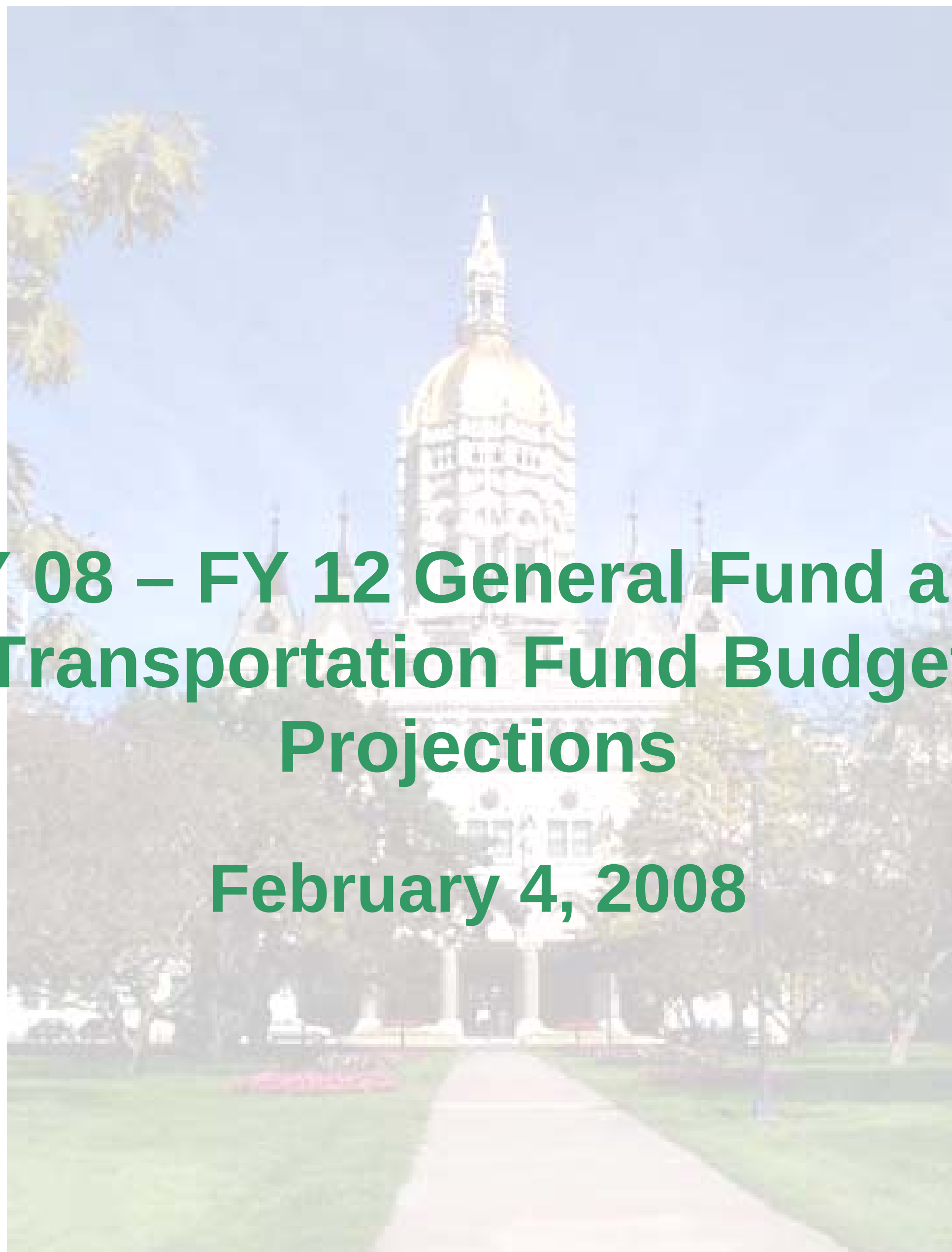
Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS



FY 08 – FY 12 General Fund and Transportation Fund Budget Projections

February 4, 2008

OFA Report Highlights

- **FY 08 General Fund surplus** is projected at **$160.4 million**. See pages 1 – 10 for details.

- **FY 09 General Fund surplus** is projected at **$37.6 million,** pending further review of revenues and technical current services expenditure changes including potential cost/caseload adjustments and the need to increase FY 09 appropriations to reflect FY 08 deficiency needs rolled forward into FY 09.

- **General Fund current services shortfalls are projected for FY 10 ($551.2 million), FY 11 ($796 million) and FY 12 ($630.6 million).** See pages 11 - 13 for details.

- **FY 08 Transportation Fund operating surplus** is projected at **$3.6 million** ($19 million lower than budgeted), which increases the cumulative surplus to $196.5 million. The change in the projections is mainly due to lower than anticipated revenues from the Motor Fuels Tax and Motor Vehicle Receipts off-set by an increase in the lapse attributable to lower debt service expenditures. See pages 14 - 17 for details.

- **Out year projections indicate that the Transportation Fund will begin to experience operating deficits in FY 09. The operating deficits are expected to eliminate the cumulative balance by FY 11.** This is attributable to the combined effects of growth rates in expenditures accelerating faster than the anticipated growth in revenues.

