



# STATE OF CONNECTICUT

## OFFICE OF POLICY AND MANAGEMENT

March 20, 2015

The Honorable Kevin Lembo  
State Comptroller  
55 Elm Street  
Hartford, Connecticut 06106

Dear Comptroller Lembo:

The following information on the state's General Fund for fiscal year 2015 is provided in accordance with Section 4-66 of the General Statutes. An analysis of the Special Transportation Fund is also included due to the significant nature of the fund. Note that our projections reflect the state's estimated year-end balance from operations in accordance with Generally Accepted Accounting Principles (GAAP).

### General Fund

The Office of Policy and Management is projecting a \$132.8 million General Fund deficit for Fiscal Year 2015, an increase of \$71.6 million from last month. This change is due to a \$63 million revenue revision, and \$8.6 million in updated deficiency estimates for several agencies. Fund transfers included in House Bill 6825, the Governor's legislative proposal to address FY 2015 deficiencies, would reduce the shortfall by \$37.3 million. We continue to work to address the remaining deficit through administrative actions, including heightened scrutiny of position refills and contract requests in order to ensure that year-end expenditures are limited to those that are critical for state operations. As noted in previous forecasts, April represents a significant month for revenue collections and any deviation from the forecast will impact year-end results.

### Revenues

This month's revenue projection has been revised downward by a total of \$63.0 million. A \$45 million reduction in federal grant revenue for claims paid during the last two quarters of Fiscal Year 2014 has been recognized in this letter. This reflects the formal notification by the Federal Centers for Medicare and Medicaid (CMS) that Connecticut's request to submit claims for the Medicaid expansion population consistent with all other Medicaid claiming - on a date of payment basis - was denied. Therefore, Connecticut will need to convert claims for the Medicaid expansion population to a date of service basis, resulting in lost revenue for services that were provided prior to, but paid after, January 2014. Options for appeal are currently being explored.

In addition, an \$18.0 million reduction in projected Health Provider Tax collections is due to the utilization of transferrable tax credits. All other revenue sources remain unchanged. As noted last month, our forecast anticipates robust Personal Income Tax collections in April. Federal tax policy significantly influenced taxpayer behavior in the last two years, with the volatility of collections creating uncertainty as to what constitutes a base level of income tax collections. The

forecast assumes 25% growth in Personal Income Tax receipts over last year; each percentage point deviation from the forecast equates to approximately \$13 million.

### Expenditures

Overall, expenditures are projected to be \$7.7 million above the budget plan. Net additional requirements (deficiencies) total \$147.6 million, and \$53.7 million in lapses are projected beyond the budget plan and in addition to the savings resulting from rescissions implemented in November and January.

*Deficiencies.* Shortfalls are forecast in the following agencies:

- Department of Social Services. Inclusive of administrative actions to reduce the deficiency, a net Medicaid shortfall of \$108.0 million is projected due to increased service utilization; unlikelihood of achieving the full savings levels incorporated in the budget for the medication administration, step therapy, and fraud initiatives; additional hospital cost settlements; and revisions to the federal cost share for a small percentage of Medicaid clients who will be reimbursed at 50 percent as opposed to the originally anticipated 100 percent level.
- Department of Emergency Services and Public Protection. A total shortfall of \$5.0 million is projected, consisting of \$4.0 million in Personal Services and \$1.0 million in Other Expenses. The revised budget for FY 2015 reduced funding in Personal Services "to reflect the implementation of overtime savings initiatives in the Division of State Police." Overtime savings of this magnitude are unlikely to be realized. The Other Expenses shortfall is attributable to increased crime lab supplies, motor vehicle fuel and repairs, and increased electricity costs.
- Department of Correction. A total shortfall of \$5.6 million is projected, with \$4.0 million in Other Expenses as a result of increased utility, food and maintenance costs, and \$1.6 million in Workers' Compensation Claims.
- Public Defenders Services Commission. A total shortfall of \$6.0 million is projected in Personal Services, after accounting for March Finance Advisory Committee transfers to resolve shortfalls in the Assigned Counsel – Criminal and Expert Witnesses accounts.
- Comptroller – Fringe Benefits. A \$15.0 million shortfall in the Retired Employee Health Service account is anticipated due to claims costs that are trending above budgeted levels. Note that this sum is net of lapses anticipated in several other fringe benefit accounts.
- Comptroller – Miscellaneous. An \$8.0 million deficiency is anticipated in the Adjudicated Claims account, including the proposed settlement for a wrongfully convicted individual.

