Office of Fiscal Analysis

FY 20 BUDGET PROJECTIONS March 25, 2020

BUDGET DETERIORATES AS COVID-19 TAKES HOLD

The scale of the public health crisis triggered by the global pandemic and the resulting economic impact is extraordinary and will negatively impact multiple fiscal years, although federal fiscal policies may provide near-term state fiscal relief. Growth in the number of infections is still accelerating globally, according to the World Health Organization[1], with severe economic disruptions projected to continue for the next few months. We will continue to monitor developments and incorporate them into future estimates.

FY 20 UNCERTAINTY / FY 21 OUTLOOK BLEAK

Our latest estimate for the current fiscal year (FY20) includes only relatively minor adjustments in revenue and expenditures since much of the fiscal year is over and some retrospective tax revenues such as the final payments for calendar year 2019 predate the global pandemic. However, due to the extension of several tax deadlines, less collections data are now available, and will not be available until after the April 30th deadline for consensus revenue projections.[2] Further significant revenue adjustments to FY 20 revenue estimates are likely as more information becomes available. Moreover, we expect future estimates to include major downward revisions to state revenue projections for FY 21 and beyond.

FY 20 DEFICIT PROJECTIONS

The Office of Fiscal Analysis projects a General Fund deficit of $178.2 million and a Special Transportation Fund deficit of $23.8 million in FY 20. The projected deficit in the General Fund will reduce, from $317.7 million to $139.5 million, the projected FY 20 deposit into the Budget Reserve Fund from the Volatility Adjustment transfer.

The General Fund deficit increased $88.1 million from our previous estimate of $90.1 million and the Special Transportation Fund shifted from a $5.1 million surplus to a $23.8 million deficit

Overview
In Millions of Dollars

General Fund	Budget*	March Estimate	Difference from Budget
Revenues	19,543.7	19,318.0	(225.7)
Expenditures	19,423.2	19,496.2	73.0
Surplus/(Deficit)	**120.5**	**(178.2)**	**(298.7)**
Budget Reserve Fund			
Budget Reserve Deposit	429.4	139.5	(289.9)
Budget Reserve Balance	**2,935.0**	**2,645.1**	**(289.9)**
Special Transportation Fund			
Revenues	1,723.4	1,700.3	(23.1)
Expenditures	1,710.3	1,724.1	13.8
Surplus/(Deficit)	**13.1**	**(23.8)**	**(36.9)**
Fund Balance	**333.2**	**296.3**	**(36.9)**

* Includes December Special Session Revisions

General Fund

Adjustments to General Fund revenue projections largely reflect negativity in collections through

[1] Covid-19 Coronavirus Cases are Growing at an Accelerating Rate. Barron's. March 24, 2020.

[2] Tax payment extensions by DRS: (1) the Passthrough Entity Tax deadline is extended to June 15th; (2) the Personal Income Tax deadline for 2019 final payments and the first two quarterly estimated payments of 2020 is extended to July 15th; and (3) the Corporation Tax deadline is extended to June 15th.

mid-March plus downgrades to growth assumptions in the Withholding portion of the Income Tax and the Sales and Use Tax. Adjustments also reflect the revenue impact of discrete temporary policy decisions to shutter bars and restaurants (with a resulting impact on keno) and the tribal casinos.

General Fund expenditure projections are revised downward by $21.1 million on a net basis, as follows:

- A downward adjustment of $31 million to projected Medicaid expenditures;
- An upward adjustment of $10 million to projected Adjudicated Claims expenditures; and
- A downward adjustment of $0.1 million on a net basis to reflect various minor adjustments elsewhere.

Focus on DSS

Estimates for the Department of Social Services (DSS) reflect both the estimated expenditure and revenue impact associated with state and federal pandemic response efforts, based on currently available data.

Federal emergency supplemental funding bills provide a 6.2% increase in the Medicaid federal medical assistance percentage (FMAP). As a result, Connecticut is anticipated to receive increased Medicaid reimbursement of approximately $100 million in FY 20. This increased revenue is reflected in two ways: (1) Federal Grants revenue is up $20 million due to the 6.2% increase in federal reimbursement for Medicaid-related expenditures that are budgeted outside DSS, and (2) the state share of Medicaid is reduced by $80 million associated with the increased FMAP on Medicaid account expenditures within DSS.

The $80 million reduction to the state share of Medicaid expenditures offsets (1) the increased costs to DSS related to the pandemic (approximately $33.6 million), and (2) the underlying deficiency of approximately $45 million based on expenditure trends.

General Fund Summary
In Millions of Dollars

Summary	FY 20
Original Budgeted Surplus	**141.1**
+ Hospital Settlement Revenues	83.5
+ Hospital Settlement Expenditures	(104.2)
Budgeted Surplus	**120.4**
Revenue Changes	
+ Withholding	(110.0)
+ Refunds of Taxes	(165.0)
+ Inheritance & Estate	45.0
+ Net Revenue	4.3
Revenue Subtotal	**(225.7)**
Expenditure Changes	
+Agency Deficiencies	(106.8)
+Net Lapses	33.8
Expenditure Subtotal	**(73.0)**
= Surplus/(Deficit)	**(178.2)**
Budget Reserve Fund Starting Balance	**2,505.6**
+ Surplus/(Deficit)	(178.2)
+ Volatility Adjustment	317.7
= Budget Reserve Transfer Subtotal	**139.5**
= Budget Reserve Fund Balance	**2,645.1**

Budget Reserve Fund

According to Moody's Analytics, the United States is in a recession which is anticipated to intensify in the next three months. In our November 2019 Fiscal Accountability Report, we estimated $3 billion would be needed to cover lost revenue over two fiscal years in a typical recession. Additionally, we estimated that forgone revenue growth in a typical recession would be $1.5 billion. This means that the

General Fund budget would face a potential additional structural deficit of $1.5 billion **after** a typical recession has run its course.

Based on revenue and expenditure projections in this monthly statement, the FY 20 year-end balance of the Budget Reserve ("Rainy Day") Fund is projected to be $2.645 billion. We expect this projected balance to vary significantly as FY 20 revenues are finalized in the following months.

Special Transportation Fund

In the Special Transportation Fund (STF), the Oil Companies Tax is revised downward by $30 million, or approximately 9% of budget, to reflect a sharp downturn in the price of oil. This adjustment currently triggers an FY 20 deficit projection in the Special Transportation Fund.

However, the FY 20 STF currently projected deficit seems likely to be mitigated by a reduction in debt service, once additional information regarding transportation bond issuance is available in April.

Special Transportation Fund Summary
In Millions of Dollars

Summary	FY 20
Budgeted Surplus	**13.1**
Revenue Changes	
+ Motor Vehicle Receipts*	25.7
+ Oil Companies	(48.9)
+ Refunds of Taxes	(10.0)
+ Net Revenue	10.1
Revenue Subtotal	**(23.1)**
Expenditures	
+ Net Lapses	(11.0)
+ Agency Deficiencies	(2.8)
Expenditure Subtotal	**(13.8)**
= Surplus/(Deficit)	**(23.8)**
STF Starting Balance	**320.1**
+ Surplus/(Deficit)	(23.8)
= Fund Balance	**296.3**

* Pursuant to PA 19-165

For further information, please see the links below:
Revenue Details Table
Expenditure Details Table
Budget Status Page