Preliminary General Fund Budget Projections
FY 08 through FY 12
as of February 4, 2008

	FY 08		FY 09		FY 10	FY 11	FY 12
Budget Overview:	**OFA Estimate as of Budget Passage 6/25/07 FY 08**	**OFA Revised Estimate 2/1/08 FY 08**	**OFA Estimate as of Budget Passage 9/20/07 FY 09**	**OFA Revised Estimate 2/1/08 FY 09**	**OFA Current Services Estimate 2/1/08 FY 10**	**OFA Current Services Estimate 2/1/08 FY 11**	**OFA Current Services Estimate 2/1/08 FY 12**
Revenues	16,315.6	16,443.0	17,073.1	17,137.2	17,828.2	18,612.3	19,473.7
Expenditures	16,314.9	16,282.6	17,073.0	17,099.6	18,379.4	19,408.3	20,104.3
Balance	**0.7**	**160.4**	**0.1**	**37.6**	**(551.2)**	**(796.0)**	**(630.6)**
Spending Cap Comparisons (All Funds):							
Amount Total Appropriations Over (Under) Cap (assuming that the legislature will appropriate up to the allowed expenditure limit in FY 09 and that the appropriation will not exceed allowed expenditures in FY 10 and FY 11)	690.4	690.4	(28.2)	(28.2)	175.2	245.3	(80.4)
Reasons for FY 10, FY 11 & FY 12 Spending Cap Problems and Shortfalls:							
FY 10 - Restore FY 09 Expenditures from FY 07 Anticipated Surplus to FY 10 Appropriations (General Fund)					210.0	-	-
FY 10 - Unavailable One-Time Revenue Shift from FY 07 ($80m) and FY 08 ($16m) to FY 09 (General Fund)					96.0	-	-
General Fund Growth Rates (Adjusted):							
Revenue				4.4%	4.0%	4.4%	4.6%
Expenditures				3.9%	5.8%	5.6%	3.6%

FY 08 General Fund Summary
as of February 4, 2008
(in millions)

	Budget Plan	Increases (Decreases)	Projected
Revenues			
Taxes	$ 12,453.2	$ 108.5	$ 12,561.7
Other Revenue	1,206.3	(23.0)	1,183.3
Other Sources	2,656.1	41.9	2,698.0
Total Revenue	**$ 16,315.6**	**$ 127.4**	**$ 16,443.0**
Appropriations			
Original Appropriations - Gross	$ 16,431.4	$ -	$ 16,431.4
Plus:			
Deficiency Requirements	-	26.2	26.2
Adjudicated Claims	-	8.0	8.0
Refunds of Escheated Property	-	27.0	27.0
Less:			
Lapses [1]	(116.5)	(93.5)	(210.0)
Total Expenditures [2]	**$ 16,314.9**	**$ (32.3)**	**$ 16,282.6**
Surplus/(Deficit) from Operations for FY 08	**$ 0.7**	**$ 159.7**	**$ 160.4**

[1] The breakdown for budgeted lapses is as follows:			
unallocated budgeted lapses	$ (90.5)	$ (93.5)	$ (184.0)
general PS and OE reductions (holdbacks)	(26.0)	-	(26.0)
Total - Lapses Originally Budgeted	$ (116.5)	$ (93.5)	$ (210.0)

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

Note: General Fund surpluses resulted in the following fiscal years: $302.2 million in FY 04; $363.9 million in FY 05; $446.5 million in FY 06; and $269.2 million in FY 07, each contributing toward a total Budget Reserve Fund (BRF) balance of $1,381.8 million (which represents 84.7% of full BRF capacity). The Budget Reserve (Rainy Day) Fund had been depleted when its prior $594.7 million balance was used 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 08 totaling $16,314.9 million, the maximum allowable in the Budget Reserve Fund is $1,631.5 million or $249.7 million more than potentially deposited.

FY 08
General Fund Revenue Estimates
($ - Thousands)
February 4, 2008

	Budget Plan		OFA	OFA Estimates	
	Growth Rate [1]	FY 08 Estimate	Over(Under) Plan	Growth Rate [1]	FY 08 Estimate
Taxes					
Personal Income	6.8	$7,193,900	$306,100	11.0	$7,500,000
Sales and Use	3.8	3,598,900	-	3.1	3,598,900
Corporations	-	870,000	(180,000)	(20.3)	690,000
Public Service Corporations	2.0	253,100	-	7.5	253,100
Inheritance and Estate	3.0	185,400	(20,100)	(8.1)	165,300
Insurance Companies	2.0	258,100	(20,100)	(5.9)	238,000
Cigarettes	-	351,500	(5,000)	(1.7)	346,500
Real Estate Conveyance	-	200,000	6,100	(2.4)	206,100
Oil Companies	-	134,700	23,500	6.1	158,200
Alcoholic Beverages	1.0	47,000	-	2.1	47,000
Admissions, Dues and Cabaret	2.0	34,400	-	2.9	34,400
Miscellaneous	-	145,000	-	0.4	145,000
Total Taxes		**13,272,000**	**110,500**		**13,382,500**
Refunds of Taxes		(812,800)	-		(812,800)
R & D Credit Exchange		(6,000)	(2,000)		(8,000)
Taxes Less Refunds		**12,453,200**	**108,500**		**12,561,700**
Other Revenue					
Transfer Special Revenue		282,600	-		282,600
Indian Gaming Payments		437,500	(20,000)		417,500
Licenses, Permits and Fees		163,600	-		163,600
Sales of Commodities and Services		38,000	(6,000)		32,000
Rentals, Fines and Escheats		52,100	3,000		55,100
Investment Income		85,000	-		85,000
Miscellaneous		148,100	-		148,100
Refunds of Payments		(600)	-		(600)
Total Other Revenue		**1,206,300**	**(23,000)**		**1,183,300**
Other Sources					
Federal Grants		2,643,100	41,900		2,685,000
Transfer to the Resources of the General Fund		(16,000)	-		(16,000)
Transfer from Tobacco Settlement Fund		115,300	-		115,300
Transfer to Other Funds		(86,300)	-		(86,300)
Total Other Sources		**2,656,100**	**41,900**		**2,698,000**
Total Revenue		**$16,315,600**	**$127,400**		**16,443,000**

