



FISCAL ACCOUNTABILITY REPORT

FISCAL YEARS 2019 – 2022

OFFICE OF POLICY AND MANAGEMENT
BEN BARNES, SECRETARY
NOVEMBER 27, 2018

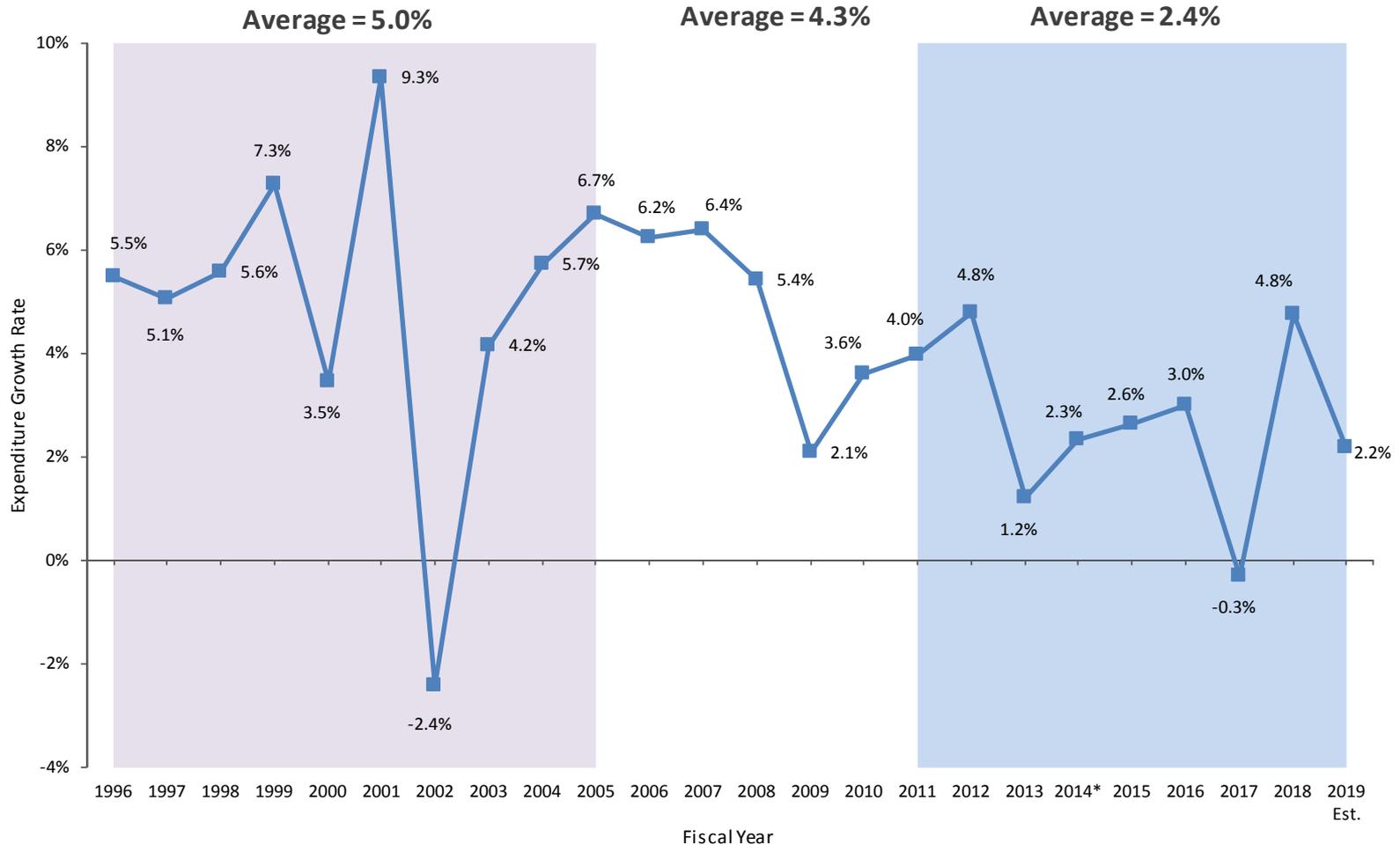
Presentation Overview

1. Budget Reserve Fund status
2. Summary of OPM projections of fixed cost growth vs. revenue growth
3. Economic factors and revenue trends
4. Long-term obligations and other topics

Presentation Overview

- Reduced revenues in FY 2020 relative to FY 2019 are the primary driver of the out-year budgetary imbalance:
 - one-time revenues used to balance the FY 2019 budget
 - enacted revenue caps
 - tax cuts that take effect during the biennium
- Fixed costs, including entitlement spending and those related to long-term liabilities, will continue to drive state budgetary decisions beyond FY 2020
- Improving revenue trends will help moderate budgetary pain, but the growth in available revenue is anticipated to remain well below inflation for the foreseeable future
- The potential for a national recession demands a cautious approach to budgetary policy

General Fund Expenditure Growth Rates

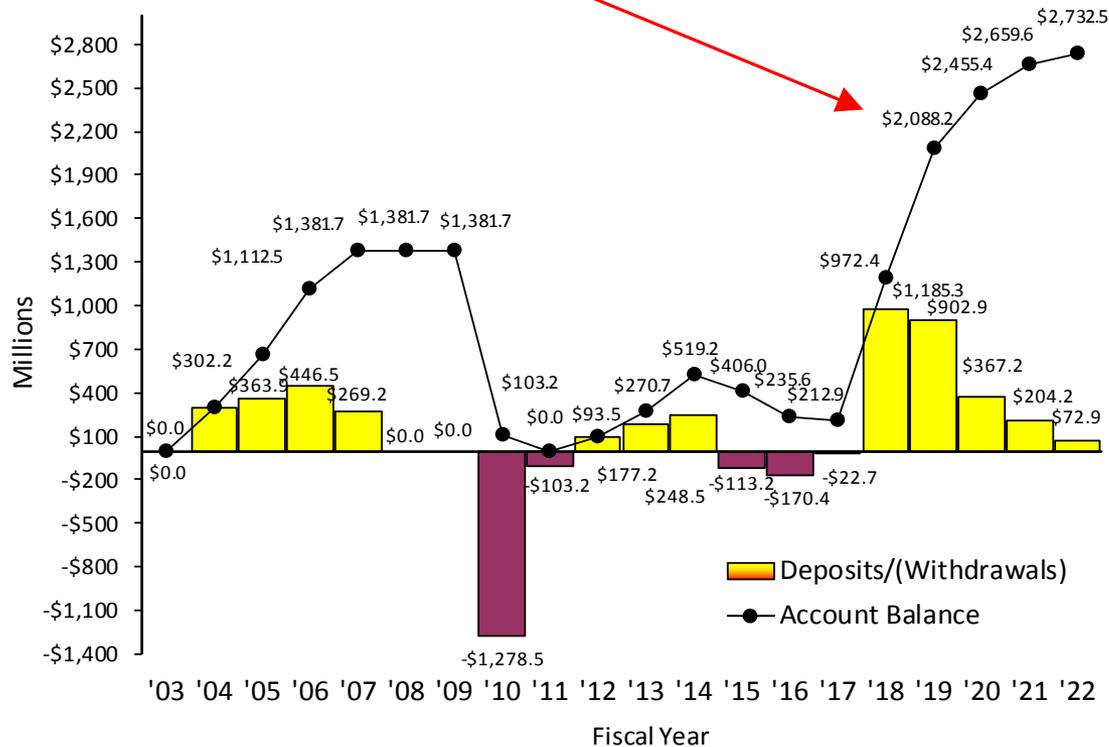


Average represents the compound annual growth rate of each shaded section
 *2013 to 2014 growth has been adjusted to reflect the net budgeting of Medicaid.



Budget Reserve Fund

	(in millions)
BRF Ending Balance - FY 2018	\$ 1,185.3
Projected Operating Surplus - FY 2019 (11/15 Est.)	254.9
Volatility Cap Deposit - FY 2019 (11/15 Est.)	<u>648.0</u>
Estimated BRF Total - FY 2019	\$ 2,088.2



Outyear forecast assumes state enacts balanced budgets that adhere to revenue and volatility caps. Balance reaches 15% in FY 2021, resulting in deposits to SERS/TRS of \$194.4m in FY 21 and \$350.5m in FY 22.



Budget Reserve Fund Forecast

(In Millions)

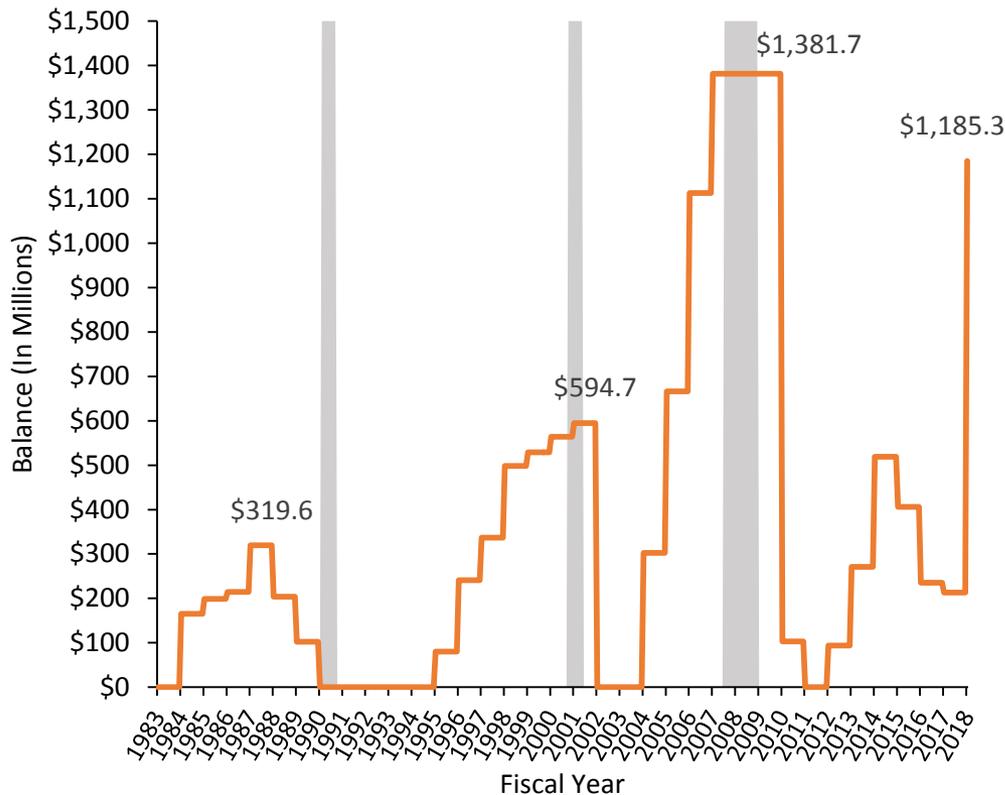
Fiscal Year	Beginning Balance	Volatility Cap Transfer	Revenue Cap Transfer	Surplus	Fund Limit Transfer ¹	Balance	% of Net Appropriations
2019	\$1,185.3	\$648.0	\$ -	\$254.9	\$ -	\$2,088.2	11.8%
2020	2,088.2	278.1	89.1	-	-	2,455.4	13.7%
2021	2,455.4	263.3	135.3	-	(194.4)	2,659.6	15.0%
2022	2,659.6	244.3	179.1	-	(350.5)	2,732.5	15.0%
TOTALS		\$1,433.7	\$403.5	\$254.9	(\$544.9)		

