Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

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FY 07 – FY 10 General Fund and Transportation Fund Budget Projections

February 2, 2007

Report Highlights

- **FY 07 General Fund surplus** is projected at **$552.7 million**. See pages 1 – 6 for details.

- **General Fund current services shortfalls are projected for FY 08 ($312.1 million), FY 09 ($625.1 million) and FY 10 ($731.3 million).** See pages 11 - 13 for details.

- **FY 07 Transportation Fund operating surplus** is projected at $50.3 million ($1.0 million higher than budgeted), which increases the cumulative surplus to $183.7 million. The higher surplus projection reflects anticipated increased lapse savings. See pages 14 - 18 for details.

- **Out year projections indicate that the Transportation Fund will continue to experience operating surpluses through FY 09 then begin to experience deficits in the long term, which will reduce the cumulative balance in the fund to $139 million by FY 11.** This is attributable to the combined effects of growth rates in expenditures accelerating slightly faster than the anticipated growth in revenues.

Preliminary General Fund Budget Projections
FY 07 through FY 10
as of February 2, 2007

Budget Overview:

	FY 04	FY 05	FY 06	FY 07		FY 08	FY 09	FY 10
	Surplus FY 04	**Surplus FY 05**	**Surplus Estimate FY 06**	**OFA Estimate as of Budget Passage 5/1/06 FY 07**	**OFA Revised Estimate 02/02/07 FY 07**	**OFA Current Services Estimate 02/02/07 FY 08**	**OFA Current Services Estimate 02/02/07 FY 09**	**OFA Current Services Estimate 02/02/07 FY 10**
Revenues	-	-	-	14,998.0	15,365.0	15,755.0	16,290.0	16,910.0
Expenditures	-	-	-	14,837.2	14,812.3	16,067.1	16,915.1	17,641.3
Balance	**302.2**	**363.9**	**446.2**	**160.8**	**552.7**	**(312.1)**	**(625.1)**	**(731.3)**
Maximum Allowable in Budget Reserve (Rainy Day) Fund		10.0% maximum	1,483.7					
Potential BRF Deposit		7.5% funded	1,112.3					
Extent to Which BRF Not Fully Funded		**2.5% unfunded**	**371.4**					
Spending Cap Comparisons (All Funds):								
Amount Total Appropriations (Under) Over Cap (assuming that the legislature will appropriate up to the allowed expenditure limit in FY 07 and that the appropriation will not exceed allowed expenditures in FY 08 and FY 09)				(4.0)	(4.0)	542.5	612.6	413.7

Reasons for FY 08, FY 09 & FY 10 Shortfalls:

	FY 08	FY 09	FY 10
FY 08 - Restore FY 07 Expenditures from FY 05 & FY 06 Anticipated Surplus to FY 08 Appropriations (General Fund)	319.6	-	-
FY 08 - Unavailable One-Time Revenue Shift from FY 06 to FY 07 (General Fund)	41.0	-	-
General Fund Growth Rates (Adjusted):			
Revenue	3.5%	3.6%	3.8%
Expenditures	6.2%	5.3%	4.3%

FY 07 General Fund Summary
as of February 2, 2007
(in millions)

	Budget Plan	Increases (Decreases)	Projected
Revenues			
Taxes	$ 11,250.7	$ 242.7	$ 11,493.4
Other Revenue	1,119.3	107.5	1,226.8
Other Sources	2,628.0	16.8	2,644.8
Total Revenue	**$ 14,998.0**	**$ 367.0**	**$ 15,365.0**
Appropriations			
Original Appropriations - Gross	$ 14,952.2	$ -	$ 14,952.2
Plus:			
Deficiency Requirements	-	25.6	25.6
Adjudicated Claims	-	8.5	8.5
Refunds of Escheated Property	-	26.0	26.0
Less:			
Lapses [1]	(115.0)	(85.0)	(200.0)
Total Expenditures [2]	**$ 14,837.2**	**$ (24.9)**	**$ 14,812.3**
Surplus from Operations for FY 07	**$ 160.8**	**$ 391.9**	**$ 552.7**

[1] The breakdown for budgeted lapses is as follows:			
unallocated budgeted lapses	$ (90.0)	$ (85.0)	$ (175.0)
general PS and OE reductions (holdbacks)	(25.0)	-	(25.0)
Total - Lapses Originally Budgeted	$ (115.0)	$ (85.0)	$ (200.0)

[2] Excludes expenditures from prior year carryforwards and appropriations from projected surplus.

Note: The General Fund realized a surplus of $302.2 million in FY 04 and $363.9 million in FY 05 and is estimated to end FY 06 with a surplus of $446.2 million for a total Budget Reserve Fund (BRF) deposit from these three years of $1,112.3 million. (It is anticipated that the State Comptroller will close the books on FY 06 by April 2007.) This figure would represent the amount deposited in the Budget Reserve (Rainy Day) Fund which previously contained a zero balance because the prior BRF total of $594.7 million was exhausted when it was transferred to partially cover the $817.1 million deficit in FY 02. The maximum allowable in the Budget Reserve Fund is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 07 totaling $14,837.2 million, the maximum allowable in the Budget Reserve Fund is $1,483.7 million or $371.4 million more than potentially deposited assuming that a full $446.2 million surplus is realized from FY 06.

