



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

February 20, 2009

The Honorable Nancy Wyman
State Comptroller
55 Elm Street
Hartford, Connecticut 06106

Dear Comptroller Wyman:

The following information on the State's General Fund for fiscal year 2008-2009 is provided in accordance with Section 4-66 of the General Statutes. In addition, an analysis of the Special Transportation Fund is included due to the significant nature of this fund. Estimates are as of January 31, 2009. This letter reflects the passage of Public Acts 08-01 and 08-02 from the August Special Session, P.A. 08-01 from the November Special Session and P.A. 09-1 of the 2009 Regular Session. These estimates do not include the impact of the most recent events, namely the submittal of Governor Rell's third Deficit Mitigation Plan yesterday or the signing into law by President Obama of the American Recovery and Reinvestment Act earlier this week. However, both of these are discussed later in the context of how each would impact the estimates provided in this letter.

More than nineteen months have passed since Governor Rell signed the biennial budget into law (Public Act 07-1). As you know, the 2008 legislative session ended without passage of a revised midterm budget. Due to worsening economic conditions, Governor Rell ordered a number of measures to curtail state spending. These include a ban on out-of-state travel, implementation of a hiring freeze and the implementation of a third round of allotment rescissions in accordance with her authority under CGS 4-85. Those components of the Governor's Deficit Mitigation Plan that were included in P.A. 09-1 are also reflected in this letter. In regards to the Governor's latest Deficit Mitigation Plan, only those items reflecting changes in estimated revenues or expenditures through January 31st are factored into our estimates.

In the General Fund, we are now estimating a deficit of \$944.2 million. This month's letter reflects all of the actions taken by the Governor and the General Assembly through January 31st. This month's letter also reflects an acceleration of the negative impact of national economic conditions on the state's major revenue streams, including Sales and Use Tax and Real Estate Conveyance Tax.

In the General Fund, we are estimating that due to the Governor's three rescission programs, actions taken by the General Assembly and other surpluses available in select accounts, lapses are approximately \$206.9 million higher than budgeted. All told, the statewide lapses are estimated to reach \$324.4 million. These are itemized in Statement 4 of the attached report. Deficiencies totaling \$77.4 million are anticipated, including a \$7.6 million deficiency in the Department of Mental Health and Addiction Services, a deficiency of \$17.3 million in the Department of Correction and a projected deficiency of \$1.5 million in the DAS-Workers' Compensation Account, related primarily to the roll-out of last year's deficiencies in those agencies. We are now projecting a net deficiency in the Department of Social Services of \$50.98 million. Primarily reflecting a shortfall of \$38.2 million in the Medicaid account largely due to additional costs beyond those appropriated from the expansion in eligibility for HUSKY

adults, as well as a shortfall of \$8.0 million for non-formulary drugs under the Medicare Part D Supplemental Needs Fund.

This month's letter includes three adjustments to our General Fund revenue projections which result in an overall decrease of \$33.0 million. On the positive side we are projecting increased Medicaid revenue of \$40.1 for a variety of projects. We are reducing our tax collection projections by \$73.1 million, the largest of which is a decrease in sales tax revenue of \$54.0 million. Sales tax collections in the month of January for the December holiday period were significantly below target as consumers have dramatically reduced their spending in light of the current economy. We are also revising downward our projection of the real estate conveyance tax by \$19.1 million as the housing market remains sluggish. The adjustments in sales tax and real estate conveyance tax will reduce the revenue base in these two accounts and result in a combined total loss of approximately \$150 million in the next biennium. We are continually monitoring the current economic trends and daily revenue collections. The next major dates for tax collections are March 15th for the quarterly Corporation Tax and Insurance Companies Tax, and April 15th for the Income Tax. Analysis of the collections received on those dates may require subsequent modifications.

On February 19th, Governor Rell submitted a \$1.1 billion Deficit Mitigation Plan to the General Assembly. Based on our analysis of the federal stimulus bill, we estimate that Connecticut will receive almost \$400 million dollars of additional federal funding, mostly through the enhanced federal participation rate, providing \$383.8 million for the state's Medicaid and Foster Care programs and at least another \$11.3 million in additional funding for categorical grant programs. The remaining \$700 million includes approximately \$70 million of actions that the administration is undertaking including \$6.3 million of additional rescissions, \$45 million of contract savings, \$11.7 million of RSA savings, and \$8 million of savings from deferred purchases. The Governor's plan requires the General Assembly to take timely action on approximately \$288 million of revenue generating and/or expenditure reducing items. Lastly, consistent with her biennial budget submittal, the plan recommends utilizing \$281.7 million from the Budget Reserve Fund to close any remaining gap. If implemented in total, the Governor's plan would fully extinguish the projected deficit and leave a General Fund balance of \$103 million available to address any further declines in revenue or increases in deficiencies.