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

Summary of Changes to November 15, 2007 General Fund Surplus/Deficit Projections
as of February 4, 2008
(figures in millions)

	FY 08			FY 09	FY 10	FY 11	FY 12
Projected Surplus/(Deficit) as of 11/15/07			**$ 264.4**	**$ 223.7**	**$ (330.6)**	**$ (566.9)**	**$ (374.4)**
Expenditure Increases							
Miscellaneous expenditure increase		$ (1.5)					
Expenditure Decreases							
Increase in projected lapse savings	$ 10.0						
Decreased deficiency requirements	17.1						
		27.1					
Net Expenditure Decrease/(Increase)			**25.6**	**18.4**	**11.1 [1]**	**10.5 [1]**	**(6.3) [1]**
Revenue Increases							
Federal Grants	$ 41.9						
Personal Income Tax	16.0						
Public Service Corporations	5.6						
Total - Revenue Increases		$ 63.5					
Revenue Decreases							
Corporation Business Tax	$ (135.0)						
Insurance Companies Tax	(20.1)						
Indian Gaming Payments	(20.0)						
Real Estate Conveyance Tax	(5.1)						
Cigarette Tax	(5.0)						
Sales of Commodities and Services	(3.5)						
Special Revenue Transfer	(2.4)						
R & D Credit Exchange	(2.0)						
Total - Revenue Decreases		(193.1)					
Net Revenue Increase/(Decrease)			**(129.6) [2]**	**(204.5) [2]**	**(231.7) [2]**	**(239.6) [2]**	**(249.9) [2]**
Projected Surplus/(Deficit) as of 2/4/08			**$ 160.4**	**$ 37.6**	**$ (551.2)**	**$ (796.0)**	**$ (630.6)**

[1] FY 10, FY 11 and FY 12 expenditures differ from our November 15, 2007 projections largely because our more recent estimates include: 1) the net savings for Teachers' Retirement Contributions to the Teachers' Retirement Fund from the cost of living adjustment changes and the anticipated issuance of $2 billion in pension obligation bonds (POB's); and 2) debt service associated with the POB's. The State Bond Commission allocated the bonds on January 25, 2008.

[2] FY 08 revenues are $129.6 million lower than our November 15, 2007 projections largely due to decreases to the Corporation Business Tax, Insurance Companies Tax and Indian Gaming Payments, partially offset by an increase in Federal Grants. FY 09, FY 10, FY 11 and FY 12 revenues are lower than our November 15, 2007 projections due to the roll out of the FY 08 net projected decreases.

Budget Reserve Fund Status
as of February 4, 2008

Current Status:

Maximum Allowable in BRF @ 10% of net GF approps. for FY 08		1,631.5
Recent Surpluses Deposited in Budget Reserve (Rainy Day) Fund:		
FY 04	302.2	
FY 05	363.9	
FY 06	446.5	
FY 07 (estimated)	269.2	
Total - BRF (84.7% of full capacity)		1,381.8
Extent to Which BRF Not Fully Funded (15.3%)		249.7

Potential Future Status:

Maximum Allowable in BRF @ 10% of net GF approps. for FY 10 (projected)		1,837.9
Potential Future Surpluses Deposited in Budget Reserve (Rainy Day) Fund:		
Total - BRF at Conclusion of FY 07	1,381.8	
FY 08 (estimated)	160.4	
FY 09 (estimated)	37.6	
Total - BRF (86% of full capacity)		1,579.8

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General Fund and Transportation Fund Budget Projections
(as of February 4, 2008)

I. FY 08 General Fund

Our projections for the fiscal year ending June 30, 2008 indicate a **potential surplus of $160.4 million** (which represents 1.0% of the budget). This surplus assumes that in addition to the originally budgeted surplus of $0.7 million, **estimated revenues will be $127.4 million higher than budgeted** and **estimated expenditures will be $32.3 million lower than net appropriations.** While the projected General Fund surplus is $160.4 million, **this estimate may change if: 1) the level of currently estimated deficiencies grows; 2) energy prices continue to increase; or 3) revenues are adversely affected by any deterioration in economic conditions.**

Revenues

The estimated $127.4 million net increase in FY 08 General Fund revenue collections is due to projected increases of $380.6 million and decreases of $253.2 million. The three most significant increases are: (1) $306.1 million in the Personal Income Tax, (2) $23.5 million in the Oil companies Tax, and (3) $41.9 million in Federal Grants. The four most significant decreases are: (4) $180.0 million in the Corporation Business Tax, (5) $20.1 million in the Inheritance and Estate, (6) $20.1 million in Insurance Companies and (7) $20.0 million in Indian Gaming Payments. The remaining changes, consisting of $9.1 million in increases and $13.0 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 $306.1 million greater than originally projected due to:

a) ***Estimated Payments:*** Anticipated FY 08 collections have been increased by $119.0 million, which is composed of: (1) $106.5 million in actual third and fourth quarter 2007 estimated payment[1] collections and (2) $12.5. million in projected fourth quarter 2007 payments. The projections are based on a strong growth trend observed in the 2007 income year of no growth in the first quarter, 8.7% in the second quarter, 22.6% in the third quarter, and 18.7% in the fourth quarter.

b) ***Final Payments:*** 2007 income year final payment[1] revenue is anticipated to be $104.0 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.