FY 07 General Fund Revenue Estimates
as of February 2, 2007
(in thousands)

	Budget Plan		OFA	OFA Estimates	
	Growth Rate {1}	FY 07 Estimate	Over(Under) Plan	Growth Rate {1}	FY 07 Estimate
Taxes					
Personal Income	4.9	$6,428,400	107,000	6.3	6,535,400
Sales and Use	4.5	3,534,000	(42,000)	2.9	3,492,000
Corporations	(3.1)	707,100	172,900	16.7	880,000
Public Service Corporations	2.0	232,000	(4,900)	2.0	227,100
Inheritance and Estate	5.0	158,800	-	5.0	158,800
Insurance Companies	2.0	270,200	5,100	2.0	275,300
Cigarettes	(1.5)	269,900	(1,800)	(1.5)	268,100
Real Estate Conveyance	(5.0)	197,600	(21,600)	(15.2)	176,000
Oil Companies	3.1	135,000	4,800	3.1	139,800
Alcoholic Beverages	0.0	44,200	1,800	0.0	46,000
Admissions, Dues and Cabaret	2.0	34,100	(300)	(2.5)	33,800
Miscellaneous	1.0	139,400	4,200	1.0	143,600
Total Taxes		**12,150,700**	**225,200**		**12,375,900**
Refunds of Taxes		(890,000)	15,000		(875,000)
R & D Credit Exchange		(10,000)	2,500		(7,500)
Taxes Less Refunds		**11,250,700**	**242,700**		**11,493,400**
Other Revenue					
Transfer Special Revenue		280,000	3,000		283,000
Indian Gaming Payments		438,700	(3,700)		435,000
Licenses, Permits and Fees		140,200	7,800		148,000
Sales of Commodities and Services		33,000	5,000		38,000
Rentals, Fines and Escheats		43,000	-		43,000
Investment Income		47,000	53,000		100,000
Miscellaneous		138,000	42,400		180,400
Refunds of Payments		(600)	-		(600)
Total Other Revenue		**1,119,300**	**107,500**		**1,226,800**
Other Sources					
Federal Grants		2,573,300	16,800		2,590,100
Transfer to the Resources of the General Fund		41,000	-		41,000
Transfer from Tobacco Settlement Fund		100,000	-		100,000
Transfer to Other Funds		(86,300)	-		(86,300)
Total Other Sources		**2,628,000**	**16,800**		**2,644,800**
Total Revenue		**14,998,000**	**367,000**		**15,365,000**

{1} Tax growth rates reflect adjustments for rate and base changes.

Summary of Changes to November 15, 2006 General Fund Surplus/Deficit Projections
as of February 2, 2007
(figures in millions)

	FY 07			FY 08	FY 09	FY 10
Projected Surplus/(Deficit) as of 11/15/06			**$ 539.6**	**$ (235.1)**	**$ (533.4)**	**$ (681.0)**
Expenditure Increases						
Increased deficiency requirements	$ (14.4)					
Adjudicated Claims	(0.5)					
		(14.9)				
Expenditure Decreases						
Increase in projected lapse savings	$ 35.0					
Refunds of Escheated Property	1.0					
		36.0				
Net Expenditure Decrease/(Increase)			**21.1 [1]**	**(32.0) [1]**	**(41.7) [1]**	**1.7**
Revenue Increases						
Miscellaneous	$ 40.4					
Sales of Commodities and Services	2.0					
Transfer Special Revenue	3.0					
Total - Revenue Increases		$ 45.4				
Revenue Decreases						
Personal Income Tax	(44.6)					
Federal Grants	(5.8)					
Admissions, Dues and Cabaret	(1.6)					
Transfer from Tobacco Settlement Fund	(1.4)					
Total - Revenue Decreases		(53.4)				
Net Revenue Increase/(Decrease)			**(8.0) [2]**	**(45.0) [2]**	**(50.0) [2]**	**(52.0) [2]**
Projected Surplus/(Deficit) as of 2/2/07			**$ 552.7**	**$ (312.1)**	**$ (625.1)**	**$ (731.3)**

[1] FY 07 expenditures are lower largely due to a projected $35 million increase in the lapse partially offset by $14.4 million in increased deficiency requirements. FY 08 and FY 09 expenditures are higher than our November 15, 2006 projections largely because of increases in the level of funding required by the latest actuarial certification for Teachers' Retirement Contributions which are partially offset by lower FY 07 expenditure requirements for Medicaid and Debt Service rolled out into future fiscal years along with higher lapse (savings) estimates.

[2] FY 07 revenues are $8 million lower than our November 15, 2006 projections. This change is mainly due to two reasons. Personal Income Tax revenues have been reduced by $44.6 million since the November statement because of a $66.3 million downward adjustment in estimated and final payments (taxes from non-withheld income sources), which was partially offset by a $21.7 million increase in withholding payments. The Miscellaneous Revenue estimate has increased by $40.4 million since November due to a few one-time revenue gains. In addition, there was a net reduction of $4.2 million due to minor adjustments in a variety of other revenue line items. The out-year projections largely reflect continued reductions in the Personal Income Tax excluding other one-time increases in FY 07.

TABLE OF CONTENTS

General Fund and Transportation Fund Budget Projections
(as of February 2, 2007)

I. FY 07 General Fund

Our projections for the fiscal year ending June 30, 2007 indicate a **potential surplus of $552.7 million** (which represents 3.7% of the budget). This surplus assumes that in addition to the originally budgeted surplus of $160.8 million, **estimated revenues will be $367 million higher than budgeted** and **estimated expenditures will be $24.9 million lower than net appropriations.** While the projected General Fund surplus is $552.7 million, **this estimate may change if: 1) the level of currently estimated deficiencies grows or 2) revenues improve or are adversely affected by any deterioration in economic conditions.**

Changes from OFA's November 15, 2006 Statement

FY 07 expenditures are lower largely due to a projected $35 million increase in the lapse partially offset by $14.4 million in increased deficiency requirements. FY 08 and FY 09 expenditures are higher than our November 15, 2006 projections largely because of increases in the level of funding required by the latest actuarial certification for Teachers' Retirement Contributions which are partially offset by lower FY 07 expenditure requirements for Medicaid and Debt Service rolled out into future fiscal years along with higher lapse (savings) estimates.