(1) 15% BRF cap reached in FY 2021 resulting in excess transferred to SERS/TRS

- Continuing to adhere to the volatility cap and revenue cap enacted as part of the recent biennial budget results in deposits of more than \$1.8 billion to the Budget Reserve Fund
- The Budget Reserve Fund will be fully funded (15%) by FY 2021
- As a result, unfunded liabilities will be paid down by \$544.9 million in addition to the current amortization schedule

Consequences of An Insufficient Rainy Day Fund

Budget Reserve Fund Balance
by Fiscal Year (In Millions)



Gray areas represent national recessions per the National Bureau of Economic Research

- Since the inception of the Budget Reserve Fund, the state's reserves have never been sufficient to support state services during a recession
- This has resulted in:
 - Tax increases
 - Program cuts
 - Municipal aid cuts
 - Deficit mitigation measures
 - Increased borrowing (ERNs)
 - Employee concessions
 - Credit rating downgrades
- Connecticut must commit to preserving the BRF during the economic expansion for use during the inevitable next recession

Summary of OPM Projections of Fixed Cost Growth vs. Revenue Growth

Projected FY 2019 Operating Results

FY 2019 - General Fund			
(in millions)			
		OPM	
	Enacted	11/15/2018	
	<u>Budget</u>	<u>Projection</u>	<u>Variance</u>
Revenue	\$ 19,008.7	\$ 19,269.4	\$ 260.7
Expenditures	\$ 18,998.2	\$ 19,014.5	\$ 16.3
Balance from Operations	\$ 10.5	\$ 254.9	\$ 244.4

FY 2019 - Special Transportation Fund			
(in millions)			
		OPM	
	Enacted	11/15/2018	
	<u>Budget</u>	<u>Projection</u>	<u>Variance</u>
Beginning Balance	\$ 224.0	\$ 245.7	\$ 21.7
Revenue	\$ 1,620.5	\$ 1,684.6	\$ 64.1
Expenditures	\$ 1,617.3	\$ 1,617.3	\$ -
Balance from Operations	\$ 3.2	\$ 67.3	\$ 64.1
Estimated Balance 6/30/19	\$ 227.2	\$ 313.0	\$ 85.8

FY 2019 – Projected Deficiencies

General Fund

Agency	Amount
Dept. of Emergency Services and Public Protection	\$2,500,000
Office of the Chief Medical Examiner	\$300,000
Dept. of Mental Health and Addiction Services	\$5,000,000
Office of Early Childhood	\$14,000,000
Dept. of Correction	\$27,000,000
Dept. of Children and Families	\$5,800,000
TOTAL – General Fund	\$54,600,000

Other Appropriated Funds

Agency	Amount
Banking Fund – Dept. of Banking	\$415,423
Insurance Fund – Dept. of Insurance	\$178,911
Worker’s Comp. Fund – Workers’ Comp. Commission	\$979,097
TOTAL – Other Appropriated Funds	\$1,573,431

FY 2020 - FY 2022 Financial Summary

Year-Over-Year Revenue Growth vs. Fixed Cost Growth

(in millions)

GENERAL FUND

	FY 2020 vs. FY 2019	FY 2021 vs. FY 2020	FY 2022 vs. FY 2021
Revenue Growth	\$ (1,446.2)	\$ 214.8	\$ (127.9)
Fixed Cost Growth			
Debt Service	93.5	169.1	230.3
State Employee Pensions	115.9	98.8	104.1
Teacher Pensions	99.9	45.2	30.4
State and Teachers OPEB	100.7	75.1	43.6
Medicaid	169.0	146.6	113.7
Other Entitlements	41.0	33.6	29.8
Total Fixed Cost Growth	620.0	568.5	551.9
Difference	\$ (2,066.2)	\$ (353.7)	\$ (679.8)

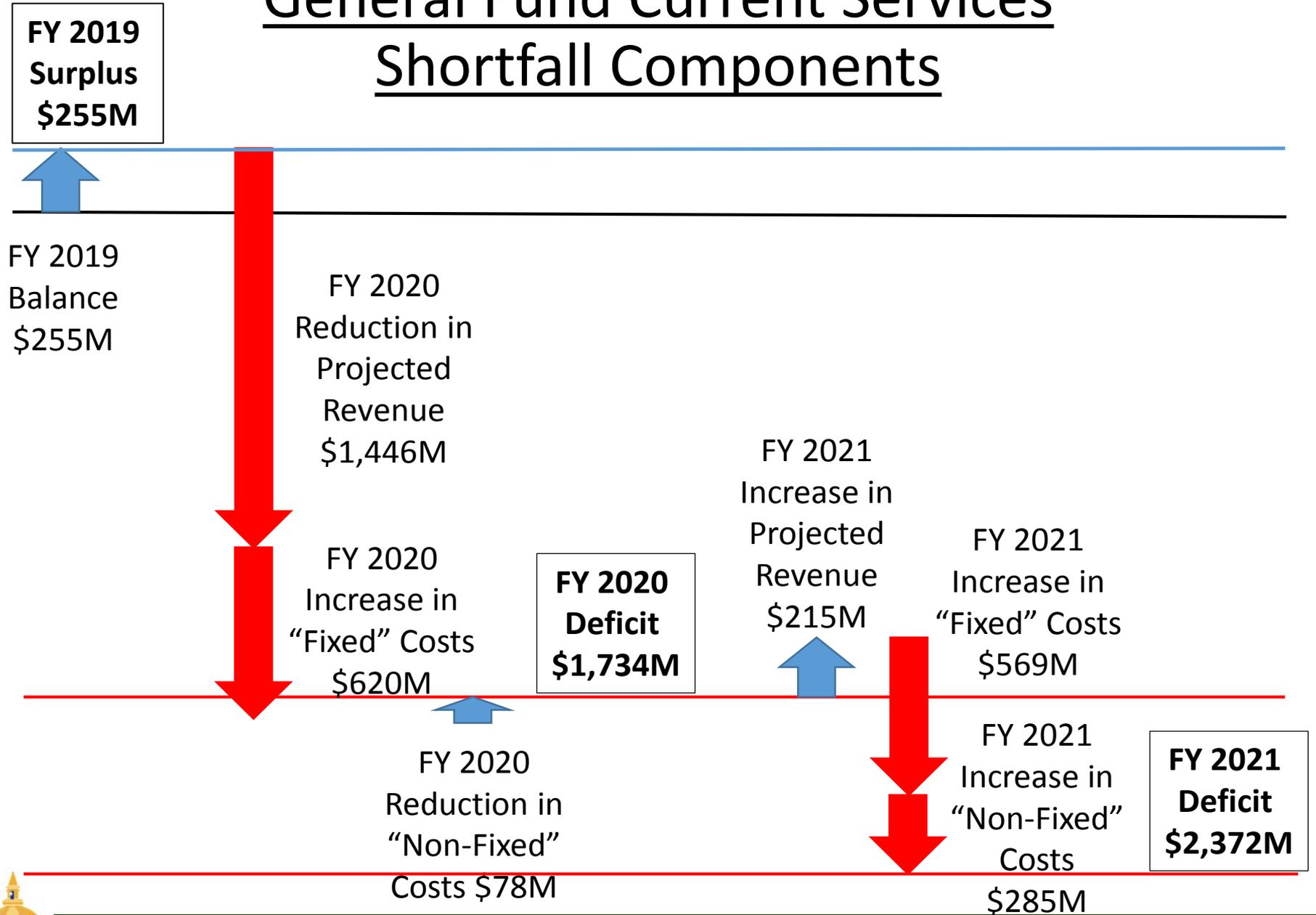
FY 2020 - FY 2022 Financial Summary

Year-Over-Year Revenue Growth vs. Fixed Cost Growth (in millions)

SPECIAL TRANSPORTATION FUND

	FY 2020 vs. FY 2019	FY 2021 vs. FY 2020	FY 2022 vs. FY 2021
Revenue Growth	\$ 118.9	\$ 101.3	\$ 89.8
Fixed Cost Growth			
Debt Service	44.9	74.4	65.8
State Employee Pensions	36.5	12.5	13.1
Total Fixed Cost Growth	81.4	86.9	79.0
Difference	\$ 37.5	\$ 14.4	\$ 10.8

General Fund Current Services Shortfall Components



Where Has All the GF Revenue Gone?

Change in Revenue From FY 2019 to FY 2020

(In Millions)

\$19,269.4 FY 2019 Revenue (Consensus Estimate)

Increases/(Decreases)

(\$516.0) Reduction in Hospital Tax Rate

(219.0) Decrease in Federal Reimbursement Due to FY 2020 Reduction
in Hospital Supplemental Payments

(516.1) One-Time Federal Funds in FY 2019 for Services Provided in FY
2018 (Includes Hospitals)

(91.0) Transfer of Car Sales Tax to Special Transportation Fund

(127.0) Other Scheduled Tax Decreases per FY 2018-FY 2019 budget

(75.5) Recommencement of GAAP Amortization

(125.2) Impact of One-Time Fund Transfers in FY 2019

223.6 Net Estimated Revenue Growth/Current Law

(\$1,446.2) Total Change in Revenue: FY 2020 over FY 2019

\$17,823.2 FY 2020 Revenue (Consensus Estimate)

FY 2020 vs. FY 2019 Current Services Expenditure Changes

(in millions)

"Fixed" Cost Drivers

Cost and Caseload Growth (incl. Entitlements)	\$132.8
State Employees' Retirement System	104.2
Teachers' Retirement System	99.9
Retired State Employee Healthcare	88.4
Debt Service (incl. OPM Municipal Restructuring)	73.5
Reduction in FMAP for Medicaid and CHIP	51.9
Statutory Provider Rate Increases	23.8
Retired Teachers' Healthcare	12.3
All Other "Fixed" Costs	33.2

Total "Fixed" Cost Growth	\$620.0
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Non-"Fixed" Costs

Hospital Supplemental Payments	(\$329.8)
Municipal Revenue Sharing / Transition / Stabilization	(105.3)
Funding of Municipal Formula Grants at Statutory Level	174.1
State Employee Wage Increases	58.1
Active State Employee Healthcare	36.8
All Other "Non-Fixed Costs"	88.6

