



Fiscal Accountability Presentation

CONNECTICUT GENERAL ASSEMBLY
Office of Fiscal Analysis

DIRECTOR
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November 27, 2018

The FAR Journey



Current Fiscal Year



Out Years (FY 20 - FY 22)



Fiscal Horizon — Areas of Concern

Financial Summary by Fund

In Million of Dollars

Fund	FY 19	FY 20	FY 21	FY 22
General Fund (GF)				
November Consensus Revenue	19,269.4	17,823.2	18,038.0	17,910.1
Expenditures				
Previous Year Expenditure		18,990.8	17,823.2	18,038.0
Fixed Cost Growth		654.6	536.8	578.1
Other Expenditure Adjustments		(261.7)	127.2	18.6
Expenditure Reduction (CGS Sec. 2-36b)		(1,560.6)	(449.2)	(724.6)
Subtotal	18,990.8	17,823.2	18,038.0	17,910.1
GF Balance	278.6	-	-	-
Special Transportation Fund (STF)				
November Consensus Revenue	1,684.6	1,803.5	1,904.8	1,994.6
Expenditures				
Previous Year Expenditure		1,618.0	1,686.6	1,783.0
Fixed Cost Growth		58.4	82.6	79.9
Other Expenditure Adjustments		10.2	13.8	1.1
Subtotal	1,618.0	1,686.6	1,783.0	1,864.0
STF Balance	66.6	116.9	121.8	130.6
Other Appropriated Funds				
Revenue ¹	246.3	251.0	251.4	254.4
Expenditure Reduction (CGS Sec. 2-36b) ²	-	(2.7)	(0.3)	-
Expenditures	241.8	240.4	242.4	242.7
Other Appropriated Funds Balance	4.5	10.6	8.9	11.6
All Appropriated Funds				
Revenue	21,200.3	19,877.7	20,194.2	20,159.1
Expenditures	20,850.6	19,750.2	20,063.4	20,016.8
ALL APPROP. FUNDS BALANCE	349.7	127.5	130.8	142.3

¹The Other Appropriated Funds FY 19 revenue projection includes the use of \$5.5 million in prior year fund balances that are needed to accommodate projected FY 19 expenditures.

²These reductions are built into the expenditure projections in the following row.

General Fund (GF) Summary

In Millions of Dollars

Summary	FY 19
Budgeted Balance	10.5
Revenue	
Budgeted	19,008.7
Withholding	255.4
Sales and Use	58.0
Corporations	49.0
Refunds of Taxes	(72.2)
Other Revenue	(29.5)
Subtotal	19,269.4
Expenditures	
Budgeted	18,998.2
Agency Lapses	(73.9)
Agency Deficiencies	66.6
Subtotal	18,990.8
SURPLUS/(DEFICIT)	278.6

FY 19 Revenue Changes

In Millions of Dollars

Revenue Category	Budget	November Estimate	Difference
Estimates and Finals	2,959.9	3,244.8	284.9
Withholding	6,147.7	6,403.1	255.4
Sales and Use	4,153.6	4,211.6	58.0
Corporations	920.2	969.2	49.0
All Other (Net)	5,190.4	5,088.7	(101.7)
Volatility Adjustment Transfer	(363.1)	(648.0)	(284.9)
TOTAL	19,008.7	19,269.4	260.7

FY 20 Fiscal Cliff

The FY 20 Deficit

+\$278.6 million
(FY 19 proj. surplus)

-\$1,839.1 million
(FY 20 changes)

