Connecticut General Assembly
OFFICE OF FISCAL ANALYSIS
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FY 09 - FY 12 General Fund and Transportation Fund Budget Projections

February 2, 2009

OFA Report Highlights

General Fund

The FY 09 General Fund deficit is projected at $1,353.2 million. General Fund current services shortfalls are projected to be $3,968.5 million for FY 10, $4,712.1 million for FY 11 and $4,822.1 million for FY 12.

Transportation Fund

The FY 09 Transportation Fund operating deficit is projected at $100.2 million ($103.0 million higher than budgeted), which will decrease the cumulative surplus to $78.0 million. The deficit is attributable to lower than anticipated revenue collections. **The out year projections indicate that this trend will continue, with the Transportation Fund experiencing operating deficits through FY 12 and the fund's cumulative balance going into deficit beginning in FY 10.** The operating deficits are attributable to expenditures that are expected to grow at a faster rate than revenues.

The FY 09 - FY 12 General Fund and Transportation Fund projections do not include any additional federal funds or federal revenue as a result of the passage of House Resolution 1, the ''American Recovery and Reinvestment Act of 2009'' which passed the U. S. House of Representatives on January 28th 2009. Although OFA is monitoring the progress, final legislation has not been approved at the federal level and is not anticipated to occur until mid-February.

General Fund Budget Projections FY 09 through FY 12
as of February 2, 2009
(in millions)

	Estimated	OFA Current Services Estimates 2/2/09		
Budget Overview:	**FY 09**	**FY 10**	**FY 11**	**FY 12**
Revenues	$ 15,607.6	$ 14,551.0	$ 14,787.5	$ 15,657.0
Expenditures	16,960.8	18,519.5	19,499.6	20,479.1
Balance	**$ (1,353.2)**	**$ (3,968.5)**	**$ (4,712.1)**	**$ (4,822.1)**
Deficit as a % of budget	7.9%	21.4%	24.2%	23.5%
Spending Cap Comparison (All Funds):	(48.9)	412.6	647.4	891.1

Amount Total Appropriation Over/(Under) Cap assumes 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.

General Fund Growth Rates (Growth rates reflect one-time base adjustments)	FY 09	FY 10	FY 11	FY 12
Revenue		-3.1%	1.6%	5.9%
Expenditures		8.3%	5.4%	5.1%

FY 09 General Fund Summary
as of February 2, 2009
(in millions)

	Budget Plan	Increases (Decreases)	Projected
Revenues			
Taxes	$ 12,971.1	$ (1,867.6)	$ 11,103.5
Other Revenues	1,208.4	(117.7)	1,090.7
Other Sources [1]	2,893.6	519.8	3,413.4
Total Revenues	**$ 17,073.1**	**$ (1,465.5)**	**$ 15,607.6**
Appropriations			
Original Appropriations - Gross	$ 17,190.5	$ -	$ 17,190.5
Plus:			
FY 09 Deficiency Requirements	-	70.8	70.8
Criminal Justice System Appropriation (PA 08-51)	-	10.0	10.0
Energy Assistance (PA 08-1, August Special Session)	-	28.0	28.0
Home Heating Relief (PA 08-2, August Special Session)	-	51.0	51.0
Governor's July Recisions	-	(115.8)	(115.8)
Governor's September Recisions	-	(34.4)	(34.4)
Governor's December Recisions	-	(7.2)	(7.2)
PA 08-1 NSS Expenditure Savings [2]	-	(9.1)	(9.1)
PA 09-1 Expenditure Savings [3]	-	(39.2)	(39.2)
Adjudicated Claims	-	7.5	7.5
Refunds of Escheated Property	-	34.0	34.0
Less:			
Lapses [4]	(117.5)	(107.8)	(225.3)
Total Expenditures [5]	**$ 17,073.0**	**$ (112.2)**	**$ 16,960.8**
Balance	**$ 0.1**	**$ (1,353.3)**	**$ (1,353.2)**

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[1] Major components include: 1) $83.4 million transfer from unappropriated FY 08 surplus ($79 million was appropriated for energy assistance and home heating relief in FY 09 as indicated in the Appropriations section above); 2) $57.6 million in transfers from other funds pursuant to PA 09-1; and 3) $298.4 million in federal reimbursemetn under Medicaid for one-time cost settlement of rate adjustments.
[2] Includes the $9.1 million reduction to appropriations in PA 08-1 NSS. Reduction to carry forward and other savings from the mitigation bill included in the estimated lapse.
[3] Includes the net reduction to appropriation of $4.18 million and the reduction of $35 million in the Energy appropriation from the original $79 million in PA 08-2 of the August Special Session. Reduction to carry forward and other savings from the mitigation bills are included in the estimated lapse.
[4] The breakdown for lapses is as follows:

Unallocated lapses	$ (92.5)	$ (107.8)	$ (200.3)
General PS and OE reductions (holdbacks)	(25.0)	-	(25.0)
Total - Lapses	$ (117.5)	$ (107.8)	$ (225.3)

