been particularly strong which indicate a good bonus season. The bonus season stretches into March. As recently reported by the Connecticut Department of Labor, year-over-year growth in the private sector's weekly wages and earnings was 1.7% in December 2017. In contrast, our current estimates for Withholding Income Tax collections assume 2.2% annual (Fiscal Year) growth.



In addition, we note the recent change in state law (effective January 1, 2018) which requires payers that: 1) maintain an office or transact business in Connecticut; and 2) make distributions of taxable pensions or annuities to a resident individual, to deduct and withhold income tax from such distributions. This policy will shift revenues from Estimates and Finals to Withholding. However, the magnitude of this shift is uncertain and it is unclear whether or not it can be determined given that much of Withholding Income Tax is remitted in aggregate amounts (multitudes of taxpayers) by payroll companies.

Notable Expenditure Issues

Turnaround in Fringe Benefits reflect trends in Healthcare Accounts

The projected net lapse in the Comptroller fringe benefit accounts is predominately due to reductions in health care costs in the State Employees and Retired State Employees Health Service Cost accounts whose projected expenditures were decreased by 3% ($20.7 million) and 1% ($10.1 million) respectively due to a decrease in average health care expenditures of approximately 1% in the active population and 2% in the retiree population. In addition, two adjustments were made including (1) a $3 million reduction in the active account and a $2.2 million reduction in the retiree account related to a revised estimate for expenditures related to employees and retirees who are balance billed for benefits because of their status (e.g. employees who are on unpaid leave, etc.) and (2) an update on the billing process for fees related to the state plan's accountable care organizations.

Workers' Compensation trends push General Fund account into a deficit

The Workers' Compensation account within the Department of Administrative Services is projected to run a deficiency of $1.5 million based on higher than anticipated claims trends. FY 18 medical related claim expenditures for the first 7 months of the fiscal year are currently 36% higher than the same period in FY 17, and 20% higher for total claim costs as compared to FY 17. In addition, trends in high cost claims are greater than FY 17. For example, total FY 17 claims expenditures for the 10 highest claims was $1.1 million compared to FY 18, the cost of the 10 highest claims for the first 7 months of FY 18 is $1.1 million. Lastly, the FY 18 appropriation reflected an increase of under 1% (0.6%) over FY 17 actual expenditures.

Medicaid lapse estimate grows

In the Department of Social Services, the Medicaid account is anticipated to lapse an additional $25 million compared to last month's projections. This is primarily due to the increased appropriation associated with eligibility changes under the Medicare Savings Program, per PA 17-1 of the January 2018 Special Session, and the continuation of lower than anticipated expenditure trends in Medicaid. The projected net agency lapse is $64.3 million.

Areas of Concern

SEBAC labor savings

The 2018-2019 Budget included $700 million in General Fund labor-management lapse. To date, OPM has allocated holdbacks totaling $692.5 million ($669.7 million in the General Fund and $22.8 million in the other appropriated funds). OPM has not allocated $7.5 million.

It should be noted that the 2018-2019 Budget does not include a provision to allocate labor savings achieved in other funds to the General Fund. Should no mechanism to accrue these savings to the General Fund be identified and the remaining unallocated $7.5 million not be achieved, the General Fund deficiency identified above could increase by up to $30.3 million.

Links

Deficient Agency Table
Expenditure Details Table
Revenue Details Table