*Lapses.* Lapses beyond holdbacks and rescissions are forecast in the following agencies:

- Legislative Branch. A total of \$6.0 million in the Office of Legislative Management's Personal Services and Other Expenses accounts and \$0.4 million in the Auditors of Public Accounts' Personal Services account. These projected lapses have more than satisfied the branch's unallocated lapse target for the fiscal year.
- Treasurer – Debt Service. \$68.0 million in savings from actual and anticipated bond sales.
- Office of Policy and Management. \$3.0 million in the Tax Relief for Elderly Renters account due to fewer applications than the level assumed in the adopted budget.
- Department of Consumer Protection. \$0.4 million in Personal Services due to vacancies.

- Department of Labor. A total of \$1.0 million, with \$0.3 million in the Veterans' Opportunity Pilot account due to delays in hiring and \$0.7 million in Opportunities for the Long Term Unemployed due to startup delays.
- Department of Public Health. \$1.0 million in Personal Services due to vacancies.
- Department of Developmental Services. \$1.0 million in Personal Services due to vacancies.
- Office of Early Childhood. \$2.4 million in various accounts due to vacancies and slower rollout of the new school readiness program than assumed in the budget.
- Teachers' Retirement Board. \$1.2 million due to lower than anticipated retiree health care costs.
- Department of Children and Families. A net \$4.0 million as a result of delays in the development of new programs and updated caseload and hiring projections.
- Budgeted lapses. We project that \$21.6 million of the \$94.7 million Unallocated Lapse target for the Legislative and Executive branches has been achieved. Additionally, our forecast no longer includes savings from the Municipal Opportunities and Regional Efficiencies lapse; instead, HB 6825 would transfer \$12.7 million from the Municipal Revenue Sharing Account to the resources of the General Fund in satisfaction of this lapse and to help address the projected FY 2015 deficit.

#### **Special Transportation Fund**

A \$3.9 million operating deficit is projected, down slightly from last month. Revenues continue to reflect the consensus estimate reached between OPM and OFA in January. Expenditures reflect an \$18.0 million shortfall in the Department of Transportation, with \$5.0 in the Rail Operations account related to operational costs associated with Metro North Railroad, and \$13.0 million in Personal Services after the March Finance Advisory Committee transfer to address winter-related Other Expenses overruns. Additionally, we are projecting a \$3.9 million shortfall in active employees' health care costs. The fund balance on June 30, 2015 is estimated to be \$165.1 million.

As always, it is important to note that while this is the best forecast that can be made at this time, estimates may need to be adjusted as the year progresses to reflect changes in the economy, expenditure patterns, and/or other factors.

Sincerely,



Benjamin Barnes  
Secretary

Summary  
March 20, 2015

State of Connecticut  
Summary of Changes  
General Fund and Special Transportation Fund  
Projected to June 30, 2015  
As of February 28, 2015  
(In Millions)

**General Fund**

Balance from Operations - Prior Month		\$	(61.2)
Revenues			
Health Provider Tax	(18.0)		
Federal Revenue	<u>(45.0)</u>		(63.0)
Expenditures			
Additional Requirements	(3.8)		
Estimated Lapses	(4.8)		
Miscellaneous Adjustments/Rounding	<u>0.0</u>		<u>(8.6)</u>
Estimated Balance from Operations - June 30, 2015		\$	<u>(132.8)</u>