FY 07 revenues are $8 million lower than our November 15, 2006 projections. This change is mainly due to two reasons. Personal Income Tax revenues have been reduced by $44.6 million since the November statement because of a $66.3 million downward adjustment in estimated and final payments (taxes from non-withheld income sources), which was partially offset by a $21.7 million increase in withholding payments. The Miscellaneous Revenue estimate has increased by $40.4 million since November due to a few one-time revenue gains. In addition, there was a net reduction of $4.2 million due to minor adjustments in a variety of other revenue line items.

Revenues

The estimated $367.0 million net increase in FY 07 General Fund revenue collections is due to projected increases of $441.3 million and decreases of $74.3 million. The four most significant increases are: (1) $107.0 million in the Personal Income Tax, (2) $187.9 million in the Corporation Business Tax ($172.9 in increased collections and $15 million in reduced refunds), (3) $53.0 million in Investment Income, and (4) $42.4 million in Miscellaneous Revenue. The two most significant decreases are $42.0 million due to lower collections in Sales and Use Tax and $21.6 million in lower Real Estate Conveyance Tax. The remaining changes, consisting of $51.0 million in increases and $10.7 million in decreases, are due to a combination of relatively minor adjustments in various revenue sources.

The projected major revenue increases are as follows:

1) **Personal Income Tax** collections are anticipated to be $107.0 million greater than originally projected due to:

   a) ***Estimated Payments:*** Anticipated FY 07 collections have been increased by $80.9 million, which is composed of: (1) $27.3 million in actual third and fourth quarter 2006 estimated payment[1] collections and $53.6 million in projected first and second quarter 2007 payments. The projections are based on a strong growth trend observed in the 2006 income year of 10.8%.

   b) ***Final Payments:*** 2006 income year final payment[1] revenue is anticipated to be $39.0 million greater than projected. The estimate is based on the relationship between final payments and estimated payments observed in recent collection data (final payments equal about 70% of estimated payments). Therefore, since estimated payments are anticipated to be higher than initially forecast, final payments have also been increased to maintain this relationship.

   c) ***Withholding Payments:*** Anticipated collections from withholding on wages and salaries have been lowered by $12.8 million. The adjustment was made to projected collections for the last four months (March through June) of FY 07 because of the decrease in actual collections for the same period in FY 06 and year to date collections.

(2) **Corporation Business Tax** revenues are anticipated to be $187.9 million greater than originally projected. This figure is composed of $172.9 million in increased collections and $15.0 million in reduced refunds.

The $187.9 million increase in the Corporation Tax estimate is based on the fact that third quarter estimated payments exceeded our target by $93.7 million, which reflects a 17% growth rate (after the effect of one-time payments are removed). The third and fourth quarter results were used to develop higher growth rates for the remainder of the fiscal year, which resulted in an anticipated increase of $94.2 million for the remainder of the fiscal year.

The $15 million reduction in refunds reflects a decrease in year-to-date refunds (through January) issued to corporate taxpayers.

(3) **Investment Income** has been increased by $53.0 million based on stronger than anticipated investment income. The increase reflects: (1) the positive cash position of the Short Term Investment Fund (STIF) due to the FY 06 budget surplus and the projected FY 07 budget surplus, and (2) the continuing positive impact of the Federal Reserve Bank's interest rate increases on the rate of return for STIF.

[1] Personal Income Tax estimated and final payments are due as follows: First quarter is due April 15th, Second quarter is due June 15th, Third quarter is due September 15th, Fourth quarter is due January 15th and Final payments are due April 15th of the following year.

(4) **Miscellaneous Revenue** collections are anticipated to be $42.4 million greater than originally projected. The adjustment is primarily due to a $24.3 million recovery in fringe benefits from the State Employee Retirement System (SERS), which is higher than the amount usually achieved by the State Comptroller. An additional $16 million was collected from negotiated settlements of cases under litigation by the state and refunds of prior year expenditures. The remaining $2.1 million is due to other minor adustments.

The projected major revenue decreases are as follows:

(5) **Sales and Use Tax** collections are anticipated to be $42.0 million less than originally projected. Collections for the period between February and July 2006 were anticipated to grow by 5.3% but instead only grew by 2.1%. We have reduced our growth rate assumption for the remainder of FY 07 from 4.5% to 3.0% to reflect the trend observed earlier in 2006. The reduced growth rates appear to be due to the negative impact of higher energy costs, increased variable mortgage interest rates, and a slowdown in consumer spending related to the decline in housing market activity.

(6) **Real Estate Conveyance Tax** collections are anticipated to be $21.6 million less than originally projected. The projection reflects the fact that revenues during last six months have declined by 11% compared to the same period a year ago and we expect this trend to continue for the remainder of the fiscal year.

Expenditures

The $24.9 million reduction in expenditures is largely attributable to $85 million in lapse (savings) increases offset by $25.6 million in deficiency needs and $34.5 million in other miscellaneous expenditure requirements.

- **Budgeted Lapses**

  Lapses anticipated in the budget total $115 million and given the amount of unallocated lapse already identified, our surplus projection assumes that these savings will be achieved and perhaps exceeded by $85 million. The $115 million budgeted savings includes: $90 million in unallocated budgeted lapses and $25 million in Personal Services (PS) and Other Expenses (OE) holdbacks. The Office of Policy and Management has reduced agency allotments to reflect the imposition of PS and OE holdbacks.