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

FY 09
General Fund Revenue Estimates
($ - Thousands)
February 2, 2009

	Budget Plan Growth Rate {1}	Budget Plan FY 09 Estimate	OFA Over(Under) Plan	OFA Estimates Growth Rate {1}	OFA Estimates FY 09 Estimate
Taxes					
Personal Income	6.6	$ 7,676,400	$ (1,002,400)	3.1	$ 6,674,000
Sales and Use	3.8	3,747,700	(367,700)	3.2	3,380,000
Corporations	(5.0)	791,500	(207,400)	0.0	584,100
Public Service Corporations	2.0	257,800	(11,200)	3.5	246,600
Inheritance and Estate	3.0	191,000	49,000	3.0	240,000
Insurance Companies	2.0	263,300	(83,300)	2.0	180,000
Cigarettes	0.0	348,100	(23,100)	0.0	325,000
Real Estate Conveyance	2.0	204,000	(109,000)	(10.0)	95,000
Oil Companies	0.0	144,300	(62,900)	0.0	81,400
Alcoholic Beverages	1.0	47,500	100	1.0	47,600
Admissions, Dues and Cabaret	2.0	35,100	2,400	2.0	37,500
Miscellaneous	0.0	145,000	(3,000)	0.0	142,000
Total Taxes		**$ 13,851,700**	**$ (1,818,500)**		**$ 12,033,200**
Refunds of Taxes		(874,100)	(46,600)		(920,700)
R & D Credit Exchange		(6,500)	(2,500)		(9,000)
Taxes Less Refunds		**$ 12,971,100**	**$ (1,867,600)**		**$ 11,103,500**
Other Revenue					
Transfer Special Revenue		282,500	7,700		290,200
Indian Gaming Payments		449,000	(74,000)		375,000
Licenses, Permits and Fees		153,500	-		153,500
Sales of Commodities and Services		38,000	(6,000)		32,000
Rentals, Fines and Escheats		52,900	14,700		67,600
Investment Income		85,000	(60,000)		25,000
Miscellaneous		148,100	(100)		148,000
Refunds of Payments		(600)	-		(600)
Total Other Revenue		**$ 1,208,400**	**$ (117,700)**		**$ 1,090,700**
Other Sources					
Federal Grants		2,768,100	373,200		3,141,300
Transfer to the Resources of the General Fund		96,000	146,600		242,600
Transfer from Tobacco Settlement Fund		115,800	-		115,800
Transfer to Other Funds		(86,300)	-		(86,300)
Total Other Sources		**$ 2,893,600**	**$ 519,800**		**$ 3,413,400**
Total Revenue		**$ 17,073,100**	**$ (1,465,500)**		**$ 15,607,600**

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

Summary of Changes to November 14, 2008 General Fund Deficit Projections
as of February 2, 2009
(figures in millions)

	FY 09			FY 10	FY 11	FY 12
Projected (Deficit) as of 11/14/08			**$ (391.8)**	**$ (2,495.3)**	**$ (3,215.2)**	**$ (3,321.3)**
Expenditure Increases						
Reduction in Lapse		$ (6.4)				
Expenditure Decreases						
Governor's December Recisions	7.2					
Mitigation PA 08-1 NSS Expenditure Savings	9.1					
Mitigation PA 09-1 Expenditure Savings	39.2					
Decrease Deficiency Requirements	9.0					
		64.5				
Net Expenditure Decrease/(Increase)			**58.1**	**(119.1)** [1]	**(131.3)** [1]	**(135.5)** [1]
Revenue Increases						
Federal Grants	$ 186.6					
Estate & Gift Tax	55.0					
Transfer Resources to the General Fund	63.2					
Miscellaneous	14.0					
Total - Revenue Increases		$ 318.8				
Revenue Decreases						
Personal Income Tax	$ (791.0)					
Sales Tax	(250.0)					
Corporation Business Tax	(120.2)					
Insurance Companies Tax	(27.0)					
Indian Gaming Payments	(11.7)					
Real Estate Conveyance Tax	(31.8)					
Rents, Fines, Escheats	(23.8)					
Oil Companies	(46.1)					
Refunds of Payments	(31.7)					
Investment Income	(5.0)					
Total - Revenue Decreases		(1,338.3)				
Net Revenue Increase/(Decrease)			**(1,019.5)**	**(1,354.1)**	**(1,365.6)**	**(1,365.3)**
Projected Surplus/(Deficit) as of 2/2/09			**$ (1,353.2)**	**$ (3,968.5)**	**$ (4,712.1)**	**$ (4,822.1)**

[1] FY 10, FY 11 and FY 12 expenditures differ from our November 14, 2008 projections largely due to more recent Medicaid estimates and the ongoing impact of the state's current economic situation.

Budget Reserve Fund Status
as of February 2, 2009
(in millions)

Current Status:

Maximum Allowable in BRF @ 10% of net GF approps. for FY 09			$	1,711.4
Recent Surpluses Deposited in Budget Reserve (Rainy Day) Fund:				
FY 04	$	302.2		
FY 05		363.9		
FY 06		446.5		
FY 07		269.2		
Total - BRF (80.7% of full capacity)				1,381.8
Extent to Which BRF Not Fully Funded (19.3%)			$	329.6

Note: Per PA 08-1 and PA 08-2 of the August Special Session, the FY 08 unappropriated surplus of $83.4 million was transferred to FY 09 revenue.

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General Fund and Transportation Fund Budget Projections
(as of February 2, 2009)

I. FY 09 General Fund

Our projections for the fiscal year ending June 30, 2009 indicate a **potential deficit of $1,353.2 million** (which represents 7.9% of the budget). This deficit assumes that in addition to the originally budgeted surplus of $0.1 million, **estimated revenues will be $1,465.5 million lower than budgeted** and **estimated expenditures will be $112.2 million lower than net appropriations.**

Revenues

The estimated $1,465.5 million net **decrease** in FY 09 General Fund revenue collections is due to projected increases of $593.7 million and decreases of $2,059.2 million.

The three most significant **increases** are: (1) $373.2 million in Federal Grants, (2) $146.6 million in Transfers to Resources of the General Fund, and (3) $49.0 million in the Estate & Gift Tax. The most significant **decreases** are: (4) $1,002.4 million in the Personal Income Tax, (5) $367.7 million in the Sales and Use Tax, (6) $207.4 million in the Corporate Business Tax, (7) $83.3 million in the Insurance Companies Tax, (8) $109.0 million in the Real Estate Conveyance Tax, (9) $62.9 million in the Oil Companies Tax, (10) $74.0 million in Indian Gaming Payments, and (11) $60.0 million in Investment Income.