**Special Transportation Fund**

Fund Balance as of June 30, 2014		\$	169.0
Balance from Operations - Prior Month			(4.5)
Revenues			
No changes	<u>0.0</u>		0.0
Expenditures			
Additional Requirements	1.1		
Estimated Lapses	0.7		
Miscellaneous Adjustments/Rounding	<u>(1.2)</u>		<u>0.6</u>
Estimated Fund Balance - June 30, 2015		\$	<u>165.1</u>

State of Connecticut  
General Fund  
Statement of Revenues, Expenditures, and Results of Operations  
Projected to June 30, 2015  
As of February 28, 2015  
(In Millions)

	General Assembly Budget Plan <sup>1</sup>	Revised Estimates OPM	Over/ (Under)
<b>REVENUE</b>			
Taxes	\$ 16,147.2	\$ 16,119.2	\$ (28.0)
Less: Refunds	(1,232.6)	(1,242.6)	(10.0)
Taxes - Net	\$ 14,914.6	\$ 14,876.6	\$ (38.0)
Other Revenue	1,109.3	1,146.8	37.5
Other Sources	1,434.1	1,309.2	(124.9)
<b>TOTAL Revenue</b>	<b>\$ 17,458.0</b>	<b>\$ 17,332.6</b>	<b>\$ (125.5)</b>
<b>EXPENDITURES</b>			
Initial Current Year Appropriations	\$ 17,589.8	\$ 17,589.8	\$ -
Prior Year Appropriations Continued to FY 2015 <sup>2</sup>		85.9	85.9
<b>TOTAL Initial and Continued Appropriations</b>	<b>\$ 17,589.8</b>	<b>\$ 17,675.7</b>	<b>\$ 85.9</b>
Appropriation Adjustments	-	-	-
<b>TOTAL Adjusted Appropriations</b>	<b>\$ 17,589.8</b>	<b>\$ 17,675.7</b>	<b>\$ 85.9</b>
Net Additional Expenditure Requirements		147.6	147.6
Estimated Appropriations Lapsed	(132.1)	(272.0)	(139.9)
Estimated Appropriations to be Continued to FY 2016		-	-
<b>TOTAL Estimated Expenditures</b>	<b>\$ 17,457.7</b>	<b>\$ 17,551.3</b>	<b>\$ 93.6</b>
Net Change in Fund Balances - Continuing Appropriations	-	(85.9)	(85.9)
Miscellaneous Adjustments/Rounding	-	-	-
<b>Net Change in Unassigned Fund Balance - 6/30/2015</b>	<b>\$ 0.3</b>	<b>\$ (132.8)</b>	<b>\$ (133.2)</b>

1. P.A. 14-47, as amended by P.A. 14-217.

2. P.A. 14-47, as amended by P.A. 14-217, and other statutory provisions.

State of Connecticut  
General Fund  
Revenue Estimates  
Projected to June 30, 2015  
As of February 28, 2015  
(In Millions)