[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 December 15th and Final payments are due April 15th of the following year.

In addition, the revised estimate also reflects the settlement of some significant tax audits by the Department of Revenue Services.

c) ***Withholding Payments:*** Anticipated collections from withholding on wages and salaries have been increased by $83.1 million, which is composed of: (1) $42.7 million in actual collections compared to original forecasts through January and (2) $40.4 million in projected collections for February through June. The revised estimates assume that collections for the remainder of the year will grow by 8% compared to original estimates.

(2) **Oil companies** collections are anticipated to be $23.5 million greater than originally projected. The estimate has been adjusted to reflect the recent surge in crude oil prices, which is expected to have a positive impact on collections for the remainder of the fiscal year.

(3) **Federal Grants** are anticipated to be $41.9 million greater than originally projected. This is the result of a significant increase ($72.0 million) in federal reimbursement under the Title IV-E (foster Care & Adoption) program, which is partially offset by lower claims as a result of a reduction in anticipated Medicaid expenses. Compliance with new Title IV-E claiming guidelines established per the Deficit Reduction Act of 2006 has proven less detrimental than originally expected. Eligibility rates have exceeded original projections and retroactive adjustments are no longer anticipated.

The projected major revenue decreases are as follows:

(5) **Corporation Business Tax** revenues are anticipated to be $180.0 million less than originally projected based recent collection trends. Estimated payments due in September and January were below our targets by $67 million. Therefore, projections for March and June estimated payments have been revised to reflect this trend.

(5) **Inheritance and Estate** collections are anticipated to be $20.1 million less than originally projected. Year to date collections are $12.8 million less than collections during the same period last year and have not met original forecasts.

(6) **Insurance Companies Tax** collections are anticipated to be $20.1 million less than originally projected. Year to date collections are $18.6 million less than collections during the same period last year and have not met original forecasts.

(7) **Indian Gaming Payments** are anticipated to be $20.0 million less than originally projected. The revised estimate is based on year-to-date collections, which have declined by 4.2% compared to last year.

Expenditures

The $32.3 million reduction in expenditures is largely attributable to $93.5 million in lapse (savings) increases offset by $26.2 million in deficiency needs and $35 million in other miscellaneous expenditure requirements.

- **Budgeted Lapses**

Lapses anticipated in the budget total $116.5 million and given the amount of unallocated lapse already identified and recent historical trends, our surplus projection assumes that these savings will be achieved and perhaps exceeded by $93.5 million. The $116.5 million budgeted savings includes: $90.5 million in unallocated budgeted lapses and $26 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 $120.8 million in unallocated lapses or $30.3 million more than the $90.5 million unallocated lapse anticipated in the budget. Major identified lapse contributors include the Department of Social Services ($59.1 million), the Debt Service account ($25 million) and the Office of Policy and Management ($11 million), the reasons for which are described below. Given the amount of unallocated lapse already identified and recent historical trends, we have increased the FY 08 unallocated lapse projection by $93.5 million to a total of $184 million assuming that additional lapses will be realized through the end of the year. (The total FY 08 lapse is now projected to be $210 million assuming that the additional $26 million in Personal Services and Other Expenses reductions held back from agency allotments are realized.)

Unallocated Lapses

(figures in $ millions)

Department of Social Services	59.1
Debt Service	25.0
Office of Policy and Management	11.0
Total – Significant Identified Lapsing Appropriations	95.1
Other Identified Lapses (less than $5 million each)	25.7
Total – All Identified Lapses	120.8
Increase in Projected Lapse Above Amount Already Identified	63.2
Total – Revised Projected Unallocated Lapses Anticipated	184.0
Total – Unallocated Lapses Anticipated in the Budget	90.5
Total – Unallocated Lapse Increase Projected by OFA	93.5

Department of Social Services – The Department of Social Services has a projected FY 08 surplus of $59.1 million. This is primarily due to the Medicaid ($62.7 million), Housing/Homeless Services ($8.8 million), ConnPACE ($3 million) and HUSKY ($2.7 million) account. Surpluses in Medicaid and HUSKY are largely attributable to delays in implementing new caseload expansions as well as scheduled rate increases. Medicaid rate increases budgeted to begin July 1, 2007 were not implemented until October 1, 2007 for hospitals and January 1, 2008 for other providers. The lapse in the Housing/Homeless account is due to an inability to certify apartments under the Rental Assistance Program. The ConnPACE lapse is due to a declining caseload as well as a continuing transfer of costs to the federal Medicare Part D program.

These lapses are partially offset by significant projected deficiencies for the Child Care Services ($10.6 million), SAGA ($5.2 million), and Medicare Part D Supplemental Needs ($1.2 million). These deficiencies are due to higher than expected caseloads and claims in all three programs.

It should be noted that there is a degree of uncertainty in the fiscal projection for DSS due to the changes currently underway for the HUSKY managed care program. It is not clear whether the transfer from a managed care system to a fee-for-service system will more or less expensive in the near term. Given the size of this program (over $700 million), these changes could greatly impact the projection for FY 08.