Total Non-"Fixed" Growth	(\$77.5)
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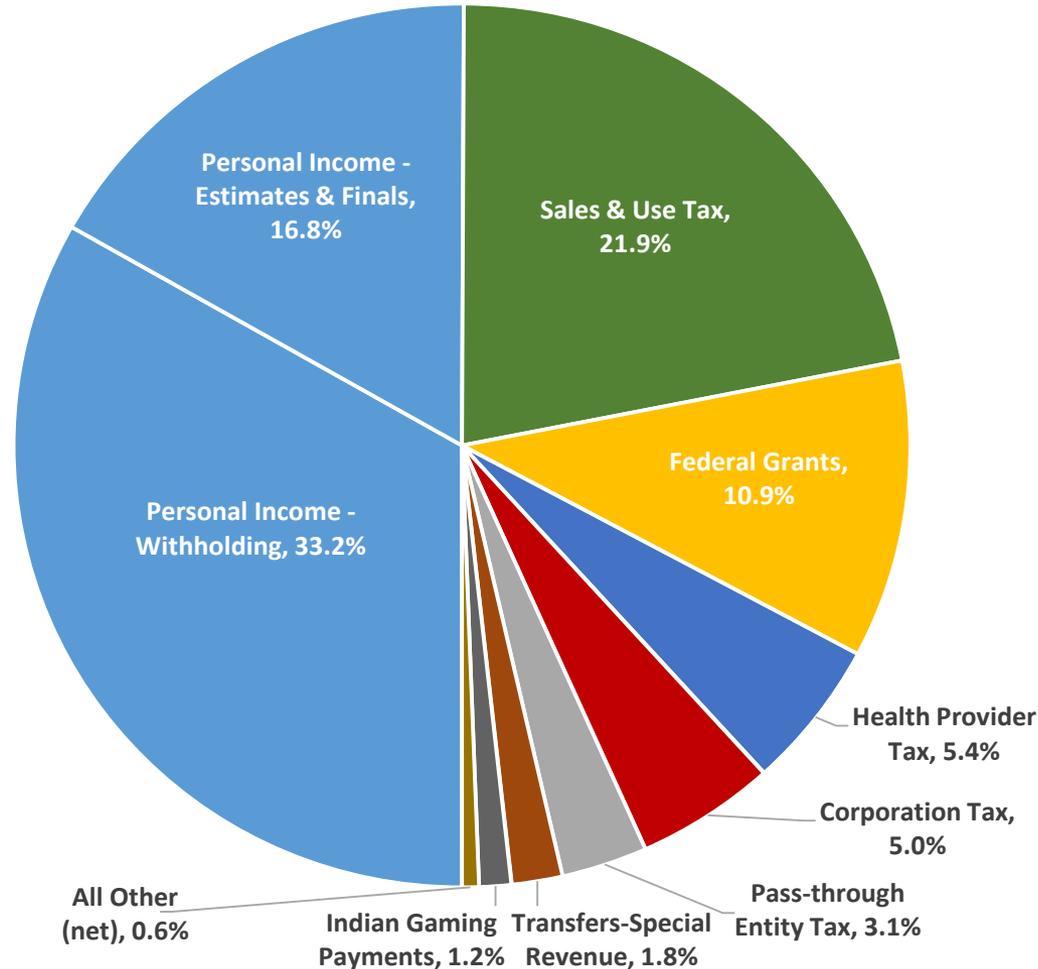
Total General Fund Expenditure Growth	\$542.50
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Economy and Revenue