= **-\$1,560.6 million**
anticipated FY 20 deficit

Hospital Related:
-\$814.9 million

Revenue Policy & Technical:
-\$581.3 million

Expenditure Growth:
-\$719.8 million

TOTAL:
-\$1,839.1 million

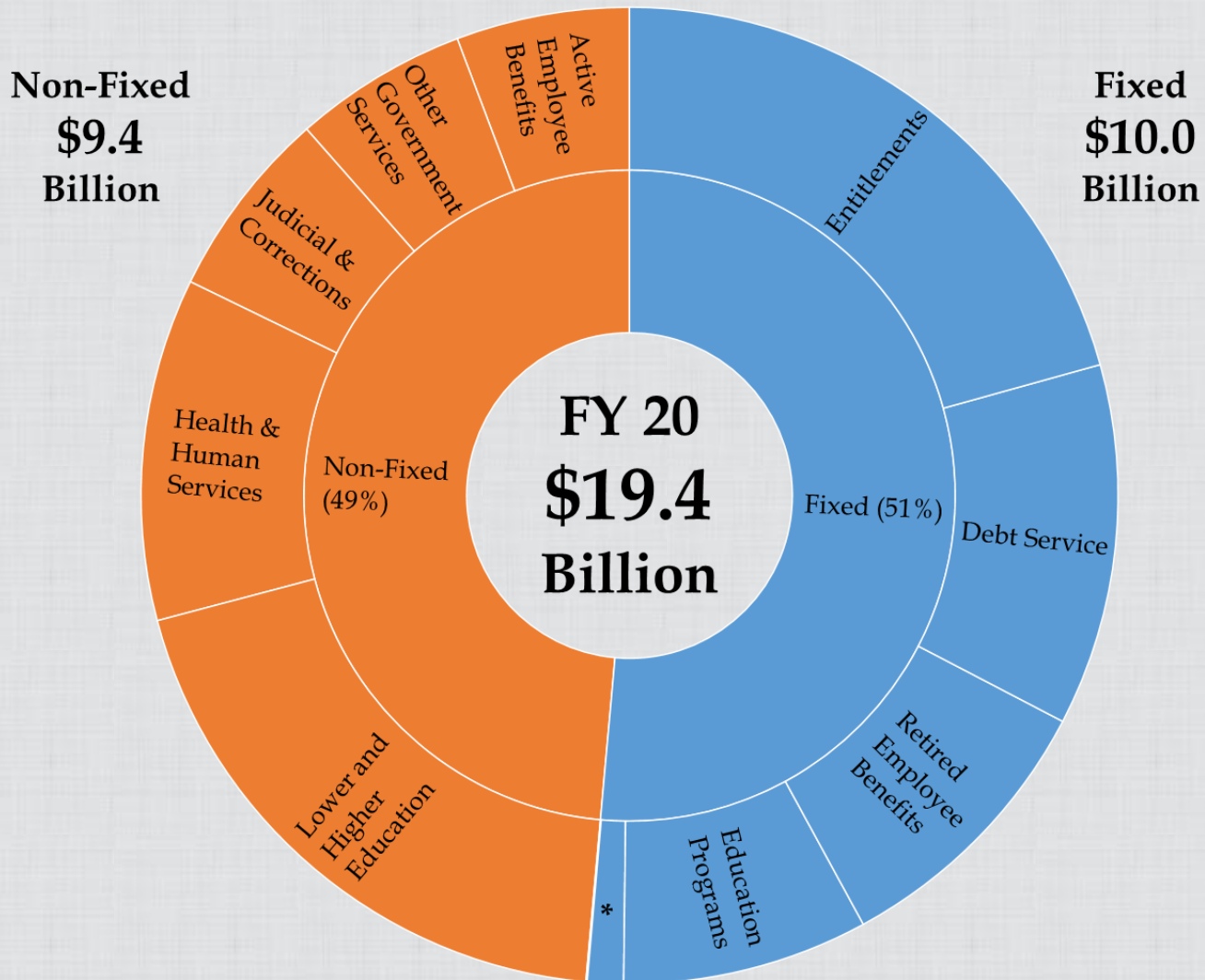
\$276.8 million	Revenue Growth
\$104.8 million	Net Impact of Hospital Supplemental Payment Reduction
-\$516.0 million	Hospital Tax Decrease as Required by CGS 12-263q
-\$403.7 million	Federal Grants Revenue Adjustment due to delayed FY 18 Supplemental Payments
-\$209.1 million	Budgeted Fund Sweeps
-\$98.4 million	Increase Motor Vehicle Sales Tax Transfer to STF
-\$273.8 million	Other Revenue Policy & Technical Adjustments Policy (\$116.6 million) Technical Adjustments (\$157.2 million)
-\$654.6 million	Fixed Cost Increases Medicaid & Other Entitlements (\$253.9 million) State Employee Pension & Retiree Health (\$188.3 million) Teacher's Retirement & Retiree Health (\$113.0 million) Debt Service (\$110.9 million) Adjudicated Claims (-\$11.5 million)
-\$65.1 million	SEBAC

GF Fixed Cost Changes & Non-Fixed Cost Reductions

In Millions of Dollars

Category	FY 19	FY 20	FY 21	FY 22
November Consensus Revenue	19,269.4	17,823.2	18,038.0	17,910.1
Expenditures				
Previous Year Expenditures		18,990.8	17,823.2	18,038.0
Fixed Costs		654.6	536.8	578.1
Medicaid & Other Entitlements		253.9	184.9	188.4
State Employee Pension & Retiree Health		188.3	146.9	152.2
Teacher's Retirement & Retiree Health		113.0	49.9	51.3
Debt Service		110.9	155.0	185.9
Adjudicated Claims		(11.5)	0.2	0.2
SEBAC		65.1	127.2	18.6
Hospital Medicaid Supplemental Payment Reduction		(326.8)	-	-
Non-Fixed Cost Expenditure Reduction		(1,560.6)	(449.2)	(724.6)
All Expenditures	18,990.8	17,823.2	18,038.0	17,910.1
BALANCE	278.6	-	-	-