The projected major revenue **increases** are as follows:

(1) **Federal Grants** are anticipated to be $373.2 million greater than originally estimated primarily due to revenue anticipated for retroactive federal billing of rate increases, as well as updated expenditure estimates and the results of a CMS audit. It should be noted that the bulk of these retroactive claims are one time revenues for FY 09. Should all of these claims not be processed by April 1, 2009, a portion of this one time revenue could be realized in FY 10 rather than FY 09.

(2) **Transfers to the General Fund** will be $146.6 million greater than originally budgeted as a result of:

- PA 08-1 and PA 08-2 of the August Special Session, which transfer $83.4 million from FY 08 revenues to FY 09 and $5.6 million from various accounts to the General Fund;

- PA 08-1 of the November Special Session, which transfers $5.6 million to the resources of the General Fund from the Citizens Election Fund ($5.0 million) and the Transportation Strategy Board ($0.6 million);

- PA 09-1, which transfers $57.6 million from the resources of miscellaneous funds to the resources of the General Fund.

(3) **Estate & Gift Tax** collections are anticipated to be $49.0 million greater than originally anticipated primarily due to the closing of a few large estates in November and December.

The projected major revenue **decreases** are as follows:

(4) **Personal Income Tax** collections are anticipated to be $1,002.4 million lower than originally estimated due to:

a) ***Withholding Payments:*** Anticipated collections from withholding on wages and salaries have decreased by $298.0 million, which is composed of $119.0 million in actual collections compared to original forecasts through January and $179.0 million in projected collections for February through June. The revised estimates assume that collections for the remainder of the year will be flat (0%) instead of the 6% growth rate assumed when the original estimates were developed.

b) ***Estimated Payments:*** FY 09 collections have been reduced by $324.4 million, which is composed of $150.4 million in actual collections compared to the original estimates and $174.0 million in projected collections for February through June. This estimate reflects that 4th quarter estimated payments that were due by January 15th declined by 20% compared to last year and that payments for the remainder of the fiscal year will decline by 25%.

c) ***Final Payments:*** 2008 income year final payment revenue is expected to be $380.0 million less than projected based on the significant decline in 4th quarter estimated payments. This estimate assumes that payments will decline by 35% between March and the end of the fiscal year.

(5) **Sales and Use Tax** collections are anticipated to be $367.7 million lower than originally estimated. This is composed of: (1) a decline in actual collections of $246.9 million compared to original estimates through October 2008 and (2) a projected decline of $120.8 million in collections for November 2008 though June 2009. The revised estimates assume that collections for the remainder of the year will decline by 2.5% rather than grow by 3.6%.

(6) **Corporation Business Tax** collections are anticipated to be $207.4 million lower than originally estimated. This is due to a 30% decline in estimated payments that were due on December 15th and the assumption that this trend will continue for the remainder of the fiscal year.

(7) **Insurance Companies Tax** collections are anticipated to be $83.3 million lower than originally estimated. Revenue collections from July of 2008 through January 2009 are approximately $20.0 million lower compared to last year primarily from insurance companies

claiming film industry tax credits against their liability. The estimate assumes that companies will continue to use film credits to reduce their tax liability for the remainder of the fiscal year.

(8) **Real Estate Conveyance Tax** collections are anticipated to be $109.0 million lower than originally estimated, which reflects FY 08 collection data since the estimate was adopted by the Finance, Revenue, and Bonding Committee on June 22, 2007. Year-to-date collections have declined by $46.6 million (-53%), which is the result of year-to-date sales falling by 24% and a decrease in median home prices statewide by 9.4%.

(9) **Oil Companies Tax** collections are anticipated to be $62.9 million lower than originally estimated. The estimate incorporates the most recent price data and projections from the Energy Information Agency (EIA). Prices for petroleum based products, especially gasoline, have declined by over 60% during the past six months and are projected to remain near current levels for the remainder of the fiscal year.

(10) **Indian Gaming Payments** are anticipated to be $74.0 million lower than originally estimated. The FY 09 original estimates assumed that payments would grow by 2.6%, but actual year-to-date payments have declined by 8.8%. This continues a trend that began in the Fall of 2007 when a combination of: (1) high fuel prices, (2) increased competition from other states, and (3) concerns about the economy led to a decline in casino patronage.

(11) **Investment Income** is anticipated to be $60.0 million lower than estimated. The annualized rate of return for the Short-Term Investment Fund (STIF) is currently 1.06% compared to 5.50% rate assumed in June 2007 when the estimate was developed.

Expenditures

The FY 09 estimated expenditures of $16,960.8 million are a **reduction** of $112.2 million from the budgeted $17,073.0 million. The reduction in expenditures is largely attributable to: $107.8 million in increased lapse (savings); $157.4 million in Governor's recisions; and $48.3 million in reductions to appropriations made in PA 08-1 November Special Session and PA 09-1 (deficit mitigation bills). This is partially offset by $70.8 million in deficiency needs, and $79 million in energy related appropriations (PA 08-1 and PA 08-2 of the August Special Session).

The total FY 09 estimated lapse is $382.6 million. The table below identifies the major components of the estimated lapse.

General Fund Lapses (in millions)	
OFA Estimated Revised Lapse	$225.2
Governor's Recisions	$157.4
OFA Estimated Lapse	**$382.6**

OFA's estimated lapse of $382.6 **exceeds** the budgeted lapse by $265.1 million (which includes $157.4 million in Governor's recisions). The $117.5 million lapse anticipated in the budget includes: $92.5 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.

The table below provides a further breakout of the various components of the lapse.