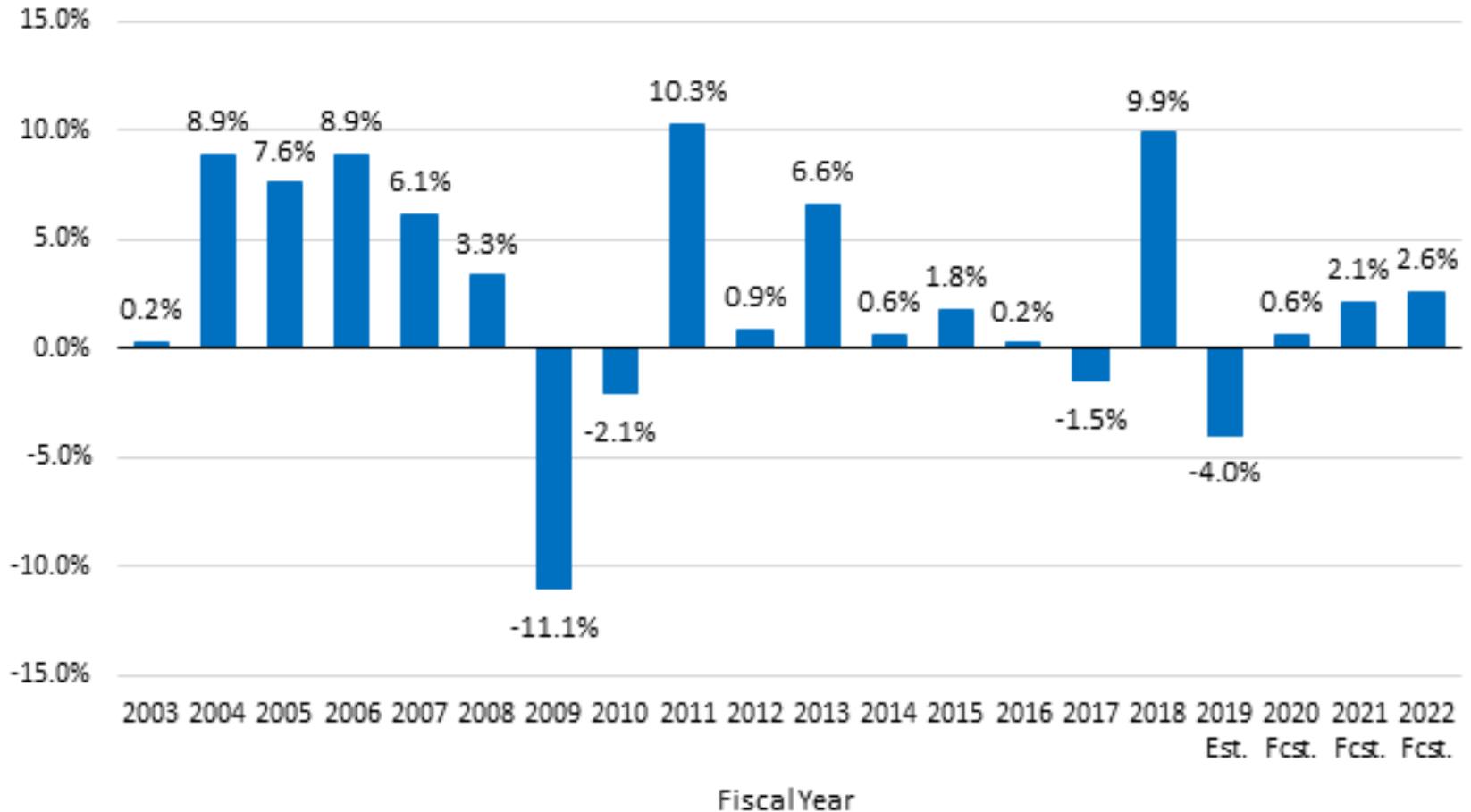
General Fund Revenue Sources

FY 2019

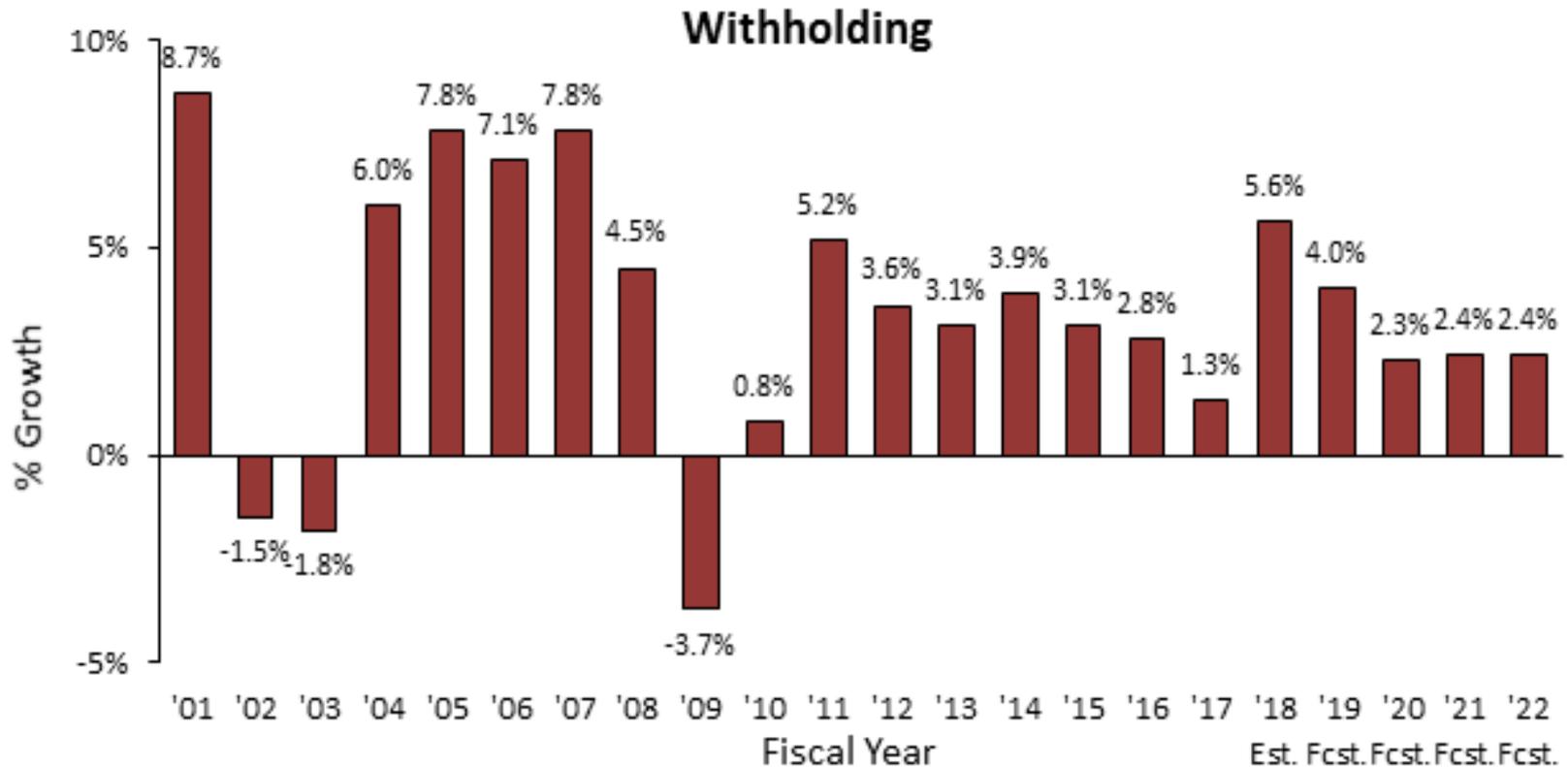
Total: \$19,269.4 million



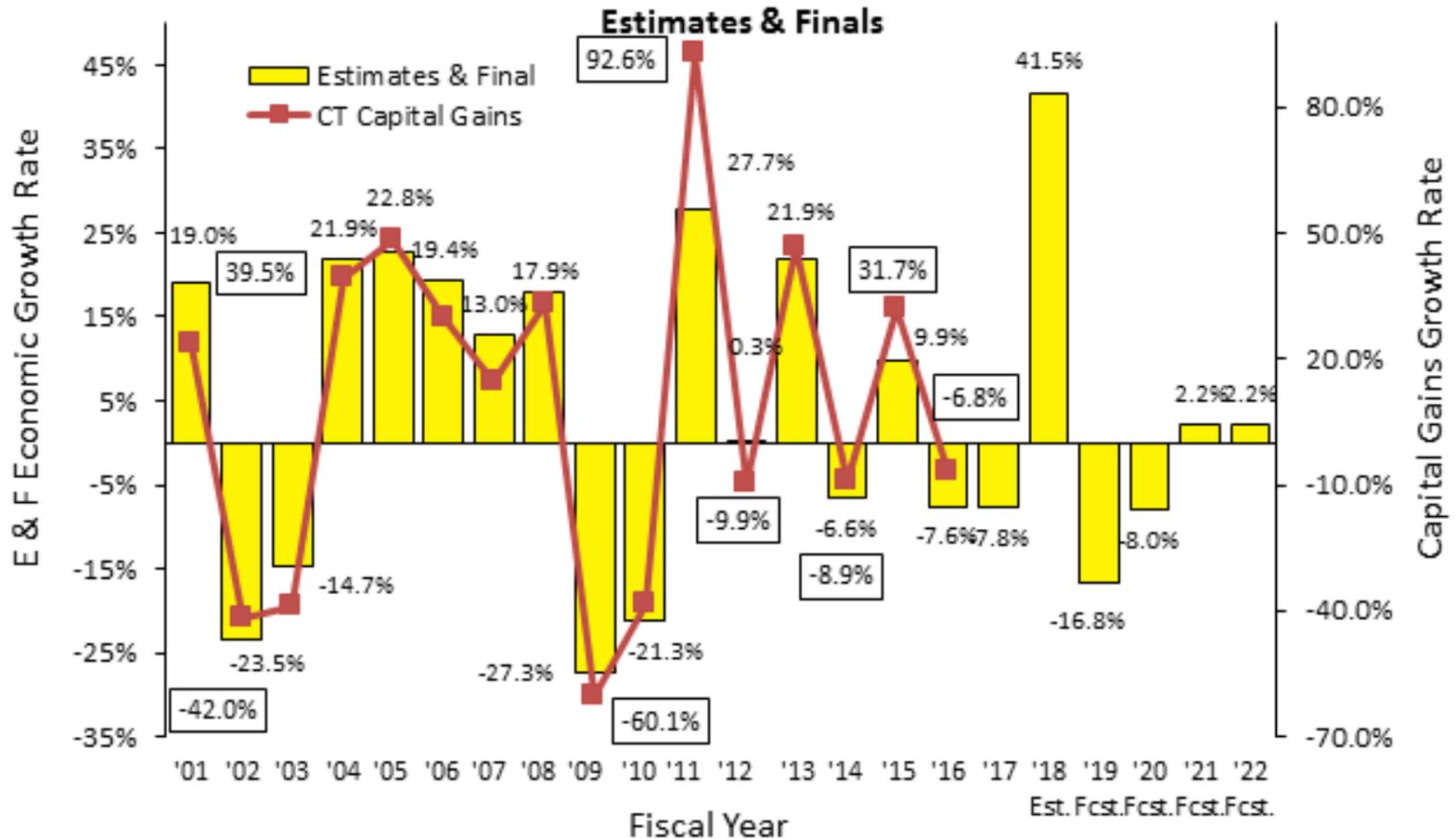
Economic Growth Rates of the General Fund



Personal Income Tax Economic Growth Rates



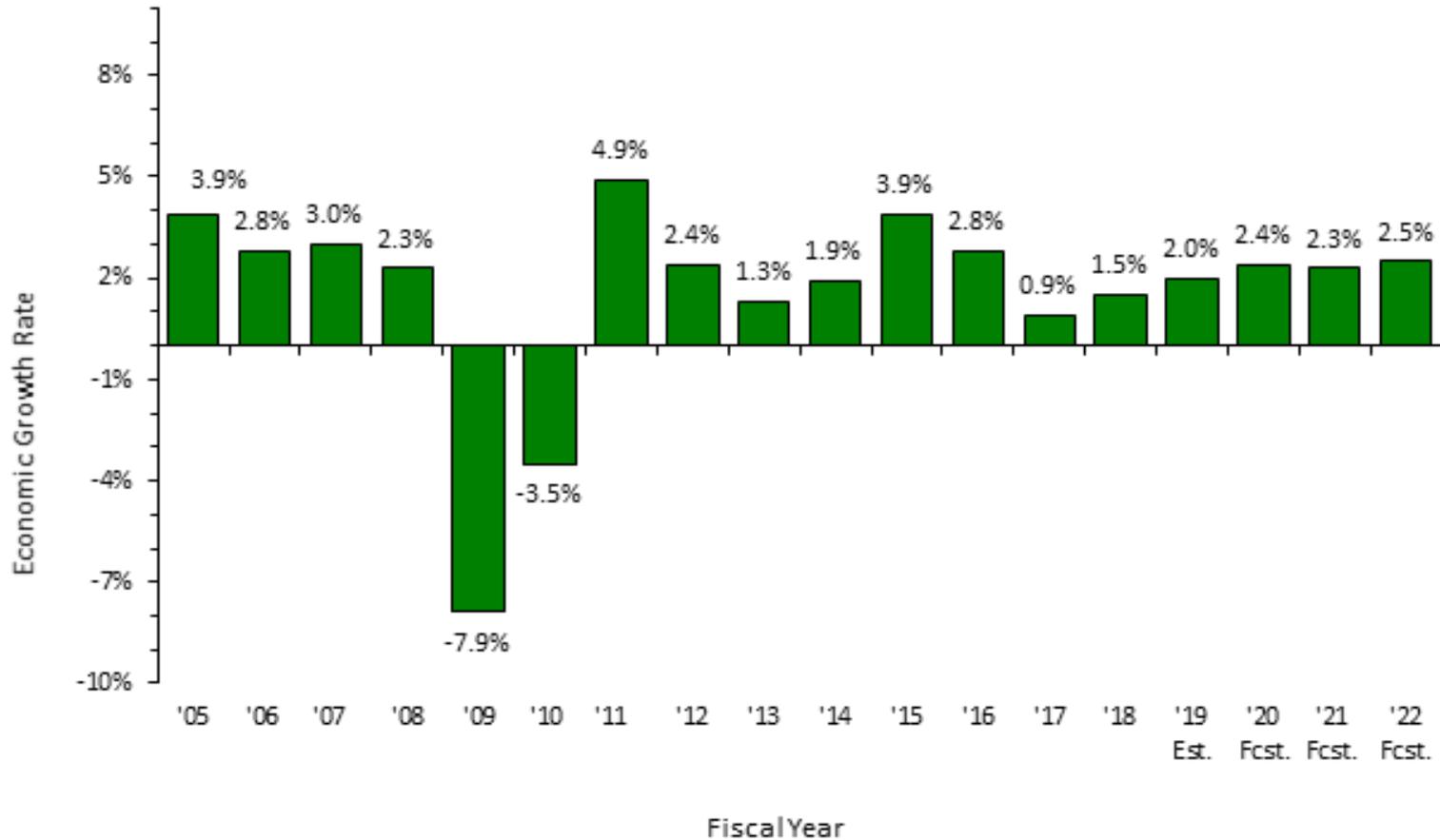
Personal Income Tax Economic Growth Rates



Note: Capital Gains are for the immediately preceding calendar year.