- **Major Unallocated Lapses**

  So far, we have identified approximately $135.1 million in unallocated lapses or $45.1 million more than the $90 million unallocated lapse anticipated in the budget. Three accounts compose $113.8 million of the $135.1 million in identified lapses, the reasons for which are described below. Given that appreciably more than the budgeted unallocated lapse has been identified, we have increased the FY 07 unallocated lapse projection by $85 million to a total of $175 million assuming that additional lapses will be realized through the end of the year. (The total FY 07 lapse is now projected to be $200 million assuming that the additional $25 million in

Personal Services and Other Expenses reductions held back from agency allotments are realized.)

Unallocated Lapses

(figures in $ millions)

Department of Social Services	$53.8
Debt Service	40.0
State Employee Health Service Cost	20.0
Total – Significant Identified Lapsing Appropriations	$113.8
Other Identified Lapses (less than $5 million each)	21.3
Total – All Identified Lapses	$135.1
Increase in Projected Lapse Above Amount Already Identified	39.9
Total – Revised Projected Unallocated Lapses Anticipated	$175.0
Total – Unallocated Lapses Anticipated in the Budget	90.0
Total – Unallocated Lapse Increase Projected by OFA	$85.0

Department of Social Services – DSS has a significant projected lapse of $53.8 million. This lapse is primarily driven by the estimated $53.5 million lapse in the Medicaid program. Nursing home, aggregate pharmaceutical and managed care expenditures continue to be below initial FY 07 projections.

Another significant lapse is expected under the ConnPACE account. Enrollment in the ConnPACE program has continued to decline through the first three months of the fiscal year. The appropriation assumed average FY 07 monthly enrollment of 50,475. However, average enrollment is now projected to be 41,693. Additional savings are accruing in response to lower than expected average Medicare Part D premiums, and lower coverage gap (aka “doughnut hole”) costs due to a significant portion of ConnPACE beneficiaries delaying Part D enrollment. These factors contribute to a projected lapse of $18.4 million.

The Temporary Family Assistance account also has a projected lapse of $6.4 million, as enrollment continues to decline. The appropriation assumed average FY 07 monthly enrollment of 22,500. However, average enrollment is now projected to be 21,350.

These lapses are partially offset by projected deficiencies in the HUSKY ($3.5 million), Child Care Subsidies ($8.9 million) and State Administered General Assistance ($8.9 million). The HUSKY and SAGA account have seen increased medical costs as well as higher than anticipated enrollment. The pace of enrollment in the Child Care Subsidies program has increased, resulting in an estimated average caseload of 11,080, rather than the average caseload of 9,600 assumed in the original FY07 appropriation. The Other Expenses account also has a projected deficiency of $4.5 million.

Debt Service – The projected lapse in the General Fund debt service account is $40 million. It is composed of $45.7 million in reductions from the following sources: (1) $20 million in savings due to changes in the issuance schedule and lower than anticipated interest rates, (2) $22.7 million in premiums* received on General Obligation (GO) bonds, (3) $0.5 million in refunding savings, and (4) $2.5 million in savings from a variety of other sources such as arbitrage rebate payments, rebate fees and trustee fees. This will be partially offset by $5.7 million in increased expenditures from the following sources: (1) $5.2 million to defease bonds issued in 1996 by a nursing home in Bridgeport with a state-backed Special Capital Reserve Fund (SCRF), and (2) $0.5 million for the issuance of Tax Incremental Financing (TIF) bonds for the Cabela's project in East Hartford. (*Bond purchasers pay a premium to receive a higher interest rate than the one at which the bonds would otherwise have sold.)

State Employees Health Service Cost – The lapse of $20 million is due to lower than anticipated expenditures in the state employee health service cost account. The account was budgeted based upon enrollment figures that were higher than the actual enrollment. This lapse represents less than 4% of the total available funds in the account.

- **Deficiencies**

The $85 million lapse increase is offset by $25.6 million in projected deficiencies. These net deficiencies are occurring within the Department of Correction ($16.9 million), the Department of Mental Health and Addiction Services ($7.9 million), Workers' Compensation Claims ($.5 million) and the Public Defender Services Commission ($.3 million). Please see the explanations for all FY 07 projected deficiencies which begin on page 7.

Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of $8 million and Refunds of Escheated Property at $27 million.

- **"Watch List" Deficiency**

In addition to the deficiencies indicated above, the Department of Public Health may experience a deficiency of up to $550,000 (net of transfer of lapses identified to date from other agency accounts) resulting from higher than budgeted expenditures for Personal Services due primarily to a realignment of staff work effort from federal to state funded activities. Should holdback funds be released, any shortfall would be reduced by approximately $360,000. The Office of Policy and Management currently projects a deficiency of $1 million for this agency; however, the Office of Fiscal Analysis is awaiting further information before it includes any amount within its list of deficiencies.

- **State Employee Wage Increases**

The 32 collective bargaining contracts currently in effect are settled and funded through FY 07. Of these, 14 contracts expire in FY 08 and 4 contracts expire in FY

09 and will require funding in the 2007-2009 biennial budget in addition to the other 14 contracts that will remain settled through this period. So far, two agreements have been submitted to the legislature for approval during the 2007 session: (1) Connecticut State University non-teaching professional staff; and (2) Supervising Judicial Marshals. This is the first collective bargaining agreement for the Supervising Judicial Marshals bargaining unit.