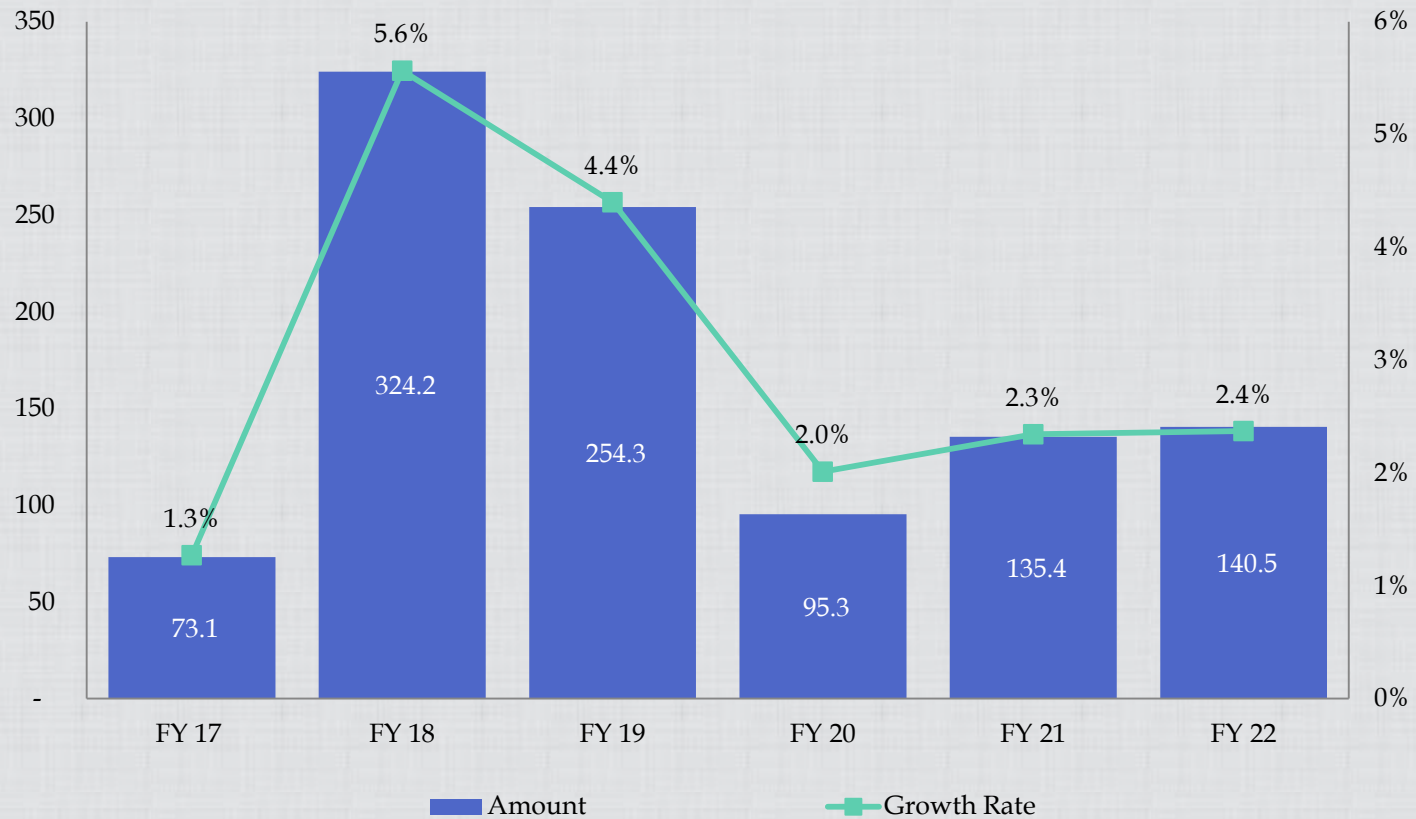
GF Non-Fixed & Fixed Costs in the Out-Years