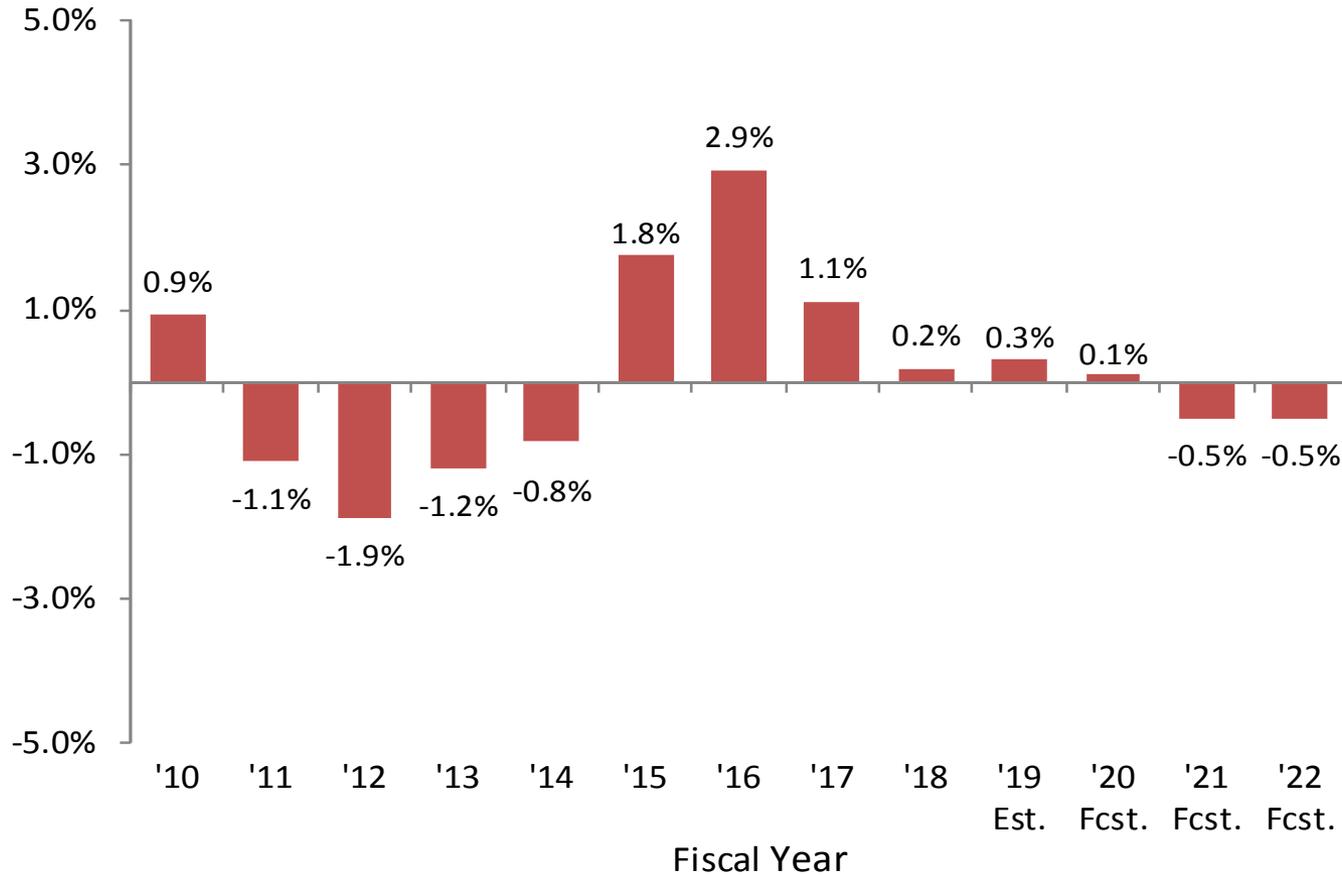
Sales and Use Tax

Economic Growth Rates



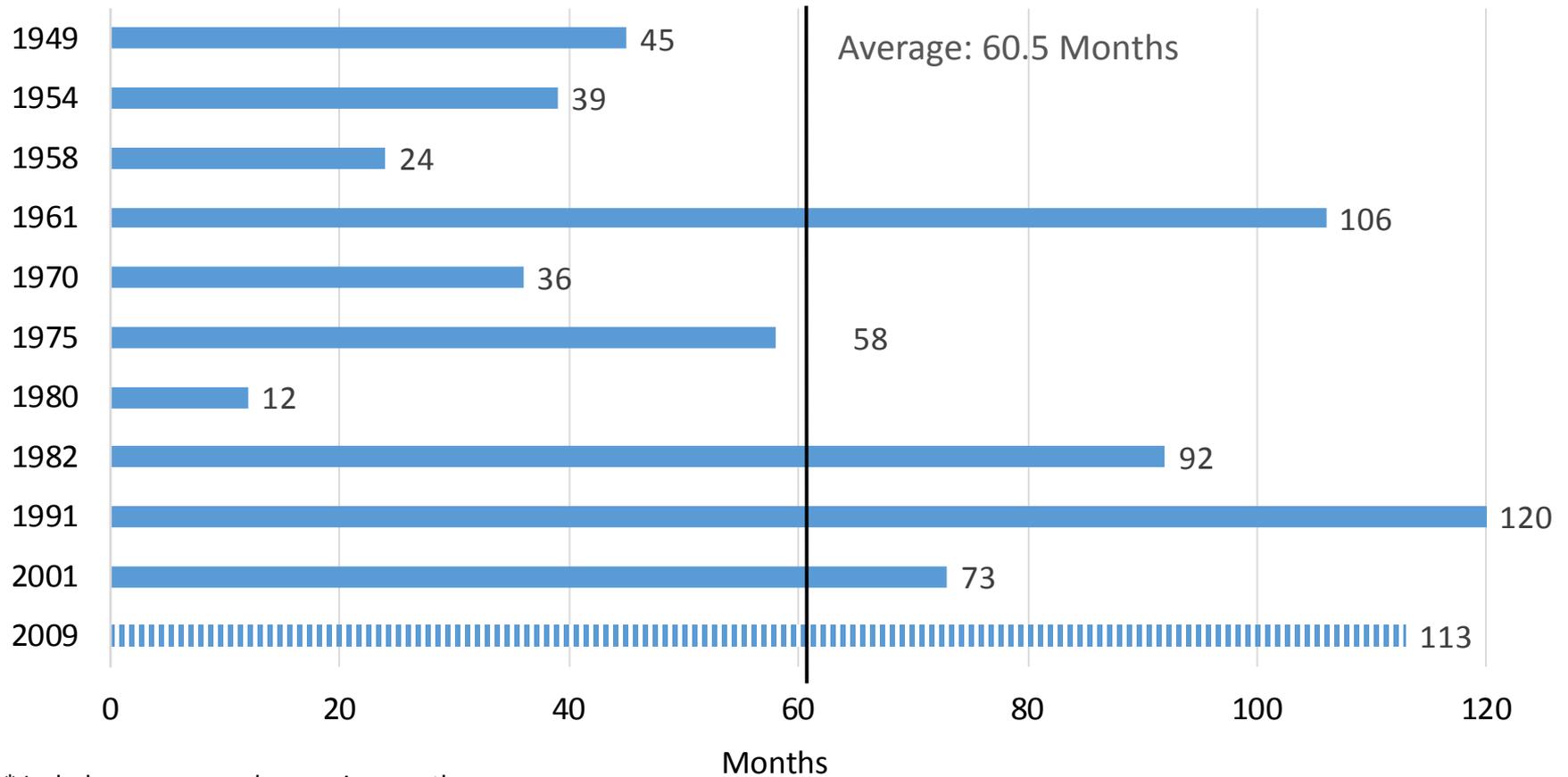
Motor Fuels Tax

Economic Growth Rates



Economy

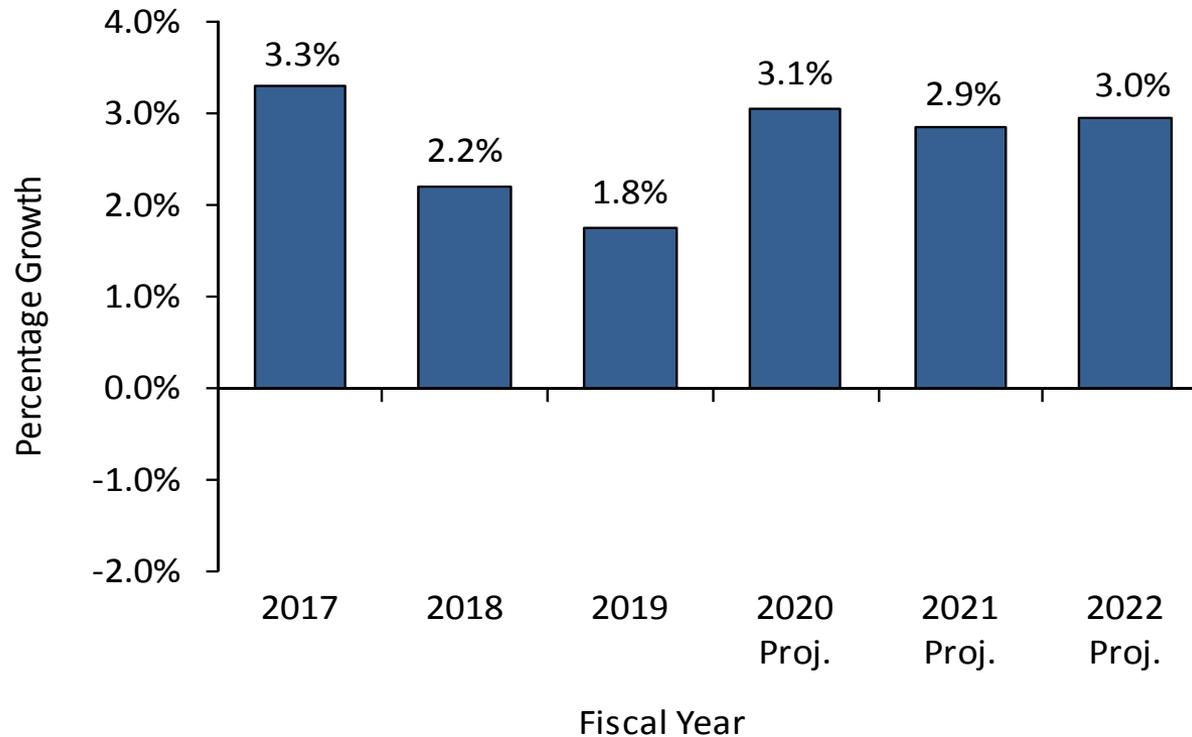
National Economic Expansions* Length in Months



* Includes recovery and expansion months
Source: National Bureau of Economic Research

Long-Term Obligations and Other Topics

Spending Cap Growth Rates



- Given the state's low growth in personal income over the past few years, the core consumer price index is the limiting factor in FY 2018 and FY 2019
- Personal income is projected to be the limiting factor in FYs 2020 through 2022
- The enacted budget for FY 2019 is \$0.5 million below the cap
- For FY 2020, a growth rate of three percent would allow capped expenditures to grow by approximately \$400 million over FY 2019 levels

Recently-Enacted Caps

Revenue Cap

Caps the amount of revenue that can be appropriated.

Fiscal Year	Appropriations as % of Revenues
2020	99.50%
2021	99.25%
2022	99.00%
2023	98.75%
2024	98.50%
2025	98.25%
2026	98.00%

Volatility Cap

Threshold above which collections from estimates and finals portion of Personal Income Tax plus Pass-Through Entity Tax are transferred to the Budget Reserve Fund.

Fiscal Year	Revenue Volatility Threshold (in millions)
2019	\$ 3,196.8
2020	\$ 3,294.6
2021	\$ 3,388.5
2022	\$ 3,488.8

Recently-Enacted Caps

Connecticut's Bonding Caps

Fiscal or Calendar Year	Statutory Debt Limit	Bond Allocation Cap	Bond Allotment Cap	Bond Issuance Cap
FY/CY 2017	\$24.832 billion	\$2.0 billion	NA	NA
FY/CY 2018	\$24.879 billion	\$2.036 billion	NA	NA
FY/CY 2019	\$25.380 billion	\$2.083 billion	\$1.9 billion	\$1.9 billion
FY/CY 2020	\$24.916 billion	\$2.135 billion	\$1.944 billion	\$1.944 billion
FY/CY 2021	\$25.238 billion	\$2.188 billion	\$1.993 billion	\$1.993 billion
FY/CY 2022	\$24.926 billion	\$2.243 billion	\$2.043 billion	\$2.043 billion

Statutory Debt Limit

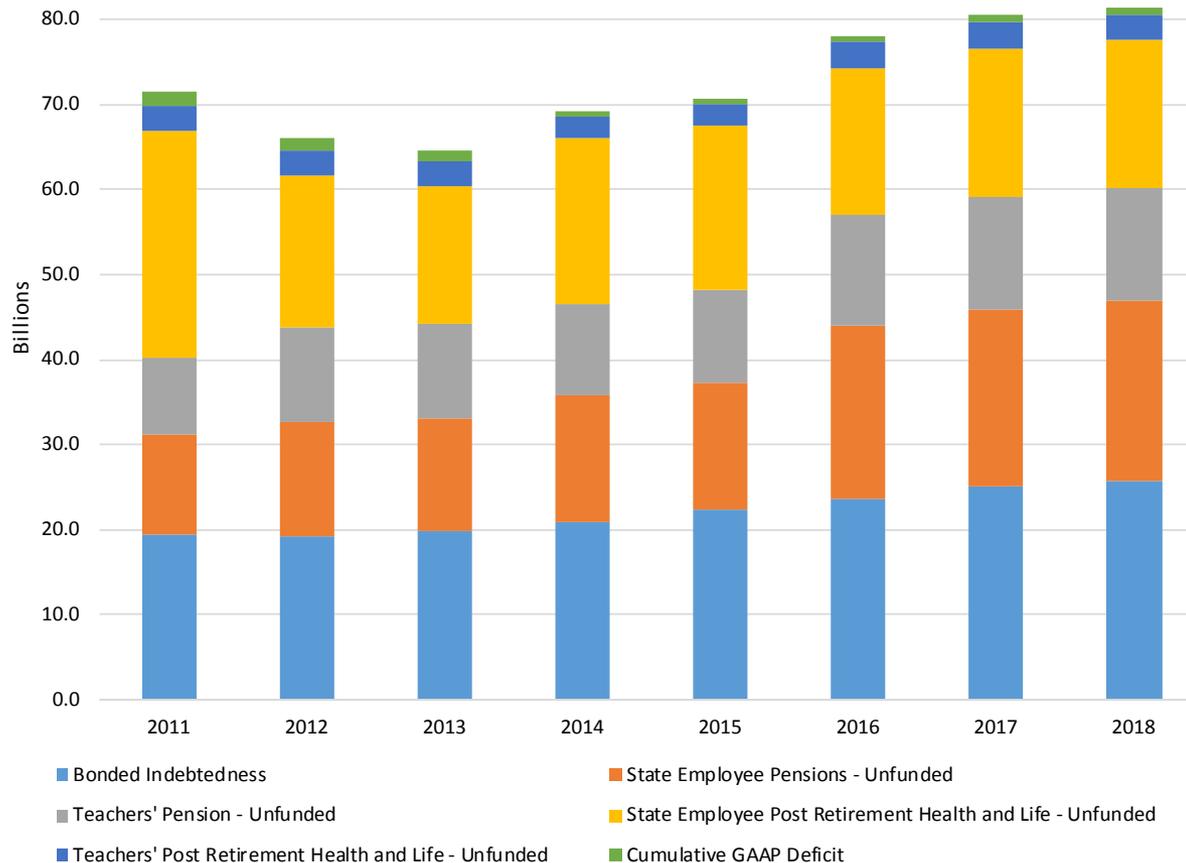
	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Revenues 11/13/2018 Consensus	\$15,862,300,000	\$15,572,600,000	\$15,773,800,000	\$15,579,000,000
Multiplier	1.6	1.6	1.6	1.6
100% Limit	<u>25,379,680,000</u>	<u>24,916,160,000</u>	<u>25,238,080,000</u>	<u>24,926,400,000</u>
Bonds Subject to Limit	\$22,661,976,165	\$22,542,596,122	\$23,044,291,936	\$23,044,767,158
Debt Incurring Margin	\$2,717,703,835	\$2,373,563,878	\$2,193,788,064	\$1,881,632,842
Percentage of Limit	89.29%	90.47%	91.31%	92.45%
Margin to 90% Limit	\$179,735,835	\$(118,052,121)	\$(330,019,936)	\$(611,007,158)