Debt Service – The projected lapse in the General Fund debt service account is $25 million, which is in addition to the $20 million legislative reduction made in the budget act (a total projected reduction of $45 million). The $25 million estimate is composed of: (1) $10.5 million in savings due to changes in the issuance schedule and lower than anticipated interest rates, (2) $10.0 million in premiums* received on nontaxable General Obligation (GO) bonds, (3) $1.0 million in refunding savings, and (4) $3.5 million in savings from a variety of other sources such as arbitrage rebate payments, rebate fees and trustee fees. (*Bond purchasers pay a premium to receive a higher interest rate than the one at which the bonds would otherwise have sold.)

Office of Policy and Management – A lapse of $11 million is anticipated due to lower than anticipated expenditures in a variety of areas, including:

- $4.3 million lapse in the Manufacturing Machinery and Equipment PILOT due to lower than anticipated claims. This lapse is net of a $750,000 Finance Advisory Committee transfer and the use of $17.06 million pursuant to PA 08-1 (SB 1700), January Special Session, An Act Concerning Criminal Justice Reform.

- $3.28 million lapse in the Private Provider account as budgeted amounts exceeded requirements to provide the cost-of-living increase to providers.

- $937,534 lapse in Personal Services is anticipated, net of the Personal Services holdback. The lapse is due to: 1) delays in hiring and; 2) because a variety of funded vacant civil service positions are held for staff who were formerly in civil service, but are currently serving in an appointed capacity. As these staff members continue to serve in their appointed capacities, the funds for the vacant civil service positions will lapse.

- $500,000 will lapse in funds for local Property Tax Exemption for Hybrid Vehicles. Although funds for the reimbursements were included in the budget, the enacting language provides a local property tax option but no authority for OPM to reimburse the towns.

- $493,017 lapse in Justice Assistance Grants due to lower than anticipated expenditures of discretionary funds.

- lapses of $203,258 in Disability Tax Exemption and $941,763 in Distressed Municipalities and $160,635 in Elderly Freeze are anticipated because of lower than anticipated claims.

- **Deficiencies**

The $93.5 million lapse increase is offset by $26.2 million in projected deficiencies. These net deficiencies are occurring within the Department of Correction ($18.2 million), the Department of Mental Health and Addiction Services ($7.9 million) and the Office of Chief Medical Examiner ($120,000). Please see the explanations for all FY 08 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.

In addition to the $26.2 million currently identified, $12.8 million in other potential shortfall areas exist including University of Connecticut Health Center ($10.9 million), state Department of Education ($1.5 million) and Workers' Compensation Claims ($0.4 million). Please see the explanations for all potential additional FY 08 deficiencies on our "watch list" on page 9.

- **State Employee Collective Bargaining**

Of the 33 collective bargaining contracts, two bargaining units (Judicial Marshals and State Technical College Faculty) have contracts that expired on June 30, 2007 and are not funded in FY 08 and FY 09. Five bargaining units have contracts that expire on June 30, 2008 and are not funded in FY 09.

Collective Bargaining Contracts

The 33 collective bargaining contracts become unsettled in the following fiscal years:

FY	Unsettled Contracts
08	2
09	5
10	11
11	8
12	7

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

General Fund surpluses resulted in the following fiscal years: $302.2 million in FY 04; $363.9 million in FY 05; $446.5 million in FY 06; and $269.2 million in FY 07, each contributing toward a total Budget Reserve Fund (BRF) balance of $1,381.8 million (which represents 84.7% of full BRF capacity). The Budget Reserve (Rainy Day) Fund had been depleted when its prior $594.7 million balance was used 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 08 totaling $16,314.9 million, the maximum allowable in the Budget Reserve Fund is $1,631.5 million or $249.7 million more than potentially deposited.

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 08 General Fund Deficiencies
as of February 4, 2008

Department of Mental Health and Addiction Services

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(9,000,000)	$(7,919,540)	$2,797,622	$(5,121,918)

The Department of Mental Health and Addiction Services has a projected net deficiency of $7.9 million, which represents 1.2% of its FY 08 appropriation of $637.2 million. This assumes that a Personal Services holdback of $1,943,400 and an Other Expenses holdback of $854,222 are not released. If the holdbacks were released, an estimated remaining deficiency of $5.1 million would result.

This deficiency is primarily due to Personal Services ($9.9 million), Other Expenses ($3.8 million) and Professional Services ($550,000). The Personal Services shortfall is largely due to increased staffing and overtime costs incurred at the Connecticut Valley Hospital in reaction to the federal Department of Justice and Centers for Medicare/Medicaid Services review and recommendations. The Other Expenses deficiency is due to the continuing increase in utility costs at state facilities. These deficiencies are offset by lapses in Community Mental Health Strategy Board, ($2.4 million), Housing Supports and Services ($2 million), and Home and Community Based Services ($1 million), primarily do to delays in starting newly funded programs. Additionally, workers' compensation claims have been below initial projections, resulting in a potential lapse of $1 million.

Office of the Chief Medical Examiner

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(0)	$(120,000)	$54,056	$(65,944)

The Office of the Chief Medical Examiner (OCME) is anticipating a net deficiency of $120,000 in the Medicolegal Investigations account (MI). This represents 2% of the agency's total FY 08 appropriation of $5.8 million. This assumes that the Personal Services holdback of $35,939 and the Other Expenses holdback of $18,117 are not released. If the holdbacks are released, an estimated remaining deficiency of $65,944 would result.

The deficiency is primarily due to the delay in filling new Investigator positions (Personal Services account) that would investigate the cases currently being done by contracted

Assistant Medical Examiners (AME's) in the MI account. The FY 08 budget included a reallocation of funding from the MI account to Personal Services and Other Expenses with a net savings to the agency as a result of shifting the death investigation services to in-house. The anticipated PS lapse (due to the delay in filling the positions) will cover the anticipated OE shortfall and partially cover the cost in the MI account leaving a net shortfall of $120,000.