It should be noted that while these projections are the best that can be made at this time, estimates may have to be adjusted to reflect changes in the economy, expenditure patterns and/or other factors. It is important to note that we will continue to refine our analysis of the economic impact attributable to the President Obama's economic stimulus package in the month's ahead. As more definitive information becomes available, it will be incorporated into future projections. Additionally, our next letter will fully incorporate the actions proposed by the Governor in February and any actions taken by the General Assembly to address the FY'09 deficit.

Sincerely,



Robert L. Genuario
Secretary

RLG:dd
Attachments

Summary
February 20, 2009

State of Connecticut
Summary of Changes
General Fund and Special Transportation Fund
Projected to June 30, 2009
As of January 31, 2009
(In Millions)

General Fund

Balance - January 20, 2009		\$	(921.7)
Revenues			
Sales and Use	(54.0)		
Real Estate Conveyance	(19.1)		
Federal Grants	40.1		(33.0)
Expenditures			
Additional Requirements	8.4		
Estimated Lapses	4.2		
Miscellaneous Adjustments/Rounding	(2.1)		10.5
Balance - February 20, 2009		\$	<u>(944.2)</u>

Special Transportation Fund

Carry Forward FY 2008-09 Surplus		\$	178.3
Balance - January 20, 2009			(65.7)
Revenues - No Change			0.0
Expenditures			
Estimated Lapses - No Change			<u>0.0</u>
Balance - February 20, 2009		\$	<u>112.6</u>

State of Connecticut
General Fund
Statement of Revenues, Expenditures, and Results of Operations
Projected to June 30, 2009
As of January 31, 2009
(In Millions)

	General Assembly <u>Budget Plan</u> ^{1.}	Revised Estimates <u>OPM</u> ^{2., 3., 4.}	Over/ <u>(Under)</u>
REVENUE			
Taxes	\$13,851.7	\$12,391.9	(\$1,459.8)
Less: Refunds	<u>(880.6)</u>	<u>(931.9)</u>	<u>(51.3)</u>
Taxes - Net	12,971.1	11,460.0	(1,511.1)
Other Revenue	1,208.4	1,095.3	(113.1)
Other Sources	<u>2,898.0</u>	<u>3,509.7</u>	<u>611.7</u>
TOTAL Revenue	\$17,077.5	\$16,065.0	(\$1,012.5)
EXPENDITURES			
Appropriations	\$17,200.5	\$17,231.2	\$30.7
Net Additional Requirements	0.0	77.4	77.4
Less: Estimated Lapses	<u>(117.5)</u>	<u>(324.4)</u>	<u>(206.9)</u>
TOTAL Expenditures	\$17,083.0	\$16,984.2	(\$98.8)
Balance from Operations	(\$5.5)	(\$919.2)	(\$913.7)
Miscellaneous Adjustments	<u>0.0</u>	<u>(25.0)</u>	<u>(25.0)</u>
Estimated Balance 6/30/09	<u>(\$5.5)</u>	<u>(\$944.2)</u>	<u>(\$938.7)</u>

1. PA 07-1, June Special Session, PA 07-1, September Special Session, PA 08-02, June 11 Special Session and PA 08-51.
2. PA 08-01 and PA 08-02, August Special Session.
3. PA 08-01, November Special Session.
4. P.A. 09-1

State of Connecticut
General Fund
Revenue Estimates
Projected to June 30, 2009
As of January 31, 2009
(In Millions)

TAXES	
Personal Income	\$6,900.0
Sales and Use	3,445.7
Corporation	607.6
Public Service Corporations	247.3
Inheritance and Estate	255.1
Insurance Companies	192.2
Cigarettes	325.0
Real Estate Conveyance	105.0
Oil Companies	88.0
Alcoholic Beverages	47.5
Admissions and Dues	37.5
Miscellaneous	141.0
TOTAL - TAXES	<u>\$12,391.9</u>
Less: Refunds of Taxes	(920.0)
R & D Credit Exchange	<u>(11.9)</u>
TOTAL - TAXES - NET	<u>\$11,460.0</u>
OTHER REVENUE	
Transfers - Special Revenue	\$289.0
Indian Gaming Payments	375.0
Licenses, Permits, Fees	156.7
Sales of Commodities and Services	31.5
Rents, Fines, Escheats	71.2
Investment Income	30.0
Miscellaneous	142.5
Refunds of Payments	<u>(0.6)</u>
TOTAL - OTHER REVENUE	<u>\$1,095.3</u>
OTHER SOURCES	
Federal Grants	\$3,229.6
Transfers to the Resources of the General Fund	250.6
Transfer from Tobacco Settlement Fund	115.8
Transfers to Other Funds	<u>(86.3)</u>
TOTAL - OTHER SOURCES	<u>\$3,509.7</u>
TOTAL - GENERAL FUND REVENUE	\$16,065.0