	<u>General Assembly Budget Plan</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
<b>TAXES</b>			
Personal Income	\$ 9,264.5	\$ 9,264.5	\$ -
Sales and Use	4,167.4	4,226.2	58.8
Corporation	704.3	734.3	30.0
Public Service Corporations	295.6	299.1	3.5
Inheritance and Estate	173.0	173.0	-
Insurance Companies	256.2	256.2	-
Cigarettes	360.9	354.4	(6.5)
Real Estate Conveyance	186.9	186.9	-
Oil Companies	34.8	-	(34.8)
Alcoholic Beverages	60.7	60.7	-
Admissions and Dues	38.3	38.3	-
Health Provider Tax	509.5	460.1	(49.4)
Miscellaneous	95.2	65.5	(29.7)
<b>TOTAL - TAXES</b>	<u>\$ 16,147.2</u>	<u>\$ 16,119.2</u>	<u>\$ (28.0)</u>
Less: Refunds of Taxes	(1,105.1)	(1,115.1)	(10.0)
Earned Income Tax Credit	(120.7)	(120.7)	-
R & D Credit Exchange	(6.8)	(6.8)	-
<b>TOTAL - TAXES - NET</b>	<u>\$ 14,914.6</u>	<u>\$ 14,876.6</u>	<u>\$ (38.0)</u>
<b>OTHER REVENUE</b>			
Transfers - Special Revenue	\$ 323.1	\$ 325.1	\$ 2.0
Indian Gaming Payments	278.5	267.5	(11.0)
Licenses, Permits, Fees	256.2	266.7	10.5
Sales of Commodities and Services	43.5	43.5	-
Rents, Fines, Escheats	118.4	118.4	-
Investment Income	0.6	0.6	-
Miscellaneous	161.9	197.9	36.0
Refunds of Payments	(72.9)	(72.9)	-
<b>TOTAL - OTHER REVENUE</b>	<u>\$ 1,109.3</u>	<u>\$ 1,146.8</u>	<u>\$ 37.5</u>
<b>OTHER SOURCES</b>			
Federal Grants	\$ 1,299.6	\$ 1,193.4	\$(106.2)
Transfer from Tobacco Settlement Fund	120.0	120.0	0.0
Transfers to Other Funds	14.6	14.6	0.0
Transfers to the Resources of the Special Trans. Fund	-	(18.8)	(18.8)
<b>TOTAL - OTHER SOURCES</b>	<u>\$ 1,434.1</u>	<u>\$ 1,309.2</u>	<u>\$(124.9)</u>
<b>TOTAL - GENERAL FUND REVENUE</b>	<u>\$ 17,458.0</u>	<u>\$ 17,332.6</u>	<u>\$(125.5)</u>

State of Connecticut - General Fund  
Appropriation Adjustments - Net Additional Requirements  
Projected to June 30, 2015  
As of February 28, 2015

Department of Emergency Services and Public Protection	5,000,000
Department of Social Services	108,000,000
Department of Correction	5,600,000
Public Defenders Services Commission	6,000,000
Comptroller – Miscellaneous	8,000,000
Comptroller - Fringe Benefits	15,000,000
Total	<u>\$ 147,600,000</u>

State of Connecticut  
General Fund  
Estimated Lapses  
Projected to June 30, 2015  
As of February 28, 2015

Unallocated Lapse	\$ 70,000,000
Unallocated Lapse - Legislative	-
Unallocated Lapse - Judicial	7,400,672
General Lapse - Legislative	39,492
General Lapse - Executive	9,678,316
General Lapse - Judicial	282,192
Statewide Hiring Reduction - Legislative	280,000
Statewide Hiring Reduction - Executive	8,060,000
Statewide Hiring Reduction - Judicial	1,660,000
Municipal Opportunities and Regional Efficiencies Lapse	-
November 20, 2014 Rescissions	54,717,508
January 23, 2015 Rescissions	31,489,427
Office of Legislative Management	6,000,000
Auditors of Public Accounts	400,000
Office of Policy and Management	3,000,000
Department of Consumer Protection	400,000
Department of Labor	1,000,000
Department of Public Health	1,000,000
Department of Developmental Services	1,000,000
Office of Early Childhood	2,400,000
Teachers Retirement Board	1,200,000
Department of Children and Families	4,000,000
OTT - Debt Service	68,000,000
Total	<u>\$ 272,007,607</u>

State of Connecticut  
2014-15 General Fund  
Summary of Operations Per Letter to the Comptroller  
(In Millions)