Collective Bargaining Contracts

The 32 contracts currently settled for FY 07 expire in the following fiscal years:

FY	Unsettled Contracts
08	14
09	4
10	11
11	3

- **Budget Reserve (Rainy Day) Fund Status**

The General Fund realized a surplus of $302.2 million in FY 04 and $363.9 million in FY 05 and is estimated to end FY 06 with a surplus of $446.2 million for a total Budget Reserve Fund (BRF) deposit from these three years of $1,112.3 million. (It is anticipated that the State Comptroller will close the books on FY 06 by April 2007.) This figure would represent the amount deposited in the Budget Reserve (Rainy Day) Fund which previously contained a zero balance because the prior BRF total of $594.7 million was exhausted when it was transferred to partially cover the $817.1 million deficit in FY 02. The maximum allowable in the Budget Reserve Fund is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 07 totaling $14,837.2 million, the maximum allowable in the Budget Reserve Fund is $1,483.7 million or $371.4 million more than potentially deposited assuming that a full $446.2 million surplus is realized from FY 06.

The $594.7 million balance that remained in the Budget Reserve Fund in FY 01 was used to partially cover the $817.1 million deficit in FY 02. The remaining FY 02 deficit balance of $222.4 million was carried forward into FY 03 and financed with the issuance of Economic Recovery Notes during the fiscal year. It should be noted that PA 03-2 (the deficit mitigation act) increased the maximum allowable in the Budget Reserve Fund from 7.5% to 10% of the amount of the net General Fund appropriations for the fiscal year in progress. PA 02-118 had previously increased the maximum from 5% to 7.5%.

PA 03-1 (September 8 Special Session) authorized the State Treasurer to issue 5-year, tax exempt, general obligation Economic Recovery Notes to finance the $96.6 million General Fund deficit in FY 03. The act provided that no principal would be paid during the fiscal year of issuance. The remaining deficits from FY 02 and FY 03 have been extinguished by intercepting anticipated surplus funds in both FY 05 ($137.7 million) and FY 06 ($85.5 million).

Projected FY 07 General Fund Deficiencies
as of February 2, 2007

Note: The projected OPM deficiencies indicated in the first block of each table below were reported on January 25, 2007.

Department of Public Health

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Lapse
$(1,000,000)	$(0)	$358,275	$358,275

The Department of Public Health may experience a deficiency of up to $550,000 (net of transfer of lapses identified to date from other agency accounts) resulting from higher than budgeted expenditures for Personal Services due primarily to a realignment of staff work effort from federal to state funded activities. Should holdback funds be released, any shortfall would be reduced by approximately $360,000. The Office of Policy and Management currently projects a deficiency of $1 million for this agency; however, the Office of Fiscal Analysis is awaiting further information before it includes any amount within its list of deficiencies.

Department of Mental Health and Addiction Services

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(6,400,000)	$(7,900,000)	$2,564,249	$(5,335,751)

The Department of Mental Health and Addiction Services has a projected net deficiency of $7.9 million, which represents 1.6% of its FY 07 appropriation of $509.2 million. This assumes that a Personal Services holdback of $1,720,863 and an Other Expenses holdback of $843,386 are not released. If the holdbacks were released, an estimated remaining deficiency of $5.3 million would result.

Of the projected deficiency of $7.9 million, the Personal Services account has a $2.8 million projected shortfall due to overtime costs and projected staffing needs at inpatient facilities. The Workers' Compensation account has a projected shortfall of $2 million. The Behavioral Health Medications account has a projected deficiency of $0.7 million due to the continued increases in prices for behavioral medications. The Other Expenses account has a projected $1.8 million shortfall due to unanticipated telephone installation and repairs. In addition to these deficiencies, the Other Expenses account also has a projected deficiency of $1 million due to increased fuel and electricity costs at DMHAS facilities. It is anticipated that the energy shortfall will be funded through the

OPM-Energy Contingency account. Finally, the Grants for Mental Health Services account has a projected shortfall of $0.6 million due to the anticipated implementation of the 18% limit on A&G cost centers for private providers.

Department of Correction

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(15,700,000)	**$(16,900,000)**	**$4,665,442**	**$(12,234,558)**

The Department of Correction has a projected net deficiency of $16.9 million, which represents 2.7% of its FY 07 appropriation of $617.3 million. This assumes that a Personal Services holdback of $2,810,525 and an Other Expenses holdback of $1,854,917 are not released. If the holdbacks were released, an estimated remaining deficiency of $12.2 million would result.

The $16.9 million deficiency occurs in three areas: Personal Services ($10.5 million), Other Expenses ($3.0 million), and Inmate Medical Services ($3.4 million).

The majority of the PS deficiency is due to staffing and overtime costs associated with supervising an increasing incarcerated population. The current offender population is 19,275, up approximately 1,155 incarcerated inmates from January 2006. Overtime costs in FY 07 are currently projected at $61.7 million, which is $10.1 million higher than that of FY 06. The PS deficiency assumes an anticipated transfer from the Reserve for Salary Account (RSA) for non-ERIP accruals of $2.0 million and an anticipated transfer from RSA of $1.9 million to cover collective bargaining costs.

The shortfall in Other Expenses is driven by operational demands on food, clothing, bedding, and other related living supplies. Additionally, an estimated $2.9 million is related to increased energy costs. It is anticipated that the energy shortfall will be funded through the OPM-Energy Contingency Fund.

The shortfall in Inmate Medical Services is due to increased expenses related to an increasing offender population, staffing for mental health care, and collective bargaining adjustments.