- FY 2019 represents the actual debt incurring margin
- FY 2020 through FY 2022 assume that all existing bond authorizations continue and that \$1.5 billion of new bond authorizations are enacted each year
- The General Assembly will be required to limit new bond authorizations and/or repeal existing bond authorizations to comply with the debt limitation (as shown in shaded areas)

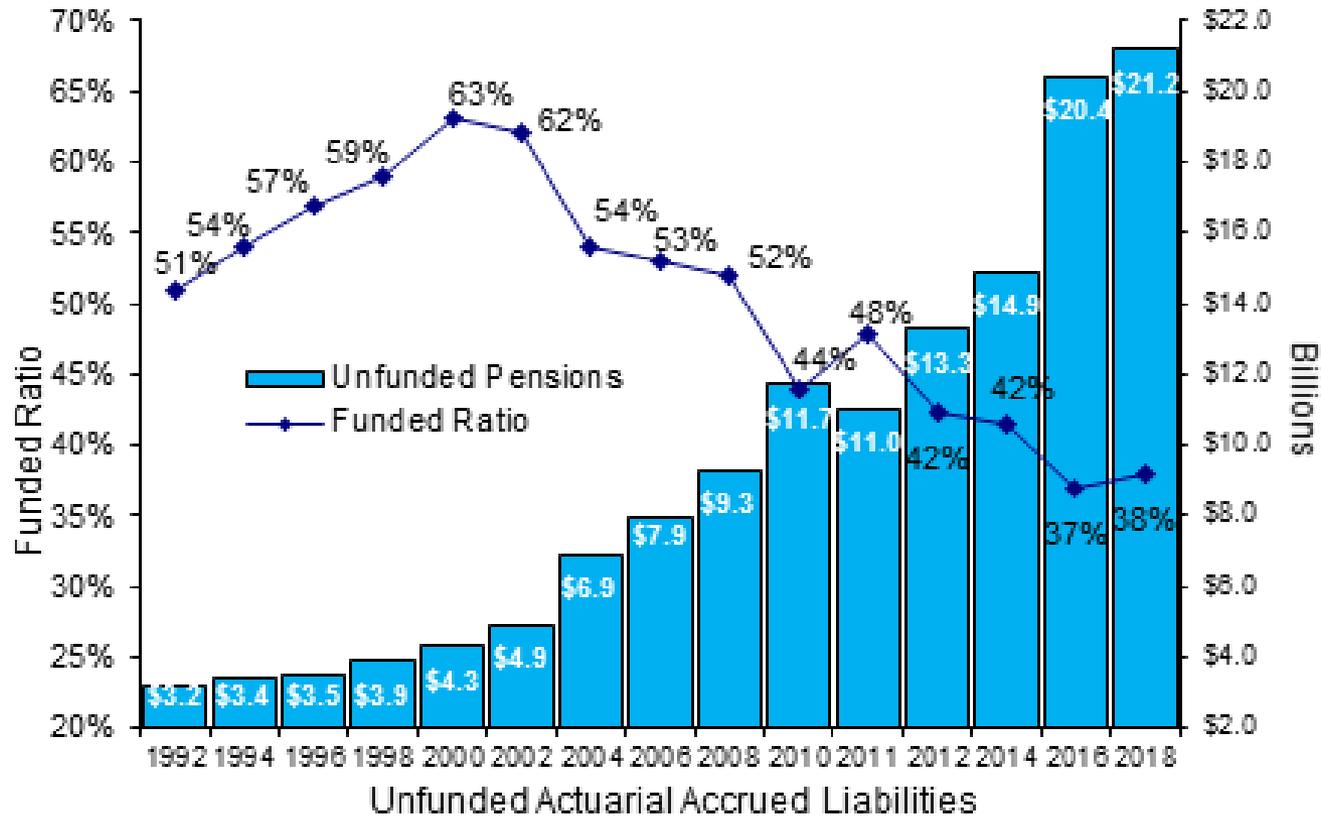
Long-Term Liabilities

(In Billions)

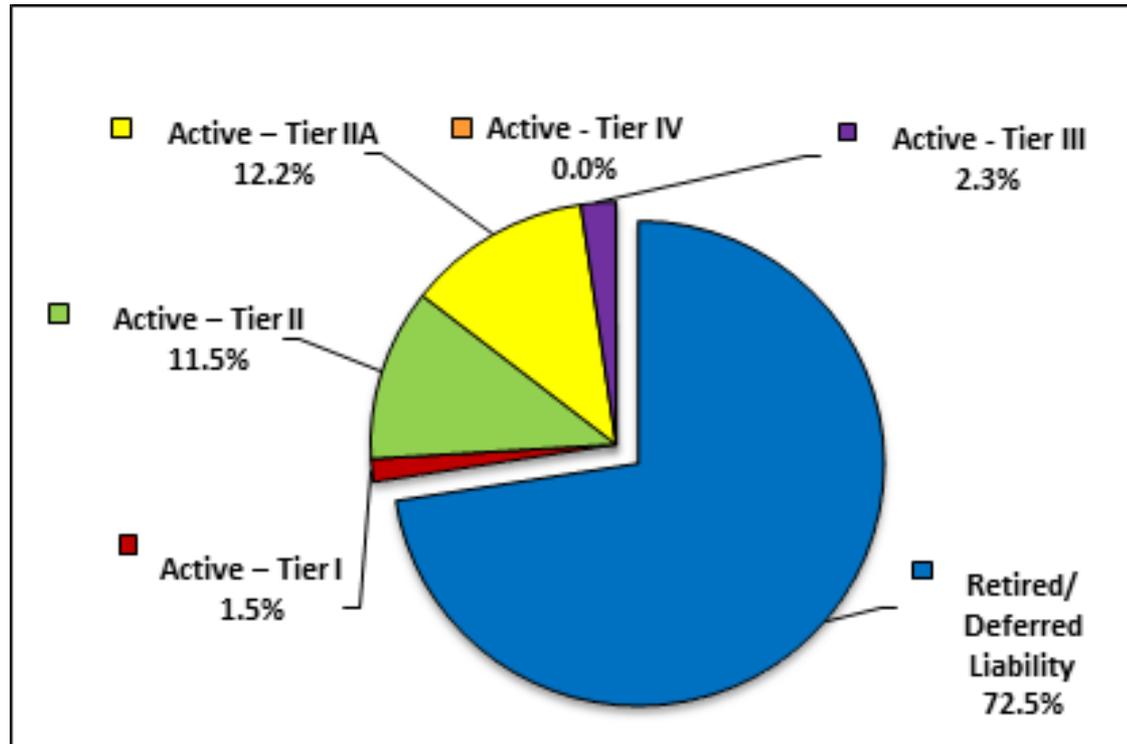
Bonded Indebtedness – As of 8/31/18	\$25.5
State Employee Pensions – Unfunded as of 6/30/18	\$21.2
Teachers’ Pension – Unfunded as of 6/30/18	\$13.2
State Employee Post-Retirement Health and Life – Unfunded as of 6/30/17	\$17.4
Teachers’ Post-Retirement Health and Life – Unfunded as of 6/30/16	\$3.0
Cumulative GAAP Deficit – As of 6/30/18	\$0.8
Total	\$81.1