	Budget Plan <sup>1</sup>	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
REVENUE	\$ 17,458.0	\$ 17,458.0	\$ 17,458.0	\$ 17,458.0	\$ 17,458.0	\$ 17,398.9	\$ 17,398.9	\$ 17,359.6	\$ 17,395.6	\$ 17,332.6			
Appropriations	17,589.8	17,589.8	17,589.8	17,589.8	17,589.8	17,589.8	17,589.8	17,589.8	17,589.8	17,589.8			
Additional Requirements	0.0	0.0	0.0	0.0	0.0	40.7	99.7	149.7	143.8	147.6			
Less: Estimated Lapses	<u>(132.1)</u>	<u>(132.1)</u>	<u>(132.1)</u>	<u>(132.1)</u>	<u>(132.1)</u>	<u>(186.8)</u>	<u>(259.0)</u>	<u>(259.0)</u>	<u>(276.8)</u>	<u>(272.0)</u>			
TOTAL - Estimated Expenditures	17,457.7	17,457.7	17,457.7	17,457.7	17,457.7	17,443.7	17,430.5	17,480.5	17,456.8	17,465.4	0.0	0.0	0.0
Balance from Operations	0.3	0.3	0.3	0.3	0.3	(44.8)	(31.6)	(120.9)	(61.2)	(132.8)	0.0	0.0	0.0
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>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Est. Balance from Operations - 6/30/15	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	(\$44.8)	(\$31.6)	(\$120.9)	(\$61.2)	(\$132.8)	\$0.0	\$0.0	\$0.0

1. P.A. 14-47, as amended by P.A. 14-217.

State of Connecticut  
Special Transportation Fund  
Analysis of Budget Plan  
Projected to June 30, 2015  
As of February 28, 2015  
(In Millions)

	General Assembly <u>Budget Plan</u> <sup>1.</sup>	Revised Estimates <u>OPM</u>	Over/ <u>(Under)</u>
Fund Balance as of June 30, 2014 <sup>2.</sup>	\$ 168.8	\$ 169.0	\$ 0.2
<b>REVENUE</b>			
Taxes	\$ 965.5	\$ 949.7	\$ (15.8)
Less: Refunds of Taxes	<u>(6.6)</u>	<u>(7.1)</u>	<u>(0.5)</u>
Taxes - Net	958.9	942.6	(16.3)
Other Revenue	<u>369.4</u>	<u>396.5</u>	<u>27.1</u>
TOTAL - Revenue	<u>\$ 1,328.3</u>	<u>\$ 1,339.1</u>	<u>\$ 10.8</u>
<b>EXPENDITURES</b>			
Appropriations	\$ 1,332.6	\$ 1,332.6	\$ -
Net Additional Requirements	-	21.9	21.9
Less: Estimated Lapses	<u>(11.0)</u>	<u>(12.7)</u>	<u>(1.7)</u>
TOTAL - Expenditures	<u>\$ 1,321.6</u>	<u>\$ 1,341.8</u>	<u>\$ 20.2</u>
Balance from Operations	\$ 6.7	\$ (2.7)	\$ (9.4)
Miscellaneous Adjustments	<u>-</u>	<u>(1.2)</u>	<u>(1.2)</u>
Estimated Fund Balance - June 30, 2015	<u>\$ 175.5</u>	<u>\$ 165.1</u>	<u>\$ (10.4)</u>

1. P.A. 14-47, as amended by P.A. 14-217.

2. Budget plan as estimated by the Office of Policy and Management. Revised estimates per the Comptroller's September 30, 2014 letter.

Statement 2T  
March 20, 2015

State of Connecticut  
Special Transportation Fund  
Revenue Estimates  
Projected to June 30, 2015  
As of February 28, 2015  
(In Millions)