*Active Employee Benefits - Fixed Costs

Trends in Income Tax Withholding Growth

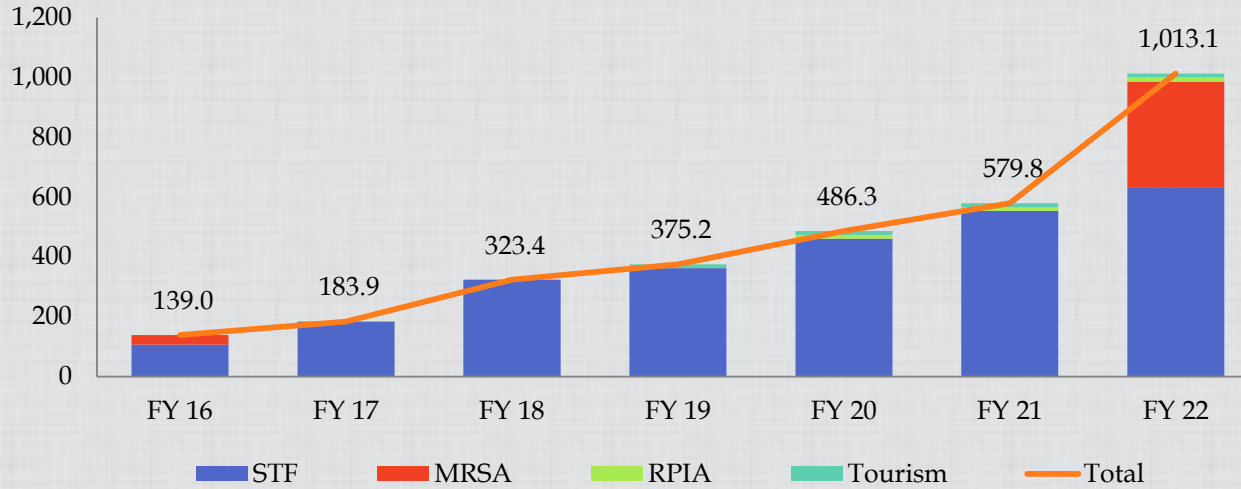
In Millions of Dollars



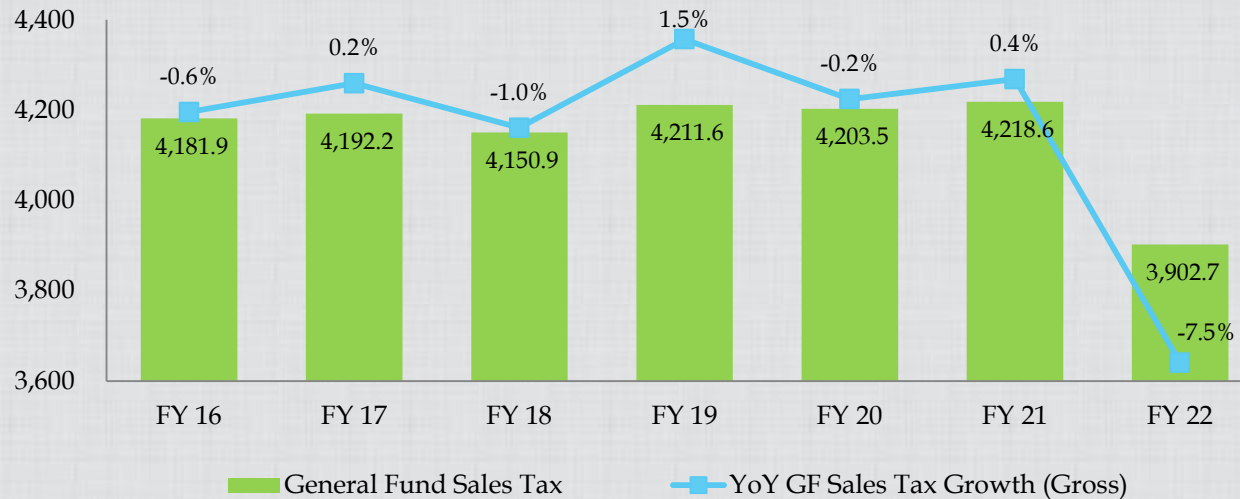
Estimated Sales and Use Tax Revenues

In Millions of Dollars

Sales Tax Transfers

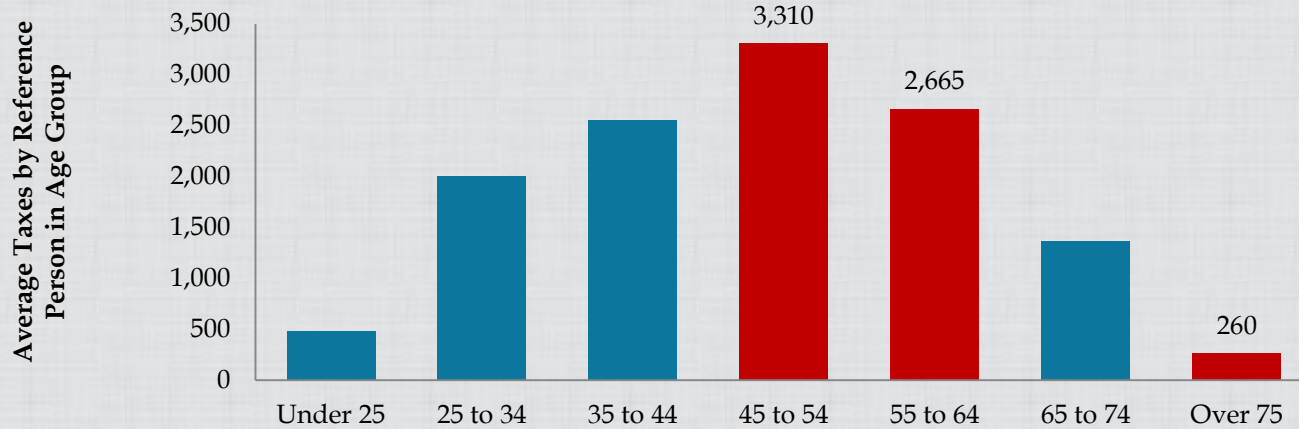


General Fund

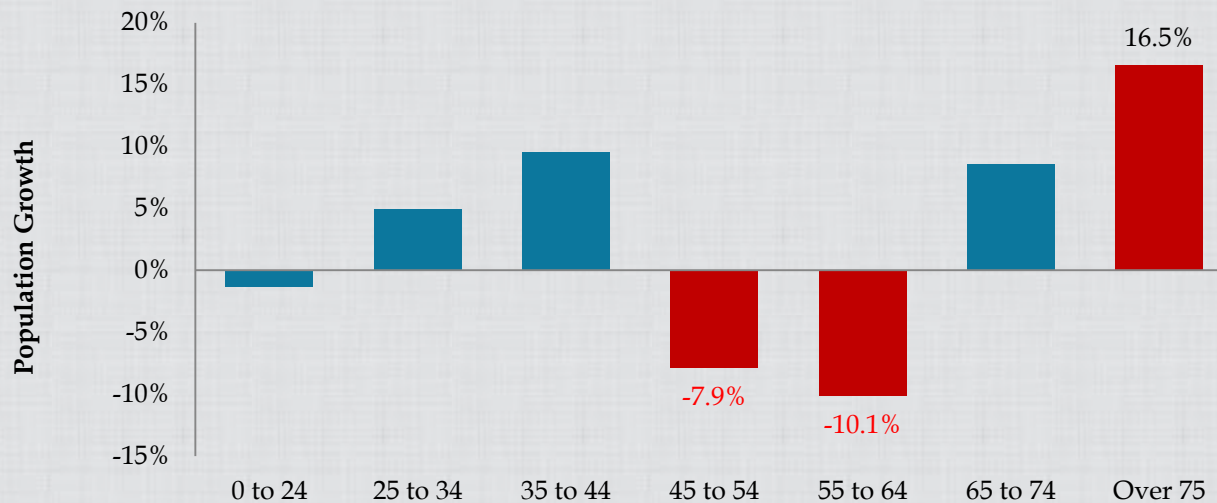


Unfavorable Demographics

State and Local Income Taxes by Age in the US (2017)



Connecticut Projected Population Growth by Age (2020 to 2030)



Status of High Income Industries

Industry	Total Wages 2017 In Billions \$	Employment 2017	Average Annual Wage 2017	Past 5 Years Average Annual Growth		Annualized Growth Rate ¹
				Employment	Average Wages	
Professional and Technical Services	9.98	96,351	103,549	0.9%	2.4%	1.3%
Insurance	7.8	58,375	133,641	-0.7%	2.8%	0.7%
Financial Investments	7.43	23,485	316,481	-1.3%	-0.3%	0.6%
Management of Companies	4.99	32,346	154,375	0.9%	-0.2%	0.7%
Transportation Equipment	4.49	43,992	101,983	1.0%	1.8%	2.2%
Banking (Credit Intermediation)	2.71	24,336	111,197	-1.8%	3.2%	-0.1%

¹Reflects annualized growth between 2016 and 2026 based on Connecticut Industry Projections from the CT DOL.

Sources: CT DOL; US Bureau of Labor Statistics; 5 year averages include growth between 2012 and 2017

Recession Ready?