State Employees Retirement System

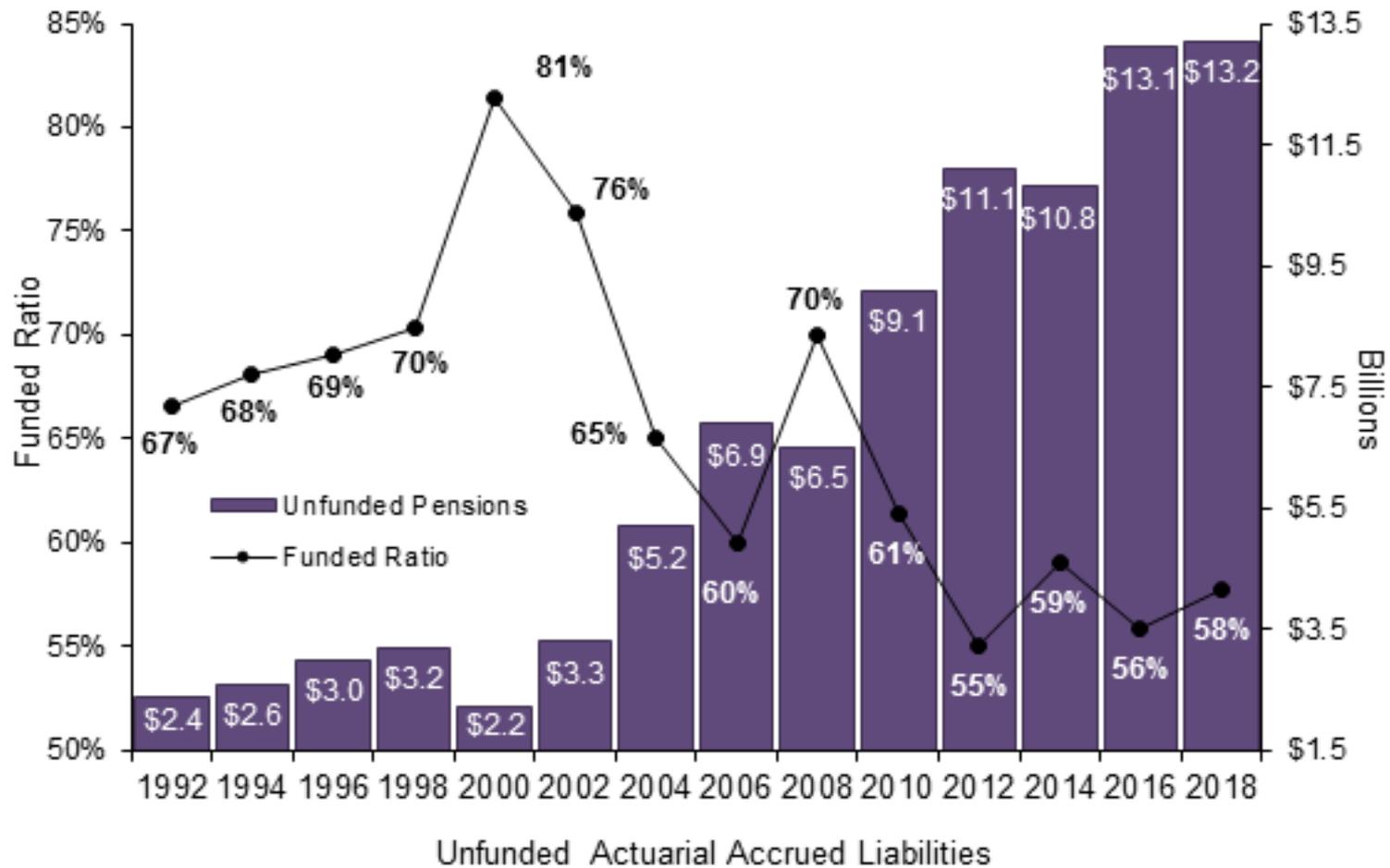


State Employees Retirement System

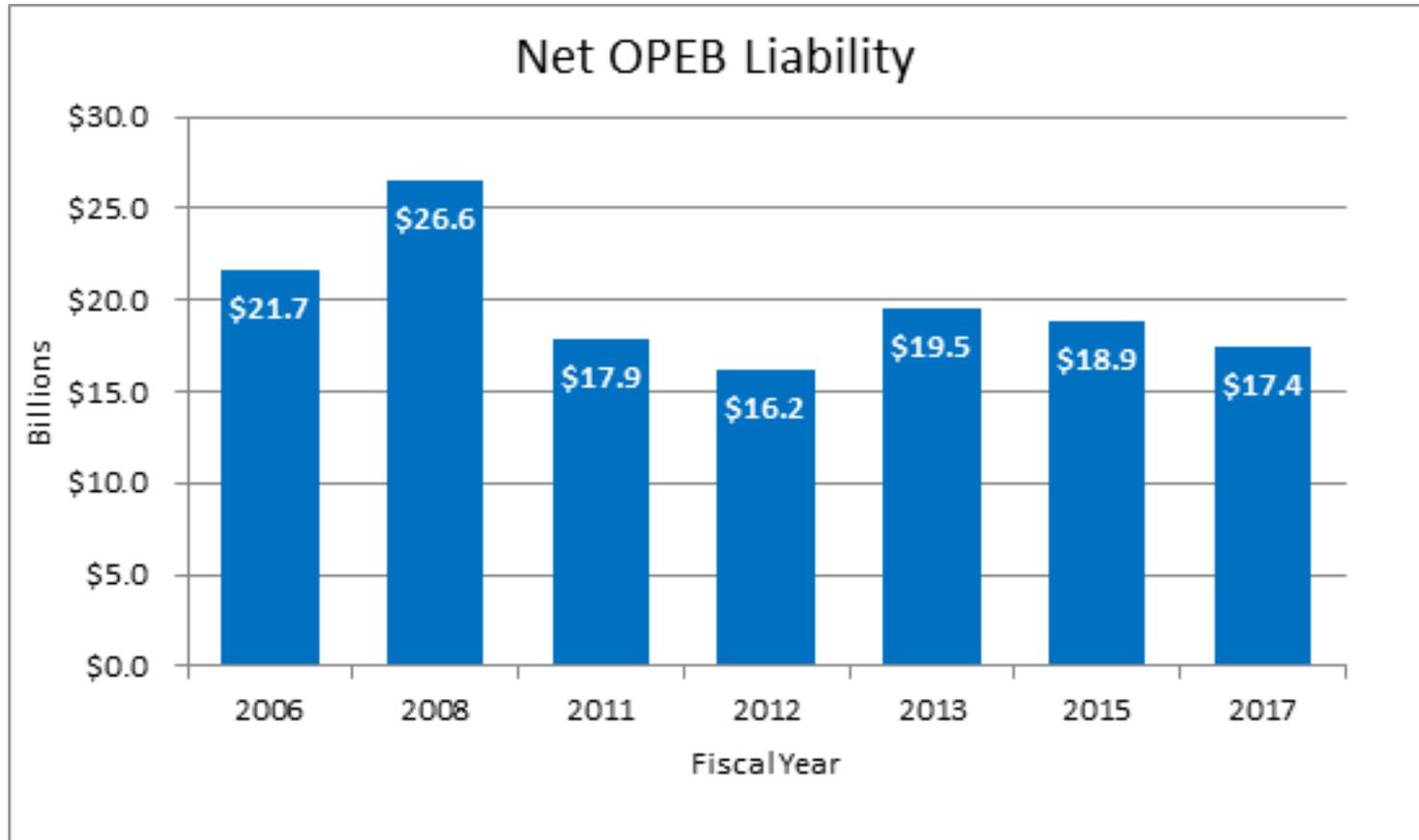


- \$34.2 billion total liability
- \$21.2 billion unfunded liability
- 72.5% of the liability is related to already-retired employees
- 86.7% of the FY 2020 actuarially determined employer contribution is for the unfunded actuarial accrued liability

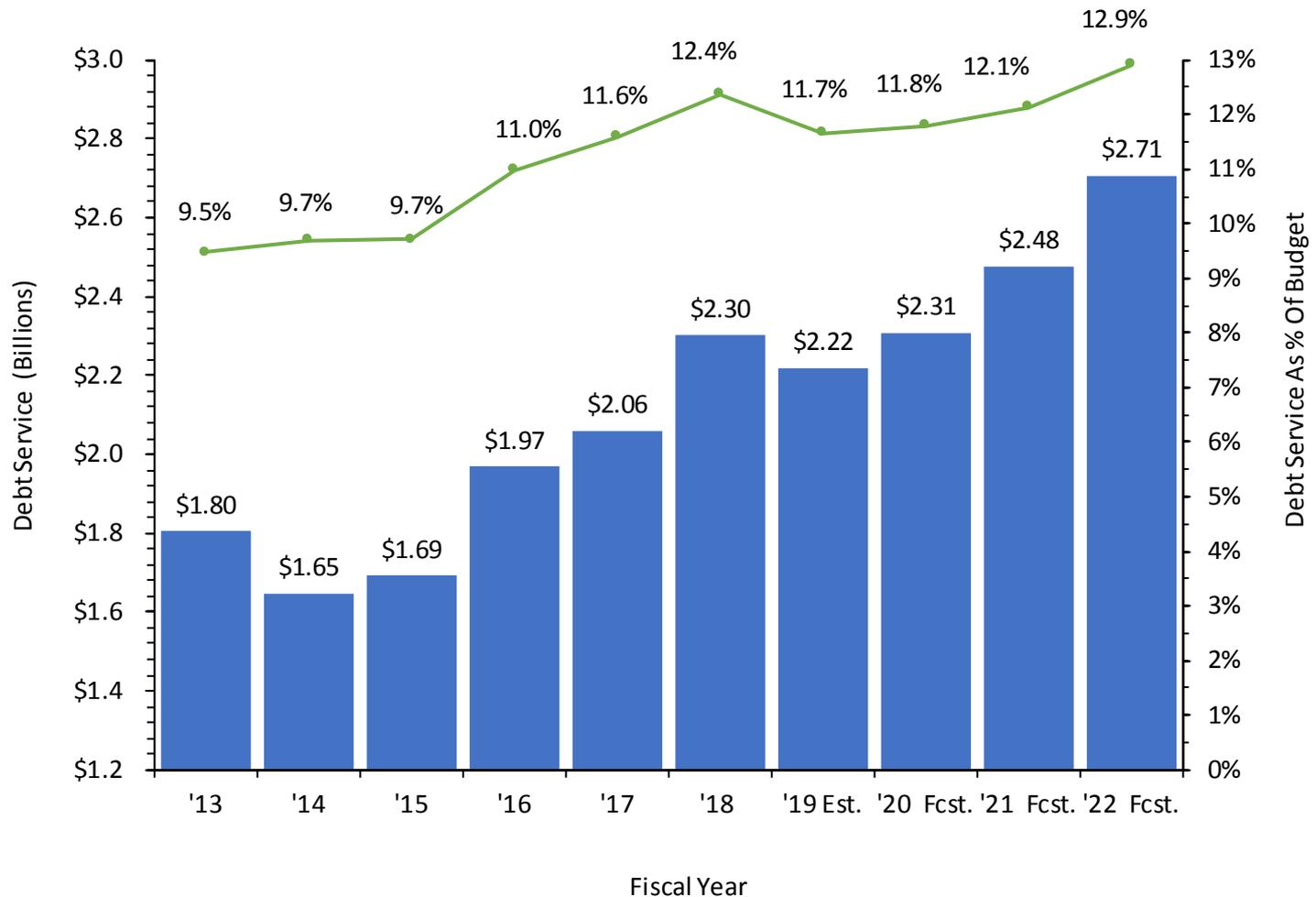
Teachers' Retirement System



Other Post-Employment Benefits (OPEB)