Department of Correction

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(16,000,000)	**$(18,200,000)**	**$4,978,462**	**$(13,221,538)**

The Department of Correction has a projected net deficiency of $18.2 million, which represents 2.7% of its FY 08 appropriation of $662.8 million. This assumes that a Personal Services holdback of $3,178,318 and an Other Expenses holdback of $1,800,144 are not released. If the holdbacks were released, an estimated remaining deficiency of $13,221,538 would result.

The $18.2 million deficiency occurs in four areas: Personal Services ($3.8 million), Other Expenses ($6.9 million), and Inmate Medical Services ($6.5 million), and Community Support Services ($1.0 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 of approximately 19,800 is 600 inmates more than FY 07 averages.

The shortfall in Other Expenses is driven by operational demands on food, clothing, bedding, and other related living supplies associated with an increasing offender population. Additionally, the Other Expenses deficiency is related to increased electricity costs, representing double-digit inflationary increases.

The shortfall in Inmate Medical Services is due to increased expenses related to the increased inmate population, John Dempsey Hospital inpatient care, and additional position costs to meet consent decree and stipulated settlement agreements.

The shortfall in Community Support Services represents half year funding for the authorization to increase halfway house beds and non-residential services as a result of the initiative to expedite the community placement of non-violent offenders.

Total OFA Net Deficiencies
$(26,239,540)

"Watch List" for
Potential Additional FY 08 Deficiencies
as of February 4, 2008
(figures in $)

Agency / Account / Description	Potential FY 08 Net Deficiency
General Fund:	
University of Connecticut Health Center (UCHC) - General Fund support for the University of Connecticut Health Center (UCHC) is limited to a block grant for the educational portion of the Health Center's budget. However, the UCHC is experiencing a significant overall deficit, primarily due to structural financial problems at the John Dempsey Hospital. This deficit is currently projected at $10.9 million for FY 08, although continued medical losses could drive this estimate higher.	10,900,000
State Department of Education (SDE) - A potential net deficiency is occurring in the Excess Cost – Student Based grant ($1.5 million). The potential shortfall in this grant is due to special education costs running at higher than anticipated rates.	1,500,000
Workers' Compensation Claims - Department of Administrative Services - The Department of Administrative Services Workers' Compensation account funds the workers' compensation claims costs for state employees in 84 agencies that do not receive a direct appropriation. The DAS workers' compensation claims account could have a deficiency of $400,000. The potential deficiency is being driven by significant increases in medical and indemnity costs on older claims.	400,000
Total - Watch List Deficiencies	**12,800,000**

Summary of General Fund Lapsing Appropriations and Other Reductions for FY 08 as of February 4, 2008 (figures in millions)

Department of Social Services (DSS)	59.1		
Debt Service	25.0		
Office of Policy and Management (OPM)	11.0		
Total - Significant Identified Lapsing Appropriations	$ 95.1		
Other Identified Lapses (less than $5 million each)	25.7		
Total – All Identified Lapses	$ 120.8		
Increase in Projected Lapse Given Amount Already Identified	63.2		
Subtotal		$ 184.0	
Other Reductions:			
Personal Services Reduction (holdback)	$ 15.0		
Other Expenses Reduction (holdback)	11.0		
Subtotal		26.0	
Total Revised Projected Lapses Anticipated			***$ 210.0***
Total Lapses Anticipated in the Budget			***116.5***
Lapse Increase Projected by OFA			***$ 93.5***

II. FY 09 through FY 12 General Fund Budget Projections

Our current services analysis indicates a potential General Fund surplus in FY 09 of $37.6 million and shortfalls of $551.2 million in FY 10, $796 million in FY 11, and $630.6 million in FY 12. Current services expenditures would exceed the spending cap by $175.2 million in FY 10 and $245.3 million in FY 11 and would be below the spending cap by $80.4 million in FY 12. These estimates assume that the legislature will appropriate up to the allowed expenditure limit in FY 09 and that the appropriation will not exceed allowed expenditures in FY 10 and FY 11.

The FY 09 surplus assumes continued revenue growth offset by modest additional current services expenditure requirements. The FY 10 through FY 12 shortfalls are attributable to: 1) the ongoing impact of $210 million in FY 09 Teachers' Retirement expenditures from FY 07 anticipated surplus that will need to be restored to FY 10 appropriations; 2) $80 million one-time revenues provided in FY 09 from FY 07 anticipated surplus and a $16 million revenue transfer from FY 08 to FY 09 that are no longer available in FY 10; 3) increased debt service costs related to the issuance of $2 billion in pension obligation bonds to fund a portion of the shortfall in the Teachers' Retirement Fund; and 4) expenditure growth which is anticipated to exceed revenue growth in FY 10 and FY 11.

The projections in this report are based on present law, existing policy commitments, estimated caseload and workload requirements. The FY 09 through FY 12 figures are also based on using FY 08 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 09 through FY 12 Revenues

The projections for FY 09 though FY 12 were developed using the revised FY 08 estimates adjusted for one-time revenue changes. They assume that annual revenue collections will grow between 4.0% and 4.6%, and that the state will experience modest economic growth throughout this period.