LONGEST TIME BETWEEN RECESSIONS

10 Years

1991-2001

TIME SINCE LAST RECESSION

9 Years and Counting

Since June 2009

IF RECESSION STARTS:

June 2019 = MATCHES RECORD
Start of Biennium

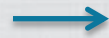
June 2021 = EXCEEDS RECORD BY 2 YRS.
End of Biennium

Recession Tools

Options

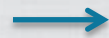
Constraints

Borrowing



Bond Covenant & Bond Caps

Spending Cuts



Fixed Cost Obligations

Revenue



Future Federal Revenue Unclear

Budget Reserve Fund



Bond Covenant

Projected Balances of the BRF^{1,2,3}

In Millions of Dollars

Fiscal Year (FY)	Balance at FY Start	Change	Balance at End of FY	Appropriations	Balance at FY Start as a % of Approp.
18	212.9	972.4	1,185.3	18,610.8	1.1%
19	1,185.3	926.6	2,111.9	18,990.8	6.2%
20 (proj.)	2,111.9	278.1	2,390.0	19,319.5	10.9%
21 (proj.)	2,390.0	263.3	2,653.3	18,518.8	12.9%
22 (proj.)	2,653.3	244.3	2,897.6	18,644.7	14.2%
TOTAL		1,712.3			

¹The FY 19 "Change" estimate includes a Volatility Adjustment transfer of \$648 million and a net operating surplus (after the Volatility Adjustment transfer) of \$278.6 million.

²Assumes none of the following takes place: (a) withdrawals from the BRF, (b) diversion of projected Volatility Adjustment transfers, or (c) diversion of the estimated FY 19 net operating surplus.

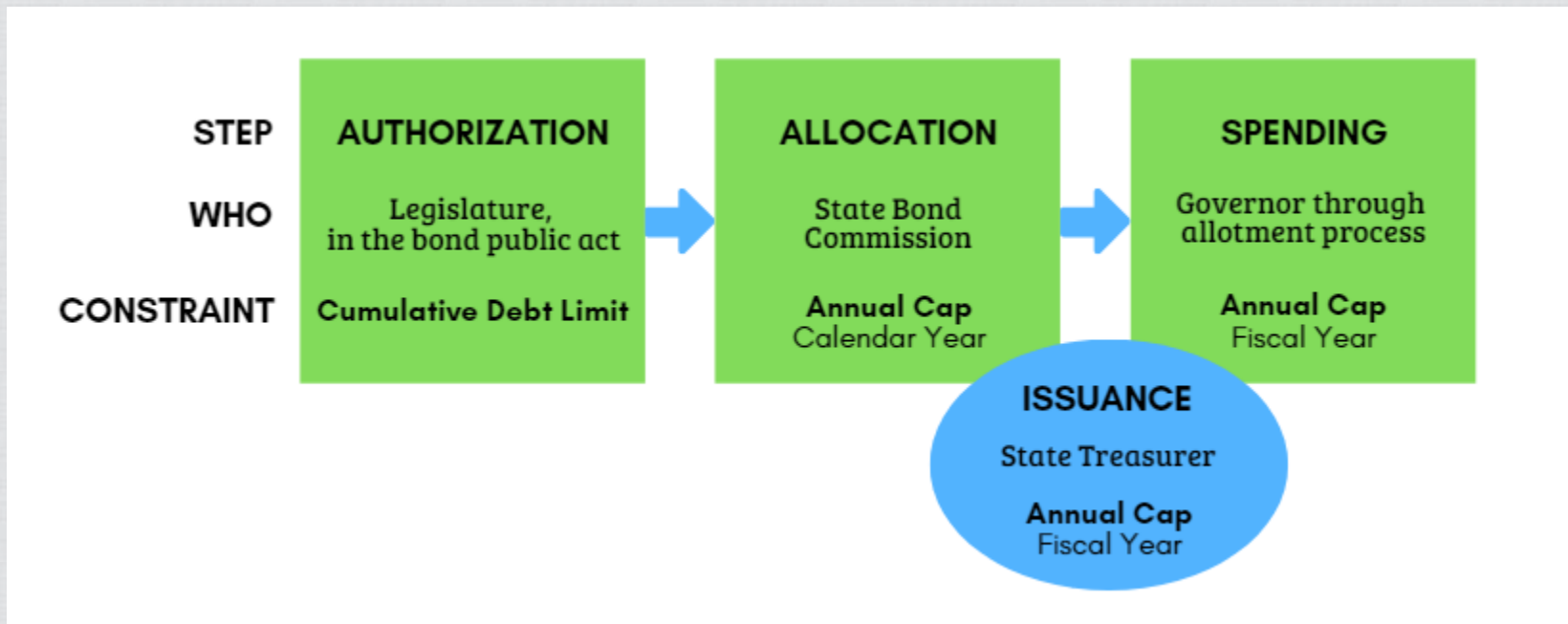
³Assumes FY 20 - FY 22 appropriations add back expenditure reductions that are assumed to balance future budgets.