General Fund Lapses ($ in millions)	
OPM PILOT Manufacturing & Equipment	$45.7
Debt Service	40.0
DSS – Medicaid	37.9
Department of Children & Families	18.8
OPM - other various accounts	8.4
Fringe Account - Retired State Employee Health	5.0
Other Lapses (various agencies)	17.4
Additional Lapse Projected Beyond Amount Already Identified	6.0
Carry Forward Reduction/Lapse (PA 08-1 NSS and PA 09-1)	17.5
Other Expenditure Savings (PA 08-1 NSS and PA 09-1)	3.5
Total - Revised Unallocated Lapses	**$200.2**
Personal Services Reductions (Holdbacks)	14.0
Other Expenses Reductions (Holdbacks)	11.0
Total - Revised Projected Lapses	**$225.2**
Recisions and Lapses	
Governor's Recisions	157.4
OFA Revised Projected Lapses	225.2
TOTAL LAPSE (Recisions, Holdbacks & Unallocated)	**$382.6**
TOTAL LAPSE EXCEEDING BUDGET	**$265.1**

Debt Service - The General Fund debt services account has a projected lapse of $55 million. Of the $55 million total, $15 million has been recognized by the Governor in her budget recision plan, which leaves a balance of $40 million in unallocated lapse. The $55 million total lapse is composed of: (1) $20.6 million in savings due to changes in the issuance schedule and lower than anticipated interest rates, (2) $28.4 million in premiums* received on nontaxable General Obligation (GO) bonds, (3) $3 million in debt service related to the Supportive Housing Program, (4) $1.3 million in savings due to refunding of debt, and (5) $1.7 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.)

Department of Social Services - The Department of Social Services (DSS) has a projected net lapse of $38 million in FY 09, primarily from the Medicaid ($42 million) and HUSKY B ($19.7 million) programs. A portion of the Medicaid lapse results from FY 08 cost and caseload trends that were not taken into account (FY 09 budget revisions were not enacted). The remainder of this projected lapse relates to the $97.3 million in FY 08 funding that was carried forward into FY 09. It is unclear whether DSS will be able to expend these funds as intended due to the difficulties related to making retroactive rate adjustments and Managed Care Organizations (MCO) payments given the transitions in the HUSKY program. It should be noted that at this time the provider network for both the HUSKY and Charter Oak programs have not been fully established by the new contractors. As such, both the cost and utilization of services may differ greatly from the currently projected model. Depending on the time necessary to develop the new networks and the method of resolution, actual costs under these two programs may be higher or lower than projected.

The DSS gross lapses are partially offset by projected deficiencies in the Connecticut Home Care ($1.9 million), Child Care Subsidies ($13.7 million) and State Administered General Assistance ($8.4 million) programs resulting in a remaining net lapse of $38 million. These deficiencies are primarily due to higher caseload and utilization than when originally projected when the FY 09 budget was adopted in 2007.

Office of Policy and Management - The Office of Policy and Management has a projected net lapse of $54.1 million, primarily from a Payment-in-Lieu of Taxes for Manufacturing Machinery and Equipment (PILOT MME) lapse of $45.7 million due to lower than projected claims. This PILOT MME lapse is $20.7 million higher than the proposed FY 09 technical reduction of $24.9 million that was not enacted, because midterm budget adjustments were not made to the biennial budget. Additional lapses in Implement Energy Initiatives ($2.4 million), Contingency Needs ($2 million), Private Providers ($1.3 million) and Distressed Municipalities ($0.9 million) are anticipated due to lower than anticipated expenditures.

Department of Children and Families - The Department of Children and Families has a projected $32.0 million net lapse. Of this total, $13.2 million has been identified in the Governor's recisions or de-appropriated in PA 08-1 NSS, leaving a balance of $18.8 million in unallocated lapses.

The unallocated lapse reflects shortfalls totaling $7.4 million in the following areas: 1) Personal Services, due to increased part-time and overtime expenditures ($0.4 million); 2) Other Expenses, due to increased office rental expenses ($2.8 million); 3) Board and Care for Children - Adoption, due to placements in excess of budgeted levels ($3.6 million); 4) Individualized Family Supports, due to projected flexible funding expenditures in excess of budgeted levels

($0.2 million); and 5) Community KidCare, due to an agreement to enhance Emergency Mobile Psychiatric Services to comply with terms of the W.R. Settlement Agreement ($0.3 million).

The above shortfalls will be offset by lapsing funds totaling $26.2 million under the following accounts: 1) Workers' Compensation Claims, to reflect recent payment trends ($2.0 million); 2) Family Support Services, due to the development of fewer than anticipated therapeutic foster homes ($1.5 million); 3) Board and Care for Children - Foster, due to reduced numbers of children in foster care ($8.1 million); 4) Board and Care for Children - Residential, due to delays in new program development and reduced numbers of children in various residential settings ($13.9 million); and 5) No Nexus Special Education, due to reduced numbers of children in residential settings ($0.7 million).

Comptroller's Misc. Fringe - Retired Health Service - The Retired Health Services account was originally budgeted based upon an anticipated rate increase in FY 09. The actual rates that were negotiated by the Comptroller's Office did not increase from FY 08, resulting in a $29.2 million lapse. Of the total, $24.2 million has been recognized by the Governor in her budget recisions; this leaves a balance of $5 million in unallocated lapse.

Deficiencies

The anticipated lapse is offset by $70.8 million in projected deficiencies. These net deficiencies are in the Departments of Correction ($33.6 million), Mental Health and Addiction Services ($10.3 million), Developmental Services ($7.5 million), and Education ($6.4 million); the UConn Health Center ($11.5 million), and the Department of Administrative Services - Workers' Compensation ($1.5 million). Please see the explanations for all FY 09 projected deficiencies which begin below. In addition to the $70.8 million in identified deficiencies, projected payments for two non-budgeted accounts are factored into our FY 09 estimated expenditures: Adjudicated Claims of $7.5 million and Refunds of Escheated Property at $34.0 million.