State of Connecticut - General Fund
Appropriation Adjustments - Net Additional Requirements
Projected to June 30, 2009
As of January 31, 2009

DAS-Workers' Compensation Claims	\$1,500,000
Department of Mental Health & Addiction Services	7,600,000
Department of Social Services	50,980,000
Department of Correction	<u>17,320,000</u>
Total	<u>\$77,400,000</u>

State of Connecticut
General Fund
Estimated Lapses
Projected to June 30, 2009
As of January 31, 2009

General Personal Services Reduction	\$14,000,000
General Other Expenses Reductions	11,000,000
Allotment Rescissions - July	115,800,000
Allotment Rescissions - September	34,400,000
Allotment Rescissions - December	7,200,000
OPM - Personal Services	200,000
OPM - Elderly Renters	170,000
OPM - Regional Performance Incentive Grant	100,000
Division of Special Revenue - Personal Services	300,000
Insurance & Risk Management - Other Expenses	975,000
Department of Development Services - Autism Pilot	230,000
Department of Public Safety - Personal Services	1,000,000
Department of Correction - Community Support Services	750,000
Judicial - Alternative Incarceration Program	500,000
Department of Children & Families	13,000,000
Unallocated Lapses	8,300,000
Consultant Contracts and Personal Services Agreements	2,000,000
Contingency Needs	2,000,000
Reserve for Salary Adjustment	3,100,000
Debt Service	37,600,000
DHE - CT Independent College Student Grant	500,000
Lapse of FY 07 Surplus Appropriation as per P.A. 08-01, NSS	14,500,000
Lapse of FY 07 Surplus Appropriation per P.A. 09-1	3,050,000
OSC-Employer's Social Security Tax	1,000,000
OSC-Retired State Employees Health Insurance	5,000,000
OSC-Higher Ed Alternative Retirement	2,000,000
OPM - PILOT Manufacturing & Equipment	45,700,000
Total	<u>\$324,375,000</u>

State of Connecticut
2008-09 General Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹ .	July 2008	August ² 2008	September 2008	October 2008	November ³ 2008	December ⁴ 2008	January 2009	February 2009	March 2009	April 2009	May 2009	June 2009
REVENUE	\$17,077.5	\$16,858.4	\$16,785.6	\$16,949.1	\$16,709.6	\$16,824.9	\$16,098.0	\$16,065.0					
Appropriations	17,200.5	17,200.5	17,231.2	17,279.5	17,279.5	17,270.4	17,231.2	17,231.2					
Additional Requirements	0.0	18.3	19.8	19.8	29.8	29.8	85.8	77.4					
Less: Estimated Lapses	(117.5)	(217.5)	(217.5)	(251.9)	(257.5)	(300.8)	(320.2)	(324.4)					
TOTAL - Estimated Expenditures	17,083.0	17,001.3	17,033.5	17,047.4	17,051.8	16,999.4	16,996.9	16,984.2					
Balance from Operations	(5.5)	(142.9)	(247.9)	(98.3)	(342.2)	(174.5)	(898.8)	(919.2)					
Compt.'s Misc. Adjustments/Rounding	0.0	(2.8)	(6.2)	(9.6)	(14.1)	(18.5)	(22.9)	(25.0)					
Estimated Balance 6/30/09	(\$5.5)	(\$145.7)	(\$254.1)	(\$107.9)	(\$356.3)	(\$193.0)	(\$921.7)	(\$944.2)					

1. PA 07-1, June Special Session, PA 07-1, September Special Session, PA 08-2, June 11 Special Session and PA 08-51.

2. PA 08-01 and PA 08-02, August Special Session.

3. PA 08-01, November Special Session.

4. P.A. 09-1

State of Connecticut
Special Transportation Fund
Analysis of Budget Plan
Projected to June 30, 2009
As of January 31, 2009
(In Millions)