Department of Children and Families

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Lapse
$(950,000)	**$(0)**	**$3,027,106**	**$3,027,126**

The Office of Fiscal Analysis anticipates that the $950,000 deficiency indicated by OPM in the Individual Family Supports account will be covered through a Finance Advisory Committee (FAC) transfer of available funding from other accounts within the agency.

Public Defender Services Commission

OPM Net Deficiency $(450,000)	OFA Net Deficiency $(340,000)	Less: Available Funds $256,984	OFA Remaining Deficiency $(83,016)

The Public Defender Services Commission has a projected, net deficiency of $340,000, which represents .7% of its FY 07 General Fund appropriation of $51 million. This assumes that an estimated lapse in Personal Services ($140,000) is transferred to partially cover the $480,000 gross deficiency, but that the Personal Services holdback of $223,460 and the Other Expenses holdback of $33,524 are not released. If the holdbacks were released, an estimated deficiency of $83,016 would result.

The net deficiency results from an expected shortfall in the Special Public Defenders – Non-Contractual account because the number of case assignments and billed hours are greater than budgeted. These Special Public Defenders represent clients in about 2,000 new felony, habeas and appellate matters each year. They are typically assigned to these cases when it is determined that a conflict of interest prohibits representation by an Assistant Public Defender employed by the state.

Workers' Compensation Claims – Department of Administrative Services

OPM Net Deficiency $(500,000)	OFA Net Deficiency $(500,000)	Less: Available Funds $0	OFA Remaining Deficiency $500,000

The Workers' Compensation Claims account has a projected net deficiency of $500,000, which represents 2.6% of its FY 07 appropriation of $19.1 million.

The projected deficiency of $500,000 is attributable to significant increases in medical and indemnity costs in the months of July and August, largely as the result of an increase in costly surgeries of prior year claims.

Summary of General Fund Lapsing Appropriations and Other Reductions for FY 07 as of February 2, 2007 (figures in millions)

Department of Social Services	$	53.8		
Debt Service		40.0		
Retired State Employee Health Service Cost		20.0		
Total - Significant Identified Lapsing Appropriations	$	113.8		
Other Identified Lapses (less than $3 million each)		21.3		
Total – All Identified Lapses	$	135.1		
Increase in Projected Lapse Given Amount Already Identified		39.9		
Subtotal			$	175.0
Other Reductions:				
Personal Services Reduction (holdback)	$	14.0		
Other Expenses Reduction (holdback)		11.0		
Subtotal				25.0

Total Revised Projected Lapses Anticipated	**$**	***200.0***
Total Lapses Anticipated in the Budget		***115.0***
Lapse Increase Projected by OFA	**$**	***85.0***

II. FY 08 through FY 10 General Fund Budget Projections

Our current services analysis indicates a potential General Fund surplus in FY 07 of $552.7 million and shortfalls of $312.1 million in FY 08, $625.1 million in FY 09, and $731.3 million in FY 10. Current services expenditures would exceed the spending cap in the remaining three years by $542.5 million in FY 08, $612.6 million in FY 09 and $413.7 million in FY 10. These estimates assume that the legislature will appropriate up to the allowed expenditure limit in FY 07 and that the appropriation will not exceed allowed expenditures in FY 08 and FY 09.

The FY 08 through FY 10 shortfalls are attributable to: 1) the ongoing impact of $319.6 million in FY 07 expenditures from FY 05 and FY 06 anticipated surplus that will need to be restored to FY 08 appropriations; 2) unavailable one-time revenues amounting to $41 million in FY 08; and 3) expenditure growth which is anticipated to exceed revenue growth.

The $319.6 million in ongoing surplus expenditures includes the following items:

FY 07 Expenditures from FY 05 & FY 06 Anticipated Surplus That Need to be Restored to FY 08 Appropriations	
TRB – Teachers' Retirement	$175.5
DSS – One-Time Revenue that Reduced FY 07 Approp.	40.0
SDE – ECS	32.2
Early Retirement Incentive Plan (ERIP) Accruals	21.2
State Employees Health Service Cost	15.0
OPM – Private Providers (from Contingency Needs)	8.0
SDE – Priority School Districts	7.8
Non-ERIP Accruals	7.5
Remaining FY 06 Carryforwards	4.7
DECD – Housing PILOT	2.2
DMHAS – Community Health Strategy Board	2.0
DECD – Tax Abatement	1.7
SDE – Magnet Schools	1.0
DMHAS – Extend COLA to Federal Contracts	0.8
Total	$319.6

The projections in this report are based on present law, existing policy commitments, estimated caseload and workload requirements. The FY 08 through FY 10 figures are also based on using FY 07 as the baseline for revenue and expenditure projections and assume modest growth in the state and national economy. These estimates show the direction of revenues and spending if current laws and policies remain unchanged. They are not forecasts of what will actually occur, since policymakers will likely seek to alter current priorities.

FY 08 through FY 10 Revenues

The projections for FY 08 though FY 10 were developed using the revised FY 07 estimates adjusted for one-time revenue changes. They assume that annual revenue collections will grow between 3.5% and 3.8%, and that the state will experience modest economic growth throughout this period.

FY 08 through FY 10 Expenditures

The FY 08 projection of $16,067.1 million represents a $1,254.3 million or 6.2% (adjusted) increase over FY 07, the FY 09 projection of $16,915.1 million represents a $848 million or 5.3% increase over FY 08 and the FY 10 projection of $17,641.3 million represents a $726.2 million or 4.3% increase over FY 09.

These projections assume technical current services changes including potential cost/caseload adjustments, costs associated with collective bargaining contracts which may be approved and the need to increase future year appropriations to reflect FY 07 deficiency needs rolled forward into the out-years.