FY 09 through FY 12 Expenditures

The FY 09 projection of $17,099.6 million represents a $817 million or 3.9% (adjusted) increase over FY 08, the FY 10 projection of $18,379.4 million represents a $1,279.8 million or 5.8% (adjusted) increase over FY 09, the FY 11 projection of $19,408.3 million represents a $1,028.9 million or 5.6% increase over FY 10, and the FY 12 projection of $20,104.3 million represents a $696 million or 3.6% increase over FY 11.

Pending further review, these projections exclude potential technical current services changes including potential cost/caseload adjustments beginning in FY 09. These projections include costs associated with collective bargaining contracts which may be approved and the need to increase future year appropriations to reflect FY 08 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 08 and each subsequent year's estimated expenditure level. The guidelines utilized assume 4.5% to 5% salary increases for state employees in subsequent years (which includes 3% to 3.5% 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 09 through FY 12 increases include:

Major General Fund Appropriation Increases for FY 09 through FY 12
as of February 4, 2008
(figures in $ millions)

	FY 09	FY 10	FY 11	FY 12
DSS – Medicaid	131.3	186.2	195.5	205.3
Debt Service	116.9	152.0	20.0	28.2
SDE – ECS	80.0	83.8	87.0	90.0
Retired State Employees Health Service	41.3	24.2	25.4	26.7
State Employee Health Service Cost	35.5	25.0	26.3	27.5
OPM – PILOT-New Manufacturing	30.0	33.8	31.5	32.8
State Employees Retirement	22.6	25.1	25.9	28.1
TRB – Retirement Contributions	20.7	236.7	22.4	23.8
DDS – Community Residential Services	19.9	19.7	20.7	21.7
SDE – Magnet Schools	18.5	7.0	7.0	6.0
DCF – Board & Care Accounts	14.3	31.8	22.0	22.3
DDS – Employment Opportunities	10.3	6.8	7.2	7.4
SDE – Excess Cost-Student Based	9.0	10.0	10.0	11.0
Various – Juvenile Juris. Age Change	2.6	13.3	23.4	15.1
Judicial – Youthful Offender Services	2.4	4.8	11.4	1.0
SDE – Transp. of School Children	0.0	20.0	3.0	3.0
Generally Accepted Accounting Principles (GAAP)	0.0	55.4	70.6	0.0
27th Payroll Cost	0.0	0.0	133.0	(133.0)
Total – Major General Fund Increases	555.3	935.6	742.3	416.9

The increase in the Teachers' Retirement Contribution in FY 10 reflects funding 100% of the contribution from the General Fund. FY 06 through FY 09 contributions have been funded at 100% through a combination of General Fund and surplus appropriations. Additionally, the contributions reflect the net savings to the Teachers' Retirement Fund from the cost of living adjustment changes and the anticipated issuance of $2 billion in pension obligation bonds. The State Bond Commission allocated the bonds on January 25, 2008.

Implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 2009 under current law. Our projections include the impact of the conversion to GAAP in FY 10, which adds approximately $55.4 million to the budget on a net expenditure basis in that year and increases to approximately $126 million including amortization of the GAAP deficit in each of the following 15 fiscal years. The Comptroller's monthly report dated February 1, 2008 indicates that the unaudited cumulative General Fund GAAP deficit as of June 30, 2006 was $1.059 billion and the figure is anticipated to increase in FY 07.

Our projections also include $133 million for the 27th state employee payroll, which will occur in FY 11.

III. Transportation Fund

FY 08

Our projections for the fiscal year ending June 30, 2008 indicate a potential operating surplus of $3.6 million. This projection represents a $19 million decrease from the surplus anticipated when the budget was adopted. The $3.6 million will increase the revised unaudited cumulative surplus for the Special Transportation Fund (STF) to $196.5 million.

Revenue Changes: The estimated $30.6 million net decrease in FY 08 STF revenue collections is due to projected decreases of $33.6 million and increases of $3.0 million. The two most significant decreases are: (1) $16 million in the Motor Fuels Tax and (2) $10.6 million in the Motor Vehicle Receipts account. The adjustments in these items reflect lower than anticipated year-to-date collections.

Expenditure Changes: The net increase of $11.6 million in the lapse of anticipated STF expenditures is mainly attributable to a reduction in the debt service requirement due to lower than expected borrowing costs and the postponement of a scheduled bond sale.

FY 09 and the Out Years

The STF projections indicate that the fund will begin to experience an annual operating deficit in FY 09 as a result of expenditures continuing to increase faster than revenues. The increases in expenditures are partly due to full implementation of anticipated Rail and Bus subsidies and increases in the Town Aid Road Grant program.

Debt Service expenditures reflect the cancellation of $150 million bond sale that was scheduled for Spring 2008.

Rail and Bus subsidies are anticipated to increase above current expenditure levels from $10 million in FY 10 to $30 million in FY 12. The increases result from the implementation of the Transportation Initiatives enacted from 2005 through 2007. Our estimates assume that $8 million of the $30 million Town Aid Road Grant program that were previously funded from anticipated General Fund surpluses will be funded from the Transportation Fund in the out-years. The estimates also reflect additional costs each year of $600,000 for the grant to Tweed-New Haven Airport and of $1.1 million per year for DMV to implement the vision screening program beginning in FY 10.