Department of Correction

OPM Deficiency ($18,320,000)	OFA Deficiency ($33,600,000)

The agency is currently experiencing a budget shortfall of $33.6 million. However, a Reserve for Salary Adjustment transfer in the amount of $6.2 million may be released by the Office of Policy and Management (OPM) to offset the shortfall, resulting in a net deficiency of $27.4 million. If additional holdbacks of $4.9 million are released by OPM, deficiency requirements would be reduced to $22.5 million.

The agency began the fiscal year with unbudgeted costs of $26.2 million. This amount represents technical adjustments that were included in the Governor's Recommended Revised Budget for FY 09, but were not provided due to a lack of a budget agreement in 2008 (the Appropriations Committee also recommended these funds).

The deficiency relates to operational costs (staffing and expenses) associated with inmate population costs over the budgeted level in FY 09. The largest component of the shortfall occurs in overtime usage which is running about $15.0 million over budget.

The average inmate population so far this fiscal year is 19,400 which is about 80 inmates lower than the average from last fiscal year. The current population at this writing is 19,161.

University of Connecticut Health Center

OPM Net Deficiency	OFA Net Deficiency
$0	($11,500,000)

General Fund support for the University of Connecticut Health Center (UCHC) is traditionally limited to a block grant for the educational portion of the Health Center's budget. However, the UCHC is experiencing a significant overall deficit. The original FY 09 budget, adopted by the UCHC Board of Directors and the UConn Board of Trustees, projected an $11.5 million deficit. It appears at present that certain revenue assumptions, including the level of Medicare reimbursement and collections for indirect costs of graduate medical education, may not be realized. Therefore, it is possible that the projected deficiency may grow by the end of the fiscal year.

Department of Mental Health and Addiction Services

OPM Net Deficiency	OFA Net Deficiency
($10,000,000)	($10,260,410)

The Department of Mental Health and Addiction Services has a projected net deficiency of $10.3 million, which represents 1.55% of its FY 09 appropriation of $663 million (includes Disproportionate Share expenditures). It is anticipated that $3.57 million available in the Community Mental Health Strategy Board account and the Housing Supports and Services account will be transferred to cover some of the shortfall; this will result in a $10.3 million net deficiency. This assumes that a Personal Services holdback of $1,963,008; an Other Expenses holdback of $848,364; and $2,249,180 in recisions are not released. If the holdbacks and recisions were released, an estimated remaining deficiency of $5.2 million would result.

The gross deficiency of $13.83 million is due to Personal Services ($7.0 million), Other Expenses ($4.2 million), Professional Services ($1.2 million), TBI Community Services ($900,000) and Young Adult Services ($500,000). 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: 1) repair expenses related to patient safety at various state facilities, 2) continuing increases in utility costs and 3) lease expenses. The Professional Services deficiency is due to: 1) ongoing training costs resulting from the survey at Connecticut Valley Hospital by the Judicial Department and 2) increased medical services expenditures to several clients in inpatient facilities. The TBI Community Services deficiency is due to increased costs related to discharging clients from hospital settings that would have otherwise been eligible for waiver program funding through the Department of Social Services which is currently closed to new clients. The Young Adult Services deficiency is due to additional costs to the department for fully funding specialized services to clients aging out of the Department of Children and Families.

These deficiencies are primarily a rollout of the costs that occurred in FY 08 and were not budgeted in FY 09. The Governor’s Recommended Revised Budget for FY 09 included $12.26

million in technical adjustments as a result of the agency's FY 08 shortfall. Funding was not provided, because no revisions were made to the second year of the biennial budget.

Department of Developmental Services

OPM Net Deficiency $0	OFA Net Deficiency ($7,500,000)

The Department of Developmental Services (DDS) has a projected net deficiency of $7.5 million, which represents 0.77% of its FY 09 appropriation of $974 million. It is anticipated that $1.9 million available in the Personal Services and Pilot Program for Autism Services accounts will be transferred to cover some of the shortfall, which would result in a $7.5 million net deficiency. This assumes that a Personal Services holdback of $2,287,979; an Other Expenses holdback of $683,993; and $12,839,639 in recisions are not released. If the holdbacks and recisions were released, the net deficiency would be eliminated.

The gross deficiency of $9.4 million is due to Other Expenses ($0.7 million) and Early Intervention ($8.7 million). The Other Expenses (OE) shortfall is due to unbudgeted energy costs. Natural gas costs will result in 60% of the $0.7 million shortfall. The overall energy related cost anticipated in FY 09 within the OE account is $8.0 million (out of the $28.2 million estimated expenditures in the OE account). The major components of the energy related cost include: motor vehicle fuel, natural gas and electricity.

The Early Intervention account shortfall of $8.7 million is due to increased service delivery in the Birth-to-Three program. This includes:

- $2.6 million due to an 8.1% growth in direct service units in FY 09;
- $2.1 million increased autism specific programs and supplemental costs;
- $2.1 million in unfunded FY 08 costs;
- $1.0 million in FY 08 invoices that were paid in FY 09;
- $0.6 million in reduced federal Part C IDEA funding (the federal grant that supports the Birth-to-Three program); and
- $0.3 million in reduced insurance revenues.

It should be noted that although it is not part of the agency's deficiency, the Voluntary Services Program (VSP) is anticipated to experience a $3.4 million shortfall. This program is funded within the Community Residential Services account. It is anticipated that the current level of funding within the account will be able to support the $3.4 million in additional VSP needs (which is 0.89% of the $384 million appropriation). The VSP supports referrals from the Department of Children and Families (individuals who are voluntarily placed with DCF that are DDS clients). The shortfall within the VSP is due to higher than budgeted current year caseload in addition to unbudgeted FY 08 annualized caseload growth. This reflects a rollout of the costs that occurred in FY 08 and were not budgeted in FY 09. The Governor's Recommended Revised Budget for FY 09 included funding to annualize the FY 08 shortfall and support a revised FY 09 caseload. Funding was not provided, as a comprehensive revision to the second year of the biennial budget was not adopted.