These projections have been developed by applying inflationary guidelines and other specific growth factors to the FY 07 and each subsequent year's estimated expenditure level. The guidelines utilized assume 4.5% salary increases for state employees in subsequent years (which includes 3% for cost of living adjustments and 1.5% for Annual Increments) and 2% in each year for other accounts; however, each major appropriated account has been examined individually and adjusted as necessary to reflect amounts anticipated to be required based on present law and caseload projections.

Several accounts with major FY 08 through FY 10 increases include:

Major General Fund Appropriation Increases for FY 08 through FY 10
as of February 2, 2007
(figures in $ millions)

	FY 08	FY 09	FY 10
DSS – Medicaid	203.1	170.1	178.6
Teachers' Retirement Contributions	282.0	20.7	(21.6)
Debt Service	42.1	107.0	98.0
SDE – ECS	54.8	20.0	20.0
DCF – Board & Care Accounts	53.0	19.7	25.7
State Employee Health Service Cost	43.6	47.7	24.0
Generally Accepted Accounting Principles (GAAP)	39.0	69.0	0.0
DMR – Community Residential Services	28.6	24.7	25.7
Phase-Out Property Tax on Machinery	26.9	29.2	32.9
SDE – Transp. of School Children	22.4	4.9	4.7
Retired State Employees Health Service	21.7	47.6	23.3
DSS – St. Admin. General Asst. (SAGA)	20.1	23.4	26.5
SDE – Excess Cost-Student Based	18.0	9.3	9.1
SDE – Magnet Schools	9.9	17.0	14.2
State Employees Retirement	9.7	27.7	27.9
Total – Major General Fund Increases	874.9	638.0	489.0

The increases for Teachers' Retirement Contributions indicated above allow 100% funding of normal cost plus 40-year amortization of unfunded liabilities in accordance with current law.

Implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 2007 under current law. Our projections include the impact of the conversion to GAAP in FY 08, which adds approximately $39 million to the budget on a net expenditure basis in that year and increases to approximately $108 million including amortization of the GAAP deficit in each of the following 15 fiscal years. The Comptroller's monthly report dated January 2, 2007 indicates that the unaudited cumulative General Fund GAAP deficit as of June 30, 2005 was $1.038 billion and that the figure is anticipated to increase in FY 06.

III. Transportation Fund

FY 07

The FY 07 budget plan for the Special Transportation Fund (STF) anticipated a $49.3 million operating surplus; however, our latest projections indicate a potential $1.0 million increase in surplus. This difference reflects net decreases in revenue collections primarily from the impact of incorporating actual FY 06 collections into the revised FY 07 estimates coupled with a deficiency requirement more than offset by an increased lapse. The summary schedules on pages 16 and 18 show that the revised un-audited cumulative surplus for the STF at the end of FY 07 will be $183.7 million.

Deficiency

The Transportation Fund workers' compensation claims account has a projected net deficiency of approximately $500,000, which represents 8.9% of its FY 07 appropriation of $5.6 million. The projected deficiency is attributable to significant increases in medical and indemnity costs, largely as the result of an increase in costly surgeries of prior year claims.

Lapse

The budget plan lapse (unallocated) was $11 million. A Debt Service lapse of $18.6 million has now been identified. Since a portion of the unallocated lapse is typically attributable to Debt Service, we have reduced the unallocated lapse savings by $5 million from $11 million to $6 million. As a result, the total lapse is now projected to be $24.6 million.

The projected $18.6 million lapse in the Special Transportation Fund is due to cancellation of the issuance of $345 million in Special Tax Obligation (STO) bonds that was originally scheduled for December 2006. The Department of Transportation currently has about $190 million in unspent proceeds from the December 2005 issuance that will provide sufficient funding for Transportation Infrastructure Program projects until the next STO bond sale that is scheduled for the fall of 2007.

FY 08 and the Out Years

Out year projections indicate that the Transportation Fund will continue to experience operating surpluses through FY 09 then begin to experience deficits in the long term, which will reduce the cumulative balance in the fund to $139 million by FY 11. This is attributable to the combined effects of growth rates in expenditures accelerating slightly faster than the anticipated growth in revenues.

The STF out-year projections for FY 08 and FY 09 indicate that the fund will experience annual operating surpluses, despite annual revenues growing by about 3.3% and expenditures growing by about 5.0% (see schedule on page 18). In FY 10, the Transportation Fund will begin experiencing operating deficits as a result of expenditures increasing even faster than revenues. The increases in expenditures are partly due to full implementation of anticipated Rail and Bus subsidies.

Rail and Bus subsidies are anticipated to increase $10 million in FY 08 to up to $30 million by FY 11 above current expenditure levels. The increases result from the implementation of the Transportation Initiatives recently enacted. The estimates also reflect additional costs of $1.1 million per year beginning in FY 08 for the Department of Motor Vehicles (DMV) to implement the vision screening program.

FY 07 Transportation Fund Summary
as of February 2, 2007
(in $ millions)

	Budget Plan	Increase/ (Decrease)	Revised Estimates
Revenues			
Taxes	694.0	(11.5)	682.5
Other Revenue	411.5	(0.6)	410.9
Total Revenue	1,105.5	(12.1)	1,093.4
Appropriations			
Original Appropriations - Gross	1,067.2	0.0	1,067.2
Plus:			
Deficiency requirement	0.0	0.5	0.5
Less:			
Lapses:			
Debt Service	0.0	(18.6)	(18.6)
Unallocated	(11.0)	5.0	(6.0)
Total Lapses	(11.0)	(13.6)	(24.6)
Total Expenditures	1,056.2	(13.1)	1,043.1
Surplus from Operations FY 07	**49.3**	1.0	**50.3**
Plus: Cumulative Surplus as of June 30, 2006 [1]			**133.4**
Projected Fund Balance as of June 30, 2007			**183.7**

[1] Per the January 2, 2007 Comptroller's Letter to the Governor, the Fiscal Year 2006 ending balance was $133.4 million in the Transportation Fund.

