



Office of Fiscal Analysis

FY 23 BUDGET PROJECTIONS

January 25, 2023

APPROXIMATE \$3 BILLION PENSIONS DEPOSIT POSSIBLE

The Office of Fiscal Analysis projects a FY 23 General Fund operating surplus of \$1,322.0 million and a Volatility Adjustment transfer of \$1,847.5 million.

Under this projection, the Budget Reserve fund would reach approximately 29.3% of FY 23 General Fund appropriations after accounting for: 1) existing Budget Reserve fund balance; 2) projected FY 23 General Fund operating surplus; and 3) projected FY 23 Volatility Adjustment transfer. Any amounts over the statutory threshold of 15% must be used to pay down certain long-term liabilities, primarily unfunded pension debt in the State Employees Retirement System or Teachers' Retirement System.¹ Based on current projections, it is anticipated that \$3,169.5 million would be available to pay down long-term liabilities.²

Separately, a projected FY 23 operating surplus of \$251.8 million in the Special Transportation Fund would increase that fund's cumulative balance to \$649.6 million.

General Fund

Projections of gross tax revenues are adjusted upwards by \$179.4 million in January, for a total positive variance from budget of \$489.4 million, primarily in the withholding portion of personal income tax, sales and corporation taxes. In total, gross tax revenues are projected to exceed budget by 2.2%. Sales tax projections exceed budget by 5.9% due to inflation as well as generally high consumer demand.

Interest income revenue projections have been revised upwards by \$180.2 million due in part to rising interest rates on the state's short term investment fund: increasing from approximately 0.5% in April 2022 to approximately 4.5% in January 2023.

Overview

In Millions of Dollars

General Fund	Budget	January Estimate	Difference from Budget
Revenues	22,388.2	23,224.5	836.3
Expenditures	22,089.2	21,902.5	(186.6)
Surplus/(Deficit)	299.0	1,322.0	1,022.9
Budget Reserve Fund			
Budget Reserve Deposit	2,146.5	3,169.5	1,022.9
Budget Reserve Balance	5,459.9	6,482.9	1,022.9
Special Transportation Fund			
Revenues	2,091.9	2,052.5	(39.4)
Expenditures	1,826.2	1,800.7	(25.5)
Surplus/(Deficit)	265.7	251.8	(13.9)
Fund Balance	663.5	649.6	(13.9)

¹ See OLR [Issue Brief 2020-R-0291](#) for background.

² The reference point for this calculation is FY 23 net General Fund appropriations. Ultimately, the year-end calculation would be made using FY 24 net General Fund appropriations (which have not yet been determined).

Projections of federal grants recognized as state revenue exceed budget by \$151.1 million. Major adjustments reflect the continuation of an enhanced federal match for certain Medicaid expenditures related to the public health emergency, in addition to recognizing revenue from prior period claims.

Revenue adjustments reflect updated estimates of new policy: 1) the revenue loss budgeted due to the one-time, state child tax credit is reduced by \$33 million as the actual impact of that legislation has been determined; and 2) the \$40 million revenue gain anticipated in the budget due to an increase in analytical capacity (staffing, software) at the Department of Revenue Services has been removed since that capacity has not yet been implemented. The net total of all other revenue adjustments from budget is a positive \$22.6 million and represents technical and relatively minor adjustments to reflect current trends in collections.

Total spending variances from budget include \$228.6 million projected net lapses (unspent agency funds beyond the unallocated lapses built into the budget) measured against \$42 million projected agency deficiencies (additional funds needed). The net effect of these variances is an overall improvement in spending of \$186.6 million from budget. Significant projected lapses are described below. Please see [this](#) report for details on agency deficiencies.

A lapse of \$195 million is projected in the Medicaid line item of the Department of Social Services which is driven primarily by a lower state share of expenditures due to enhanced federal reimbursement related to the public health emergency, as well as adjustments to the ARPA Home and Community Based Services reinvestment plan.

A lapse of \$27.1 million is projected in the Excess Cost – Student Based line item of the State Department of Education due to lower than anticipated expenditures associated with a tiered reimbursement structure for eligible town special education costs, which was established by Section 265 of PA 22-118, the FY 23 Revised Budget. Because the FY 23 appropriation would not fully fund the grant, the new reimbursement structure will be applied at a cost that is now estimated to be \$27.1 million less than the appropriation.

A lapse of \$60 million is projected in the Retired State Employees Health Services Cost line item within the State Comptroller's Fringe Benefits. The lapse in the retiree health account is primarily attributable to favorable rates negotiated by the Comptroller's office for the state Medicare Advantage program. The remainder of the lapse in this line item is due to a greater than anticipated number of retirees transitioning directly into Medicare upon retirement as well as a decrease in Medicare Part B premiums effective January 1, 2023. Additionally, there is an anticipated lapse of \$38 million in the State Employees Health Service Cost line item within the State Comptroller's Fringe Benefits.

The total amount of significant projected lapses described above, which is \$320.1 million, exceeds by \$179.9 million the General Fund's budgeted, unallocated (bottom-line) lapse target of \$140.2 million. The net amount of various other projected lapses is \$42.9 million in total and makes up the difference between \$179.9 million and the \$228.6 million projected net lapse total.

Special Transportation Fund Update

Net revenue projections declined by \$80.1 million in January due primarily to the extension and phase-out of the gas tax holiday pursuant to PA 22-1 November Special Session, which accounts for an estimated \$90 million revenue loss. Other STF revenues, driven by strong interest income, increased by \$9.9 million. These revisions bring estimated revenues to \$39.4 million, or 1.9%, below the budget.

Debt service spending is less than anticipated in the budget and reflects expected payments from an actual issuance of Special Tax Obligation bonds in October 2022. Personal Services lapses are projected at both the Department of Transportation (DOT) and the Department of Motor Vehicles (DMV). For DOT, the Personal Services lapse, partly offset by overruns in Other Expenses, will be used to partially satisfy the DOT budgeted lapse of \$100 million. Previously OFA had anticipated that DOT’s Bus and Rail Operations account would fully satisfy the lapse.

General Fund Summary

In Millions of Dollars

Summary	FY 23
Budgeted Surplus	299.0
Revenue Changes	
+ Withholding	125.0
+ Sales and Use	280.0
+ Federal Grants	151.1
+ Net Revenue	280.2
Revenue Subtotal	836.3
Expenditure Changes	
+ Agency Deficiencies	(42.0)
+ Net Lapses	228.6
Expenditure Subtotal	186.6
= Surplus/(Deficit)	1,322.0
Budget Reserve Fund Starting Balance	3,313.4
+ Surplus/(Deficit)	1,322.0
+ Volatility Adjustment	1,847.5
= Budget Reserve Transfer Subtotal	3,169.5
= Budget Reserve Fund Balance	6,482.9

Special Transportation Fund Summary

In Millions of Dollars

Summary	FY 23
Budgeted Surplus	265.7
Revenue Changes	
+ Motor Fuels Tax	(90.0)
+ Interest Income	43.3
+ Sales and Use Tax	26.0
+ Net Revenue	(18.7)
Revenue Subtotal	(39.4)
Expenditure Changes	
+ Net Lapses	25.5
+ Agency Deficiencies	0.0
Expenditure Subtotal	25.5
= Surplus/(Deficit)	251.8
STF Starting Balance	397.8
+ Surplus/(Deficit)	251.8
= Fund Balance	649.6

For further information, please see the links below:

[Revenue Details Table](#)

[Expenditure Details Table](#)

[Budget Status Page](#)