Department of Education

OPM Net Deficiency $0	OFA Net Deficiency ($6,400,000)

A deficiency of $6.4 million is currently projected in the Department of Education for Special Education - Excess Costs grants, which represent 0.2% of the agency's FY 09 appropriation of $2.668 billion. This assumes that a Personal Services holdback of approximately $975,000; an Other Expenses holdback of approximately $429,000; and approximately $1,500,000 in recisions are not released. If the holdbacks and recisions were released, an estimated remaining deficiency of $3.5 million would result. In FY 08, a Finance Advisory Committee (FAC) transfer of approximately $5.4 million was required to provide sufficient funding for Excess Costs grant payments. The original FY 09 appropriation of $133.9 million was not adjusted to reflect the FY 08 FAC action.

Workers' Compensation Claims - Department of Administrative Services

OPM Net Deficiency ($1,500,000)	OFA Net Deficiency ($1,500,000)

The Workers' Compensation Claims account has a projected net deficiency of $1.5 million, which represents 6.5% of its FY 09 appropriation of $23.2 million. The Department of Administrative Services' Workers' Compensation account is responsible for the workers' compensation claims costs for 84 agencies that do not receive a direct workers' compensation appropriation.

The projected deficiency of $1.5 million is being driven by significant increases in medical costs and indemnity costs on older claims, as well as the roll-out of the FY 08 deficiency.

Total OFA Net Deficiencies ($70,760,410)

Other Items of Interest

State Employee Wage Increases - The Correction Officers (NP-4) arbitration award was filed with the House and Senate Clerks on January 14, 2009 (HR 9 and SR 9, the resolutions proposing the approval of the arbitration award, emerged from the Appropriations Committee with favorable reports on Friday January 30, 2009). Of the 32 other collective bargaining contracts, two bargaining units (Correction Supervisors NP-8, and Maintenance and Service NP-2) have contracts that expired on June 30, 2008. Eleven bargaining units have contracts that expire on June 30, 2009. The extent to which agencies' budgets and the Reserve for Salary Adjustments account can absorb any of the increases that may occur during the year is uncertain at this time. Some level of additional appropriation is likely but will ultimately depend upon the number of unsettled contracts or arbitration awards submitted for approval prior to the end of the fiscal year.

Collective Bargaining Contracts - contracts unsettled in the following fiscal years	
	Unsettled Contracts
FY 09	3
FY 10	11
FY 11	10
FY 12	8
FY 13	1

Budget Reserve (Rainy Day) Fund Status - General Fund surpluses resulted in the following additions to the BRF: $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, which contributed toward a total Budget Reserve Fund (BRF) balance of $1,381.8 million (80.7% of full BRF capacity). There was no contribution to the BRF in FY 08; PA 08-1 and PA 08-2 of the August Special Session, transferred the FY 08 unappropriated surplus of $83.4 million to FY 09 revenue and appropriated $79 million for emergency energy assistance/home heating relief. The BRF 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 BRF is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 09 totaling $17,113.8 million (net of PA 08-11 NSS and PA 09-1 mitigation action which reduced the GF appropriation), the maximum allowable in the BRF is $1,711.4 million or $329.6 million more than is currently deposited.

Budget Reserve (Rainy Day) Fund Status (in millions)		
Current Status:		
Maximum Allowable in BRF @ 10% of net GF approp. for FY 09		$1,711.4
Recent Surpluses Credited to the Budget Reserve Fund		
FY 04	$302.2	
FY 05	363.9	
FY 06	446.5	
FY 07	269.2	
Total - BRF (80.7% of full capacity)		1,381.8
Extent to which BRF not fully funded (19.3%)		$329.6

The $594.7 million balance that remained in the BRF 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 BRF 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 paid off by intercepting anticipated surplus funds in both FY 05 ($137.7 million) and FY 06 ($85.5 million).

II. FY 10 through FY 12 General Fund Budget Projections

Our current services analysis indicates potential General Fund shortfalls as follows: FY 09 $1,353.2 million; FY 10 $3,968.5 million; FY 11 $4,712.1 million; and FY 12 $4,822.1 million. Current services expenditures would exceed the spending cap by $412.6 million in FY 10; $647.4 million in FY 11 and $891.1 million in FY 12. These estimates assume that the legislature will appropriate up to the allowed expenditure limit in FY 10 and that the appropriation will not exceed allowed expenditures in FY 11 and FY 12.

The FY 10 deficit assumes a revenue decline with modest additional current services expenditure requirements. The FY 10 current services projection would result in an 8.3% rate of expenditure growth from FY 09 (which reflects one-time base adjustments). The revenue is anticipated to decline by 3.1% (adjusted growth rate) in FY 10. The expenditure and revenue growth rates for FY 11 would be 5.4% and 1.6% respectively.

The major structural difficulties that are attributable to the FY 10 through FY 12 shortfalls are identified below.