	<u>General Assembly Budget Plan</u>	<u>Revised Estimates OPM</u>	<u>Over/ (Under)</u>
TAXES			
Motor Fuels	\$ 503.8	\$ 506.3	\$ 2.5
Oil Companies	379.1	360.3	(18.8)
Sales Tax DMV	82.6	83.1	0.5
TOTAL - TAXES	<u>965.5</u>	<u>949.7</u>	<u>(15.8)</u>
Less: Refunds of Taxes	<u>(6.6)</u>	<u>(7.1)</u>	<u>(0.5)</u>
TOTAL - TAXES - NET	<u>\$ 958.9</u>	<u>\$ 942.6</u>	<u>\$ (16.3)</u>
OTHER REVENUE			
Motor Vehicle Receipts	\$ 238.1	\$ 244.6	\$ 6.5
Licenses, Permits, Fees	138.9	138.8	(0.1)
Interest Income	5.0	7.3	2.3
Federal Grants	12.1	12.1	-
Transfers (To)/From Other Funds	(21.5)	(21.5)	-
Transfers From the General Fund	-	18.8	18.8
Refunds of Payments	<u>(3.2)</u>	<u>(3.6)</u>	<u>(0.4)</u>
TOTAL - OTHER REVENUE	<u>\$ 369.4</u>	<u>\$ 396.5</u>	<u>\$ 27.1</u>
TOTAL - SPECIAL TRANSPORTATION FUND REVENUE	\$ 1,328.3	\$ 1,339.1	\$ 10.8

Statement 3T  
March 20, 2015

State of Connecticut  
Special Transportation Fund  
Appropriation Adjustments - Net Additional Requirements  
Projected to June 30, 2015  
As of February 28, 2015

Department of Transportation	18,000,000
OSC - Fringe Benefits	3,900,000
Total	<u><u>\$21,900,000</u></u>

Statement 4T  
March 20, 2015

State of Connecticut  
Special Transportation Fund  
Estimated Lapses  
Projected to June 30, 2015  
As of February 28, 2015

OTT - Debt Service	\$ 12,700,000
Total	<u>\$ 12,700,000</u>

State of Connecticut  
2014-15 Special Transportation Fund  
Summary of Operations Per Letter to the Comptroller  
(In Millions)

	Budget Plan <sup>1</sup>	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015	May 2015	June 2015
Beginning Balance <sup>2</sup>	\$ 168.8	\$ 168.8	\$ 173.5	\$ 169.0	\$ 169.0	\$ 169.0	\$ 169.0	\$ 169.0	\$ 169.0	\$ 169.0			
Revenue	<u>1,328.3</u>	<u>1,328.3</u>	<u>1,330.5</u>	<u>1,330.5</u>	<u>1,330.5</u>	<u>1,335.4</u>	<u>1,335.4</u>	<u>1,339.1</u>	<u>1,339.1</u>	<u>1,339.1</u>			
Total Available	1,497.1	1,497.1	1,504.0	1,499.5	1,499.5	1,504.4	1,504.4	1,508.1	1,508.1	1,508.1	0.0	0.0	0.0
Appropriations	1,332.6	1,332.6	1,332.6	1,332.6	1,332.6	1,332.6	1,332.6	1,332.6	1,332.6	1,332.6			
Additional Requirements	0.0	0.0	0.0	0.0	0.0	0.0	20.0	20.0	23.0	21.9			
Less: Estimated Lapses	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>	<u>(11.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.0)</u>	<u>(12.7)</u>			
TOTAL - Estimated Expenditures	1,321.6	1,321.6	1,321.6	1,321.6	1,320.6	1,320.6	1,340.6	1,340.6	1,343.6	1,341.8	0.0	0.0	0.0
Balance from Operations	6.7	6.7	8.9	8.9	9.9	14.8	(5.2)	(1.5)	(4.5)	(2.7)	0.0	0.0	0.0
Misc. Adjustments/Rounding	<u>0.0</u>	<u>0.0</u>	<u>(1.2)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>							
Estimated Balance 6/30/15	\$175.5	\$175.5	\$181.2	\$176.7	\$177.7	\$182.6	\$162.6	\$166.3	\$163.3	\$165.1	\$0.0	\$0.0	\$0.0

1. P.A. 14-47, as amended by P.A. 14-217.

2. Budget Plan and the month of July as estimated by the Office of Policy and Management. August per the Comptroller's September 2, 2014 letter. September and thereafter per the Comptroller's September 30, 2014 letter.