	General Assembly <u>Budget Plan</u> ^{1.}	Revised Estimates <u>OPM</u> ^{3.}	Over/ (Under)
Surplus Carried Forward from 2007-08 ^{2.}	\$215.5	\$178.3	(\$37.2)
REVENUE			
Taxes	\$739.5	\$702.1	(\$37.4)
Less: Refunds of Taxes	<u>(9.0)</u>	<u>(7.4)</u>	<u>1.6</u>
Taxes - Net	730.5	694.7	(35.8)
Other Revenue	<u>426.5</u>	<u>383.8</u>	<u>(42.7)</u>
TOTAL - Revenue	\$1,157.0	\$1,078.5	(\$78.5)
EXPENDITURES			
Appropriations	\$1,165.2	\$1,165.2	\$0.0
Additional Appropriations	0.0	0.0	0.0
Less: Estimated Lapses	<u>(11.0)</u>	<u>(21.0)</u>	<u>(10.0)</u>
TOTAL - Expenditures	\$1,154.2	\$1,144.2	(\$10.0)
Balance from Operations	\$2.8	(\$65.7)	(\$68.5)
Miscellaneous Adjustments	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Estimated Balance 6/30/09	<u>\$218.3</u>	<u>\$112.6</u>	<u>(\$105.7)</u>

1. P.A. 07-1, June Special Session

2. The Budget Plan assumed \$215.5 million would be carried forward from FY 2008.

The Comptroller's 9/2/08 final unaudited was \$178.3 million.

3. P.A. 09-1

Statement 2T
February 20, 2009

State of Connecticut
Special Transportation Fund
Revenue Estimates
Projected to June 30, 2009
As of January 31, 2009
(In Millions)

TAXES	
Motor Fuels	\$499.7
Oil Companies	141.9
Sales Tax DMV	60.5
TOTAL - TAXES	<u>702.1</u>
Less: Refunds of Taxes	<u>(7.4)</u>
TOTAL - TAXES - NET	\$694.7
OTHER REVENUE	
Motor Vehicle Receipts	\$229.3
Licenses, Permits, Fees	155.8
Interest Income	25.0
Transfers to Other Funds	(23.3)
Refunds of Payments	<u>(3.0)</u>
TOTAL - OTHER REVENUE	\$383.8
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	\$1,078.5

Statement 3T
February 20, 2009

State of Connecticut
Special Transportation Fund
Appropriation Adjustments - Additional Appropriations
Projected to June 30, 2009
As of January 31, 2009

Additional Appropriations	\$0
Total	<u>\$0</u>

Statement 4T
February 20, 2009

State of Connecticut
Special Transportation Fund
Estimated Lapse
Projected to June 30, 2009
As of January 31, 2009

Allotment Rescissions:	
Debt Service	\$14,121,000
Fringe Benefits	1,979,000
Department of Transportation	1,777,000
Department of Motor Vehicles	1,350,000
Insurance & Risk Management	126,000
DAS-Workers' Compensation	267,000
Allotment Rescissions - December	1,400,000
Total	<u>\$21,020,000</u>

State of Connecticut
2008-09 Special Transportation Fund
Summary of Operations Per Letter to the Comptroller
(In Millions)

	Budget Plan ¹ .	July 2008	August 2008	September 2008	October 2008	November 2008	December ³ 2008	January 2009	February 2009	March 2009	April 2009	May 2009	June 2009
Beginning Balance ²	\$215.5	\$176.2	\$178.3	\$178.3	\$178.3	\$178.3	\$178.3	\$178.3					
Revenue	<u>1,157.0</u>	<u>1,103.7</u>	<u>1,103.7</u>	<u>1,103.7</u>	<u>1,084.0</u>	<u>1,077.0</u>	<u>1,078.5</u>	<u>1,078.5</u>					
Total Available	1,372.5	1,279.9	1,282.0	1,282.0	1,262.3	1,255.3	1,256.8	1,256.8					
Appropriations	1,165.2	1,165.2	1,165.2	1,165.2	1,165.2	1,165.2	1,165.2	1,165.2					
Additional Appropriations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0					
Less: Estimated Lapses	<u>(11.0)</u>	<u>(18.8)</u>	<u>(18.8)</u>	<u>(19.6)</u>	<u>(19.6)</u>	<u>(21.0)</u>	<u>(21.0)</u>	<u>(21.0)</u>					
TOTAL - Estimated Expenditures	1,154.2	1,146.4	1,146.4	1,145.6	1,145.6	1,144.2	1,144.2	1,144.2					
Balance from Operations	2.8	(42.7)	(42.7)	(41.9)	(61.6)	(67.2)	(65.7)	(65.7)					
Compt's 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>	<u>0.0</u>	<u>0.0</u>					
Estimated Balance 6/30/09	\$218.3	\$133.5	\$135.6	\$136.4	\$116.7	\$111.1	\$112.6	\$112.6					

1. PA 07-1, June Special Session

2. The Budget Plan assumed \$215.5 million would be carried forward from FY 2008.

OPM's 8/20/08 estimate is \$176.2 million. The Comptroller's 9/2/08 final unaudited was \$178.3 million.

3. P.A. 09-1