FY 08 Transportation Fund Summary
as of February 4, 2008
(in millions)

	Budget Plan	Increase/ (Decrease)	Revised Estimates
Revenues			
Taxes	707.0	(19.0)	688.0
Other Revenue	414.4	(11.6)	402.8
Total Revenue	1,121.4	(30.6)	1,090.8
Appropriations			
Original Appropriations - Gross	1,109.8	0.0	1,109.8
Plus: Deficiency requirements	0.0	0.0	0.0
Less:			
Lapses:			
Debt Service	0.0	(13.6)	(13.6)
Unallocated	(11.0)	2.0	(9.0)
Total Lapses	(11.0)	(11.6)	(22.6)
Total Expenditures	1,098.8	(11.6)	1,087.2
Surplus from Operations FY 08	**22.6**	(19.0)	**3.6**
Plus: Cumulative Surplus as of June 30, 2007 [1]			**192.9**
Projected Fund Balance as of June 30, 2008			**196.5**

[1] Per the November 1, 2007 Comptroller's Letter to Governor Rell, the FY 07 ending balance was $192.9 million in the Transportation Fund.

FY 08 Transportation Fund Revenue Estimates
as of February 4, 2008
(in millions)

	FY 08 Budget Plan	OFA Over/(Under) Budget Plan	FY 08 OFA Estimates
Taxes			
Motor Fuels	516.0	(16.0)	500.0
Petroleum Products Tax	127.8	0.0	127.8
Sales Tax - DMV	72.0	(4.0)	68.0
Refunds of Taxes	(8.8)	1.0	(7.8)
Total Taxes Less Refunds	**707.0**	**(19.0)**	**688.0**
Other Revenue			
Motor Vehicles Receipts	236.6	(10.6)	226.6
License, Permits, and Fees	164.0	2.0	166.0
Interest Income	47.0	(3.0)	44.0
Transfers to Conservation Fund	(3.0)	0.0	(3.0)
Transfers to Emissions Fund	(6.5)	0.0	(6.5)
Transfers to TSB Sub-Account [1]	(20.8)	0.0	(20.8)
Refunds of Payments	(2.9)	0.0	(2.9)
Total – Other Revenue	**414.4**	**(11.6)**	**402.8**
Total Revenue	**1,121.4**	**(30.6)**	**1,090.8**

[1] Section 96 of PA 07-7 (June Special Session) credits $5.5 million on deposit in the Special Transportation Fund to the TSB projects account.

Transportation Fund Projections FY 07 - FY 12
as of February 4, 2008
(in Millions)

Transportation Fund	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12
	Preliminary	Estimate	Estimate	|----------Out-Year Projections----------|		
Beginning Balance as of July 1st	**$133.4**	**$192.9**	**$196.5**	**$169.5**	**$89.9**	**($32.0)**
REVENUES						
Taxes						
Motor Fuels Tax	478.2	500.0	505.0	510.0	515.0	520.0
Petroleum Products Tax	141.0	127.8	141.9	141.9	142.0	142.0
Sales Tax - DMV	67.9	68.0	69.0	70.0	76.0	77.0
Refund of Taxes	(7.9)	(7.8)	(8.0)	(8.1)	(8.1)	(8.2)
Total - Taxes less Refunds	**$679.2**	**$688.0**	**$707.9**	**$713.8**	**$724.9**	**$730.8**
Other Revenue						
Motor Vehicle Receipts	224.7	226.0	228.0	230.0	232.0	234.0
License, Permits and Fees	170.4	166.0	168.0	170.0	172.0	174.0
Interest Income	46.0	44.0	39.0	36.0	34.0	34.0
Transfers to Other Funds	(7.0)	(9.5)	(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	**$434.1**	**$426.5**	**$425.5**	**$426.5**	**$428.5**	**$432.5**
Less Refunds of Payments	(2.7)	(2.9)	(3.0)	(3.1)	(3.2)	(3.2)
Less Transfers to TSB Account (1,2)	(20.3)	(20.8)	(15.3)	(15.3)	(15.3)	(15.3)
TOTAL REVENUE	**$1,090.3**	**$1,090.8**	**$1,115.1**	**$1,121.9**	**$1,134.9**	**$1,144.8**
EXPENDITURES						
Debt Service	441.3	422.6	435.4	457.4	466.3	482.7
DOT Budgeted Expenses	439.8	481.1	507.3	536.1	565.4	585.7
DMV Budgeted Expenses	58.9	61.4	62.5	64.9	66.3	67.8
Other Budgeted Expenses	127.2	131.1	145.9	152.1	167.8	164.9
Subtotal - Expenditures	**$1,067.2**	**$1,096.2**	**$1,151.1**	**$1,210.5**	**$1,265.8**	**$1,301.1**
Less Unallocated Lapses	(36.4)	(9.0)	(9.0)	(9.0)	(9.0)	(9.0)
TOTAL EXPENDITURES	**$1,030.8**	**$1,087.2**	**$1,142.1**	**$1,201.5**	**$1,256.8**	**$1,292.1**
OPERATING SURPLUS/(DEFICIT)	**$59.5**	**$3.6**	**($27.0)**	**($79.6)**	**($121.9)**	**($147.3)**
Ending Balance as of June 30th	**$192.9**	**$196.5**	**$169.5**	**$89.9**	**($32.0)**	**($179.3)**
DEBT SERVICE RATIO (3)	**2.5**	**2.6**	**2.6**	**2.5**	**2.5**	**2.4**

(1) Incremental revenue from the various DMV fee changes allocated to the Transportation Strategy Board (TSB) and deposited in the TSB projects account.

(2) Section 96 of SB 1502, passed by both chambers on October 30, 2007 and signed by the Governor on November 2, 2007, credits $5.5 million on deposit in the Special Transportation Fund to the TSB projects account.

(3) 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.