FY 07 Transportation Fund Revenue Estimates
as of February 2, 2007
(in $ millions)

	FY 07 Budget Plan	OFA Over/(Under) Budget Plan	FY 07 OFA Estimates
Taxes			
Motor Fuels	488.6	(8.6)	480.0
Petroleum Products Tax	141.0	0.0	141.0
Sales Tax - DMV	73.0	(3.0)	70.0
Refunds of Taxes	(8.6)	0.1	(8.5)
Total Taxes Less Refunds	**694.0**	**(11.5)**	**682.5**
Other Revenue			
Motor Vehicles Receipts	243.0	(11.0)	232.0
License, Permits, and Fees	159.0	3.0	162.0
Interest Income	40.0	7.0	47.0
Transfers to Conservation Fund	(3.0)	0.0	(3.0)
Transfers to Emissions Fund	(4.0)	0.0	(4.0)
Transfers to TSB Sub Account	(20.3)	0.0	(20.3)
Refunds of Payments	(3.2)	0.4	(2.8)
Total - Other Revenue	**411.5**	**(0.6)**	**410.9**
Total Revenue	**1,105.5**	**(12.1)**	**1,093.4**

Transportation Fund Projections for FY 06 through FY 11
as of February 2, 2007
(in $ millions)

Transportation Fund	FY 06		FY 07	FY 08	FY 09	FY 10	FY 11
	Preliminary		Estimate				
Beginning Balance as of July 1st	**$133.1**		**$133.4**	**$183.7**	**$195.0**	**$195.1**	**$168.4**
REVENUES							
Taxes							
Motor Fuels Tax	480.9		480.0	485.0	489.8	494.8	500.0
Petroleum Products Tax	43.5		141.0	164.0	180.9	180.9	200.9
Sales Tax - DMV	68.4		70.0	72.0	74.0	76.0	78.0
Refund of Taxes	(8.9)		(8.5)	(9.0)	(9.1)	(9.2)	(9.3)
Total - Taxes less Refunds	**$583.9**		**$682.5**	**$712.0**	**$735.6**	**$742.5**	**$769.6**
Other Revenue							
Motor Vehicle Receipts	227.3		232.0	238.9	246.0	253.4	261.4
License, Permits and Fees	160.5		162.0	164.0	166.0	168.0	170.0
Interest Income	40.1		47.0	47.0	47.0	48.0	48.0
Federal Grants (FTA)	0.0		0.0	0.0	0.0	0.0	0.0
Transfers to Other Funds	(4.6)		(7.0)	(9.5)	(9.5)	(9.5)	(9.5)
Release from Debt Service Reserves	0.0		0.0	0.0	0.0	0.0	0.0
Total - Other Revenue	**$423.3**		**$434.0**	**$440.4**	**$449.5**	**$459.9**	**$469.9**
Less Refunds of Payments	(2.7)		(2.8)	(2.9)	(3.0)	(3.1)	(3.2)
Less Transfers to TSB Account [1]	(25.3)		(20.3)	(15.3)	(15.3)	(15.3)	(15.3)
TOTAL REVENUE	**$979.2**		**$1,093.4**	**$1,134.2**	**$1,166.8**	**$1,184.0**	**$1,221.0**
EXPENDITURES							
Debt Service	425.8		441.3	459.6	478.4	498.6	497.9
DOT Budgeted Expenses	402.4	[2]	439.8	481.5	500.9	516.5	548.8
DMV Budgeted Expenses	55.3		58.9	61.9	63.4	64.8	66.2
Other Budgeted Expenses	107.6		127.7	130.9	135.0	141.8	148.5
Subtotal - Expenditures	**$991.1**		**$1,067.7**	**$1,133.9**	**$1,177.7**	**$1,221.7**	**$1,261.4**
Less Unallocated Lapses	(12.2)	[3]	(24.6)	(11.0)	(11.0)	(11.0)	(11.0)
TOTAL EXPENDITURES	**$978.9**		**$1,043.1**	**$1,122.9**	**$1,166.7**	**$1,210.7**	**$1,250.4**
OPERATING SURPLUS/(DEFICIT)	**$0.3**		**$50.3**	**$11.3**	**$0.1**	**($26.7)**	**($29.4)**
Ending Balance as of June 30th	**$133.4**		**$183.7**	**$195.0**	**$195.1**	**$168.4**	**$139.0**
DEBT SERVICE RATIO[4]	**2.4**		**2.5**	**2.5**	**2.5**	**2.4**	**2.5**

(1) Incremental revenue from the various DMV fee changes allocated to the Transportation Strategy Board (TSB) and deposited in the TSB projects account.
(2) DOT expenditures do not include $7.9 million for Town Aid Road Grant that the Comptroller reflected as expenditures in the Transportation Fund instead of the FY 05 Surplus General Fund appropriation.
(3) Lapse adjusted by $3 million in order to arrive to the Comptroller's FY 06 Operating Surplus figure.

(4) Pledged revenues for reserves required under the Indentures in an amount at least two (2) times the aggregate Principal and Interest Requirements on all outstanding Bonds and Notes.