Structural Difficulties in the Out Years
(in millions)

	FY 10	FY 11
FY 09 One-Time Revenues:		
FY 09 One-time Federal Reimbursement for Medicaid Cost Settlement	$298.4	$298.4
FY 08 Surplus Transfer to FY 09 (PA 08-1 & 2; August Special Session)	83.4	83.4
FY 07 Anticipated Surplus to FY 09 Revenue (PA 07-1 JSS)	80.0	80.0
FY 08 Revenues to FY 09 (PA 07-1 JSS)	16.0	16.0
FY 09 Tax Amnesty Program (PA 08-1 November Special Session)	40.0	40.0
FY 09 Various Fund Transfers (PA 09-1)	65.6	65.6
Total Revenue	**$583.4**	**$583.4**
Expenditures:		
Teachers' Retirement – FY 09 was funded from FY 07 Surplus	210.0	210.0
Additional Debt Services Associated with Teachers' Retirement Bonds	58.5	65.3
DSS Charter Oak – previously funded from Tobacco & Health Trust Fund	25.0	25.0
Juvenile Jurisdiction Age Change (PA 07-4, effective 1/1/10) - subject to the Juvenile Policy Council's recommendations	26.2	71.6
Persistent Dangerous Felony Offender (PA 08-51) - $10 million appropriated in FY 09	18.4	19.0
Criminal Justice Reform (PA 08-1 January Special Session)	16.9	17.6
Total Expenditures	**$355.0**	**$408.5**
Total Impact of Major Items	**$938.4**	**$991.9**

Included in our FY 12 projections is the rollout of the above structural difficulties in addition to $113.6 million for the 27th payroll for state employees. Projections in this report are based on present law, existing policy commitments, estimated caseload and workload requirements. The FY 10 through FY 12 figures use FY 09 as the baseline for revenue and expenditure projections with modest growth. 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.

Revenues FY 10 through FY 12

The projections for FY 10 through FY 12 were developed based on the revised FY 09 estimates adjusted for one-time revenue changes. The projections assume that revenues will be severely impacted by the effects of the September-October contraction in the nation's financial markets and economic recession. The near-term outlook for Connecticut is for the state to lose approximately 40,000 jobs by the end of 2009. This will exacerbate the recent negative trends in consumer spending and continue to impact an already weak housing market caused by the sub-prime lending problem.

Current economic forecasts predict that the national economy will begin to recover by mid-2010 but Connecticut's economy will not recover as quickly or as strongly as the national economy.

The table below presents the growth rates for the major General Fund revenue sources. The growth rates were developed using current and historical collection data and relevant economic variables forecasted by Moody's/Economy.com for Connecticut for calendar years 2009 through 2012.

Revenue Source	FY 10	FY 11	FY 12
Personal Income Tax:			
Withholding	-3.0%	-0.5%	4.0%
Estimated Payments	-11.9%	1.7%	15.0%
Final Payments	-13.5%	7.1%	18.8%
Sales Tax	-3.5%	1.0%	3.0%
Corporate Business Tax	-10.0%	0.0%	5.0%

Expenditures FY 10 through FY 12

The FY 10 projection of $18,519.5 million represents a $1,559 million increase over FY 09. The table on the previous page identifies the major structural difficulties that are reflected in the out year projections (FY 10 includes $355 million).

The out year projections include: 1) costs associated with collective bargaining contracts that may be approved and 2) increased future year appropriations that reflect FY 09 deficiency needs rolled forward into the out years. Projections have been developed by applying inflationary and specific growth factors to the estimated expenditure levels for FY 09 and each subsequent year. This assume 4.5% to 5% salary increases for state employees in subsequent years (3% to 3.5% for cost of living adjustments and 1.5% for Annual Increments) and 2.0% in each year for other accounts. In addition, each major appropriated account has been examined individually and adjusted as necessary to reflect amounts anticipated to be required based on present law, historical trends or caseload projections.

The table below identifies some of the major accounts with significant increases in FY 10 through FY 12 (increases are compared to the previous fiscal year):

Major General Fund Appropriation Increases for FY 10 - FY 12 (in millions)			
Agency/Account	FY 10	FY 11	FY 12
DSS – Medicaid	$245.1	$261.0	$278.0
Debt Service	162.9	44.1	40.7
Personal Services (statewide)	144.8	151.3	158.1
SDE - Education Equalization Grant (ECS)	83.8	87.0	90.0
Fringe Benefits - State Employees Health	72.6	66.7	24.5
Fringe Benefits – Retired Health	87.0	72.0	23.9
DCF - Board & Care (Residential, Foster & Adoption)	35.7	17.6	32.2
TRB - Retirement Contributions	20.7	22.4	23.3
27^{th} Payroll of State Employees	-	-	113.6
Total Major GF Appropriation	**$852.6**	**$722.1**	**$784.3**

III. Transportation Fund

FY 09 Revenues and Expenditures

The FY 09 budget plan for the Special Transportation Fund (STF) anticipated a $2.8 million operating surplus. However, our latest projections indicate a potential deficit of $100.2 million, which is $103.0 million less than the budget plan surplus of $2.8 million. The decrease is the result of revenues which are $113.0 million less than anticipated. This is partially offset by an increase of $10.0 million in lapses. (It should be noted that the Governor's recisions are included in the revised lapse estimate.) Revenues were lower than anticipated primarily due to lower collections in: 1) motor fuels taxes; 2) sales tax, 3) motor vehicle receipts, 4) license, permits, and fees, and 5) interest income.

The anticipated FY 09 operating deficit of $100.2 combined with the prior year balance of $178.2 million is expected to result in a cumulative fund balance of $78.0 million as of June 30, 2009.

Out Years FY 10 - FY 12

The STF projections for FY 10 and the out years indicate that the fund will experience annual operating deficits as a result of estimated expenditures continuing to increase faster than estimated revenues. The STF's cumulative balance is expected to go into deficit beginning in FY 10.

The increases in expenditures are due to:

1) Full implementation of the rail and bus subsidies that were included in the recently enacted Transportation Initiatives (PA 05-4 JSS and PA 06-136). The increases above current expenditures are expected to range between $10 million in FY 10 to up to $30 million in FY 12;
2) A $600,000 annual grant-in-aid to Tweed-New Haven Airport beginning in FY 10;
3) A $2.1 million annual cost to DMV for implementation of the vision screening program; and
4) FY 12 includes $7.4 million for costs associated with the 27th payroll.