Special Transportation Fund (STF) Balance

In Millions of Dollars

Summary	FY 19	FY 20	FY 21	FY 22
+ Net Revenues	1,684.6	1,803.5	1,904.8	1,994.6
- Expenditures	1,618.0	1,686.6	1,783.0	1,864.0
Debt Service Expenditures on the Bonds	645.7	688.2	760.9	830.7
Other STF Expenditures	972.3	998.4	1,022.1	1,033.3
= Surplus/(Deficit)	66.6	116.9	121.8	130.6
Cumulative Balance (245.7 at FY 19 start)	312.3	429.2	551.0	681.6

Process of Bonding State Dollars



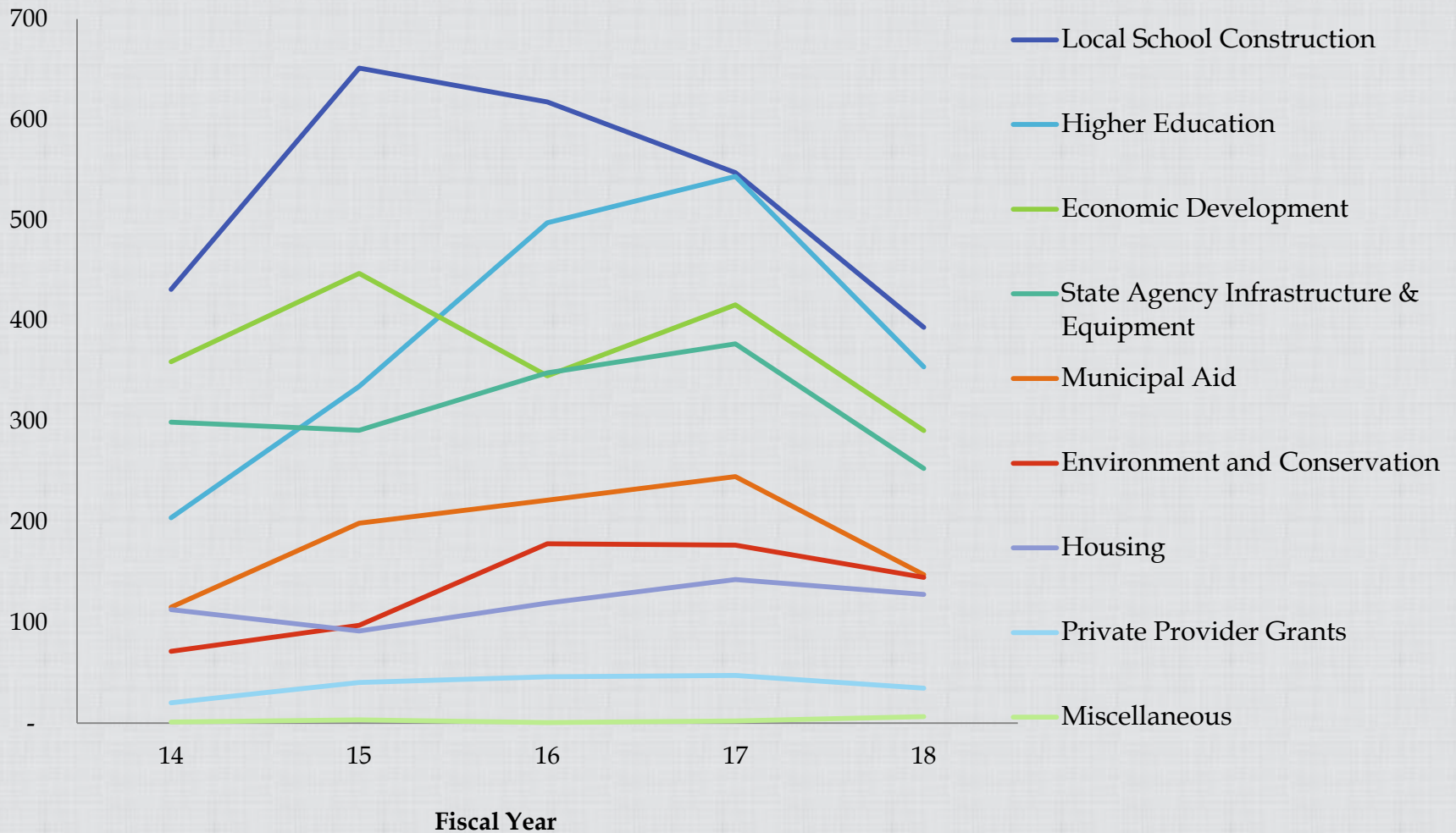
Estimates of GO Bond Fund Use

In Millions of Dollars

FY	Debt Service	Authorizations	Allocations (Calendar Year)	Issuances
19	2,237	1,394	2,083	2,042
20	2,321	1,874	2,135	2,362
21	2,476	1,549	2,188	2,179
22	2,662	1,396	2,243	2,144
23	2,795	2,013	2,299	2,192