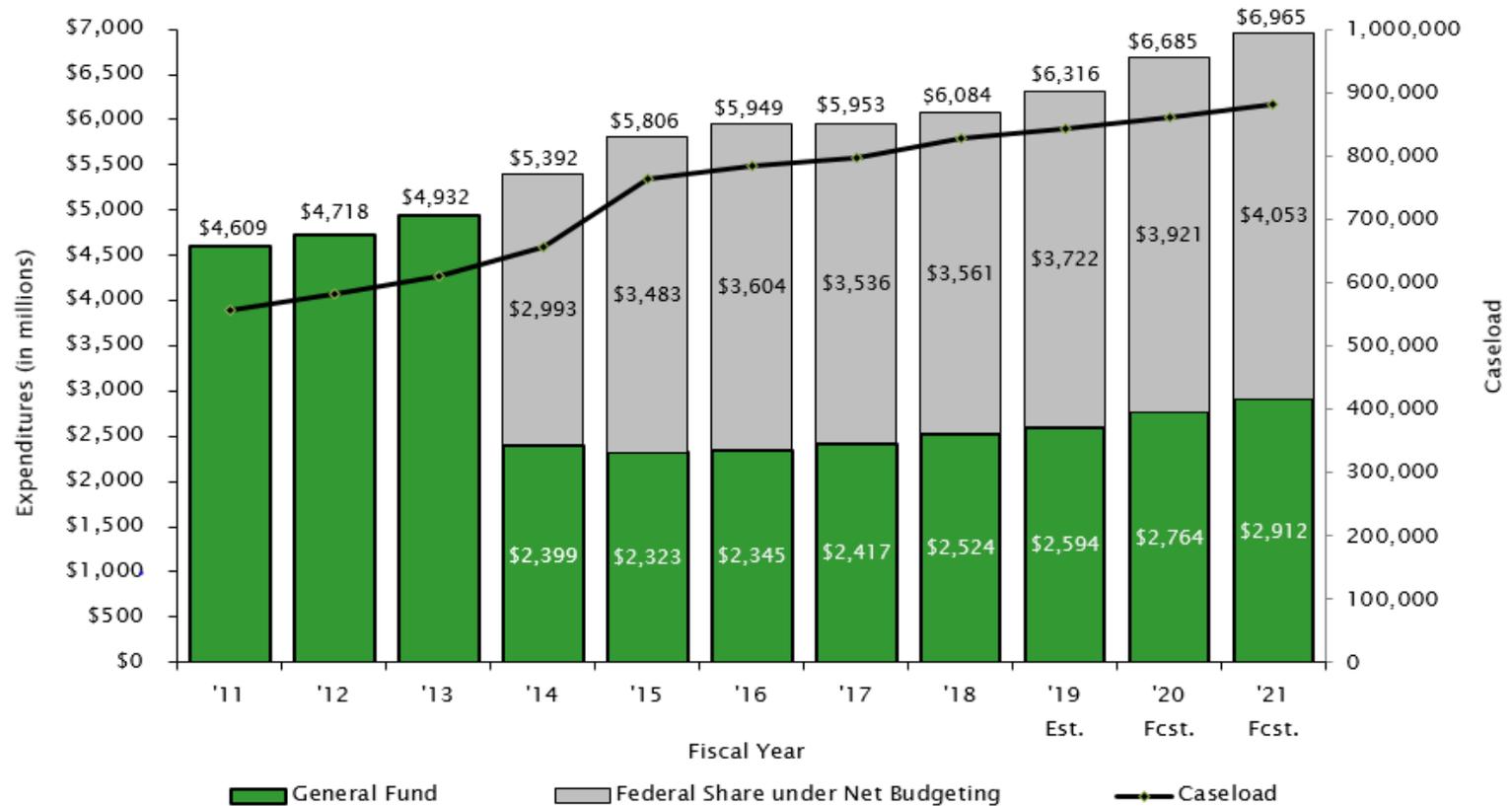


General Fund Debt Service Expenditures



Medicaid

Expenditure and Caseload Trends



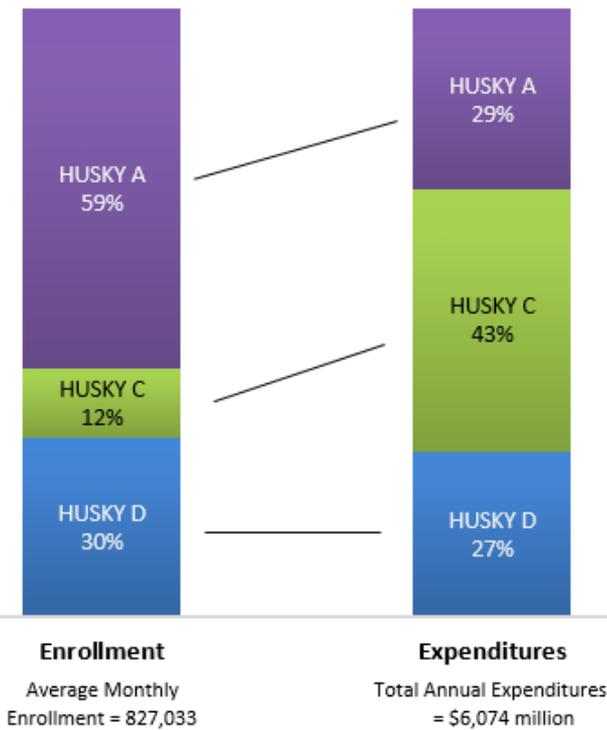
Beginning with the budget adopted in 2013, the Medicaid account in the Department of Social Services was “net appropriated.” A total of \$2,768.7 million was removed from both budgeted revenues and appropriations to accomplish this transition in FY 2014.

Expenditures have been adjusted to include funds transferred to DSS from DMHAS for behavioral health services which qualify for Medicaid reimbursement. Expenditures exclude hospital supplemental payments given the significant variance in that area over the years.

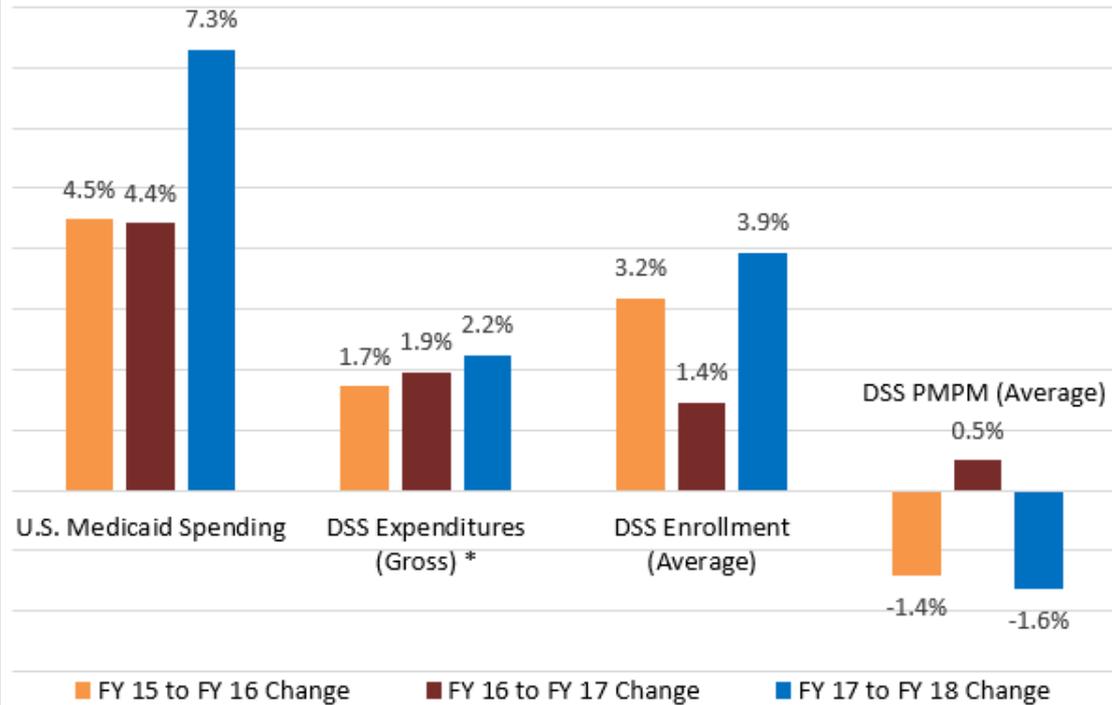
Medicaid

Enrollment and Cost Trends

Medicaid - FY 2018



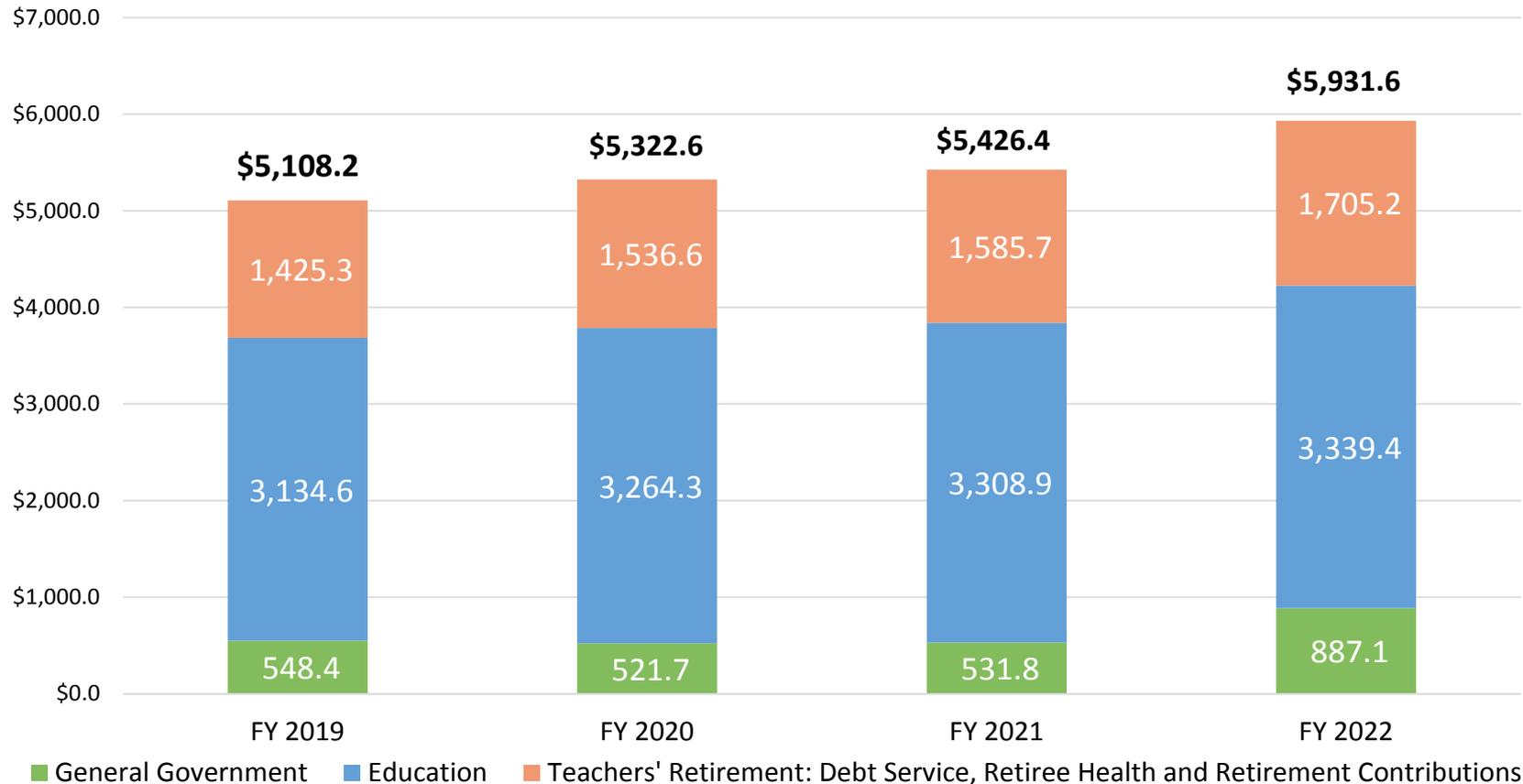
Medicaid Growth Trends



* Expenditures are net of drug rebates and exclude hospital supplemental payments given the significant variance in that area over the years.

State Aid to Municipalities

(in millions)



- Estimates for FYs 2020, 2021, and 2022 are according to formulas and appropriations in current law and do not assume future legislative action
- Bonded aid assumes continued allocations by the State Bond Commission at current levels

Executive Branch Staffing

All Appropriated Funds (excludes Higher Education)



- 3,379, or 11.4%, fewer than the number at the end of CY 2010
- When adjusted for changes in state population, executive branch agencies have fewer staff than at any time since the 1950s

Special Commissions Studying Fiscal and Pension Issues

Name	Statutory Reference	Primary Responsibility	Purpose	Timeline
1. Commission on Fiscal Stability & Economic Growth (CFSEG)	PA 17-2, JSS; Section 250	Commerce, Planning and Development, Finance, Revenue and Bonding and Appropriations committees	Develop and recommend policies to achieve state government fiscal stability and promote economic growth and competitiveness within the state	Report issued March 1, 2018 - Legislature did not adopt recommendations; instead, additional commissions and reviews of the report were adopted (see below)
2. Teachers' Retirement System Viability Commission (TRSVC)	PA 17-2, JSS; Section 59	Education and Appropriations committees	Develop and implement a plan to maintain the financial viability of the Connecticut Teachers' Retirement System	Report issued on March 19, 2018; the commission shall terminate no later than March 19, 2019
3. Pension Sustainability Commission (PSC)	PA 17-2, JSS; Section 180	Finance, Revenue and Bonding committee	Study the feasibility of placing state capital assets in a trust and maximizing those assets for the sole benefit of the state pension system	Report due by January 1, 2019
4. Commission to Study CFSEG Recommendation Regarding TRS	PA 18-81; Section 58	Appropriations committee	Conduct a study of the proposal made by the CFSEG for reform of the Teachers' Retirement System	Appointments and co-chairpersons have not been finalized - Report due by January 1, 2019
5. Panel Study of CFSEG Tax Rebalancing Proposal	PA 18-81; Section 56	Finance, Revenue and Bonding committee	Study and make recommendations regarding the CFSEG proposals concerning the rebalancing of state taxes without raising net new taxes	Appointments and co-chairpersons have not been finalized - Report due by January 1, 2019

Conclusion

- A General Fund surplus of \$254.9 million is expected in FY 2019
- The Rainy Day Fund is expected to rise to nearly \$2.1 billion at the end of FY 2019
- “Fixed” costs are rising faster than revenues in FY 2020 through FY 2022
- A national recession could occur in the next few years
- Structural changes will be necessary to match cost and revenue trends over the long term, and to preserve use of the Rainy Day Fund for recessionary periods