FY 09 Transportation Fund Summary
as of February 2, 2009
($ in millions)

	Budget Plan	Increase/ (Decrease)	Revised Estimates
Revenues			
Taxes	$730.5	($60.5)	$670.0
Other Revenue	426.5	(52.5)	374.5
Total Revenue	**$1,157.0**	**($113.0)**	**$1,044.0**
Appropriations			
Original Appropriations – Gross	$1,165.2	$0.0	$1,165.2
Less:			
Lapses:			
Debt Service	0.0	(14.1)	(14.1)
Unallocated	(11.0)	4.1	(6.9)
Total Lapses	**(11.0)**	**(10.0)**	**(21.0)**
Total Expenditures	**$1,154.2**	**($10.0)**	**$1,144.2**
Surplus/(Deficit) from Operations FY 09	**$2.8**	**($103.0)**	**($100.2)**
Plus: Cumulative Surplus as of June 30, 2008			**178.2**
Projected Fund Balance as of June 30, 2009			**$78.0**

FY 09 Transportation Fund Revenue Estimates
as of February 2, 2009
($ in millions)

	FY 09 Budget Plan	OFA Over/(Under) Budget Plan	FY 09 OFA Estimates
Taxes			
Motor Fuels	$523.6	($43.6)	$480.0
Petroleum Products Tax	141.9	0.0	141.9
Sales Tax - DMV	74.0	(19.0)	55.0
Refunds of Taxes	(9.0)	2.1	(6.9)
Total Taxes Less Refunds	**$730.5**	**($60.5)**	**$670.0**
Other Revenue			
Motor Vehicles Receipts	$241.3	($16.3)	$225.0
License, Permits, and Fees	166.0	(16.0)	152.0
Interest Income	47.0	(22.0)	25.0
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	(15.3)	0.0	(15.3)
Transfers from Other Funds [1]		1.5	1.5
Refunds of Payments	(3.0)	0.3	(2.7)
Total - Other Revenue	**$426.5**	**($52.5)**	**$374.0**
Total Revenue	**$1,157.0**	**($113.0)**	**$1,044.0**

[1] PA 09-1, AAC Deficit Mitigation for Fiscal Year Ending June 30, 2009, transferred $1,166,440 from the Emergency Relief Account and $287,346 from the Insurance Recoveries Account for use as revenue.

Transportation Fund Projections FY 08 - FY 12
as of February 2, 2009
(in millions)

Transportation Fund	FY 08	FY 09	FY 10	FY 11	FY 12
		Estimate	|-----------Out-Year Projections		-----------|
Beginning Balance as of July 1st	**$192.9**	**$178.2**	**$78.0**	**($70.1)**	**($229.9)**
REVENUES					
Taxes					
Motor Fuels Tax	495.1	480.0	480.0	484.0	493.0
Petroleum Products Tax	127.8	141.9	141.9	165.3	165.3
Sales Tax – DMV	64.9	55.0	56.0	58.0	62.0
Refund of Taxes	(7.0)	(6.9)	(7.0)	(7.5)	(7.9)
Total – Taxes less Refunds	**$680.8**	**$670.0**	**$670.9**	**$699.8**	**$712.4**
Other Revenue					
Motor Vehicle Receipts	225.5	225.0	227.0	229.0	231.0
License, Permits and Fees	153.8	150.0	151.0	155.0	157.0
Interest Income	36.5	25.0	25.0	25.0	25.0
Transfers to/from Other Funds [1]	(9.5)	(8.0)	(9.5)	(9.5)	(9.5)
Release from Debt Service Reserves	0.0	0.0	0.0	0.0	0.0
Total – Other Revenue	**$406.3**	**$392.0**	**$393.5**	**$399.5**	**$403.5**
Less Refunds of Payments	(2.7)	(2.7)	(2.7)	(2.8)	(2.8)
Less Transfers to TSB Account [2] [3]	(20.8)	(15.3)	(15.3)	(15.3)	(15.3)
TOTAL REVENUE	**$1,063.6**	**$1,044.0**	**$1,046.4**	**$1,081.2**	**$1,097.8**
EXPENDITURES					
Debt Service	421.4	449.5	457.4	466.3	482.7
DOT Budgeted Expenses	505.6	507.3	528.1	557.4	577.7
DMV Budgeted Expenses	61.8	62.5	65.9	67.2	68.7
Other Budgeted Expenses [4]	121.0	145.9	152.1	159.1	172.3
Subtotal – Expenditures	**$1,109.8**	**$1,165.2**	**$1,203.5**	**$1,250.0**	**$1,301.4**
Less Unallocated Lapses [5]	(31.5)	(21.0)	(9.0)	(9.0)	(9.0)
TOTAL EXPENDITURES	**$1,078.3**	**$1,144.2**	**$1,194.5**	**$1,241.0**	**$1,292.4**
NET OPERATING SURPLUS/(DEFICIT)	($14.7)	($100.2)	($148.1)	($159.8)	($194.6)
Ending Balance as of June 30th	**$178.2**	**$78.0**	**($70.1)**	**($229.9)**	**($424.5)**
DEBT SERVICE RATIO [6]	**2.6**	**2.4**	**2.3**	**2.4**	**2.3**

[1] PA 09-1, AAC Deficit Mitigation for the Fiscal Year Ending June 30, 2009, transferred $1,166,440 from the Emergency Relief Account and $287,346 from the Insurance Recoveries Account for use as Transportation Fund revenue.
[2] Incremental revenue from various DMV fee changes allocated to the Transportation Strategy Board (TSB) and deposited in the TSB projects account.
[3] Section 96 of PA 07-7 JSS credits $5.5 million on deposit in the Special Transportation Fund to the TSB Projects account.
[4] The figure for FY 12 includes $7.4 million for the 27th payroll costs.
[5] The revised FY 09 lapse of $21.0 million includes the Governor's Recisions.
[6] 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.