GO Bond Spending By Category

In Millions of Dollars

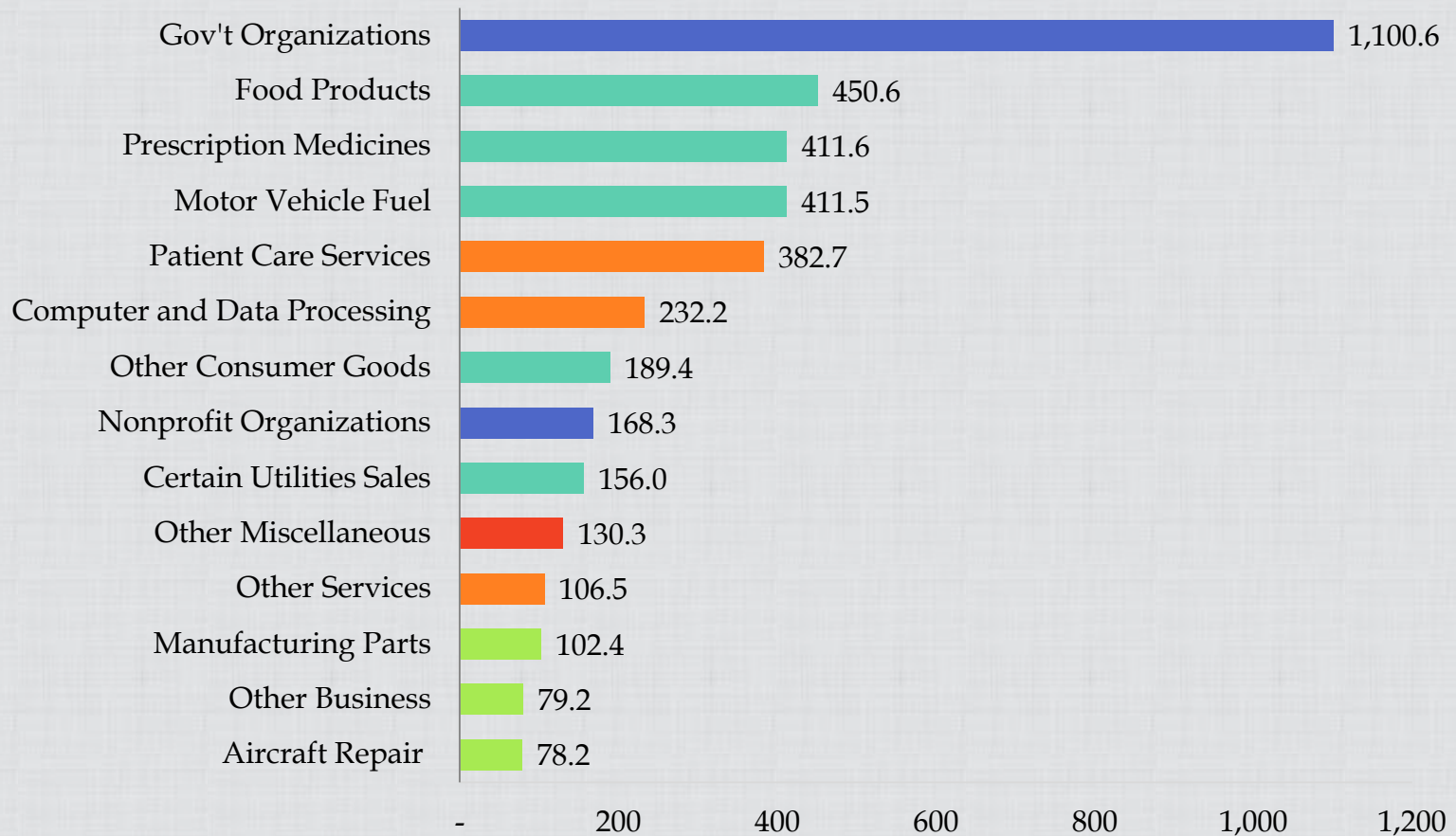


Summary of Major Identifiable State Tax Expenditure Estimates¹

Tax Category	FY 19	FY 20	FY 21	FY 22
Personal Income	367.3	482.3	518.3	554.8
Sales and Use	3,999.5	4,081.9	4,175.9	4,277.4
Corporate and Insurance	420.7	428.9	427.2	438.0
Petroleum Companies Gross Earnings	215.4	226.1	231.1	237.4
Motor Fuels and Motor Carrier Road	1,275.5	1,279.5	1,280.5	1,281.5
All Other Taxes	201.7	209.5	211.1	212.8
TOTAL	6,480.1	6,708.2	6,844.1	7,001.9

¹Includes estimated identifiable revenue reductions of \$100,000 or more.

FY 19 Major Sales and Use Tax Expenditures



Questions and Answers Following OPM's Presentation

