



Connecticut General Assembly

Office of Fiscal Analysis

Fiscal Accountability Presentation to the Appropriations & Finance Committees

November 23, 2010



Topic Areas

1. FY 11 – FY 14 Budget Estimates
2. Tax Expenditures
3. FY 11 Deficiencies
4. Budget Reserve Fund
5. Bonding and Debt Service
6. Budget Trends and Areas of Concern
7. Uses of Surplus Funds



FY 11 General Fund Summary

(\$ - Millions)	Budget Plan	Increases/ (Decreases)	Projected
Appropriations	\$17,963.5	\$ -	\$17,963.5
Adjustments			
FY 11 Deficiency Requirements	-	234.3	234.3
Adjudicated Claims	-	3.9	3.9
Refunds of Escheated Property	-	56.0	56.0
Budgeted Lapses	(296.3)	56.4	(239.9)
Subtotal [1]	17,667.2	350.6	18,017.8
Revenues [2]			
Taxes	10,921.7	362.2	11,283.9
Other Revenue	1,202.7	3.6	1,206.3
Other Sources	5,543.0	(98.4)	5,444.6
Subtotal	\$17,667.4	\$267.4	\$17,934.8
ESTIMATED SURPLUS/(DEFICIT)	\$0.2	+ (\$83.2)	= (\$83.0)

[1] Excludes expenditures from prior year carryforwards.

[2] Reflects 10/15/10 Consensus Revenue.



FY 11 Deficit Mitigation

- **OFA projects an \$83.0 million deficit in FY 11.**
- **If the year-end deficit projected by the State Comptroller on the first of each month exceeds 1% of the budget, the Governor is required to submit a Deficit Mitigation Plan (Sec. 4-85, CGS).**
- **The Comptroller's last projection on November 1st was a \$300,000 surplus.**
- **1% of the budget = \$176 million.**
- **The Governor has statutory authority to implement rescissions if she/he determines that there is a change in circumstances (Sec. 4-85, CGS).**



General Fund Projections

	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>
(\$ - Millions)				
Revenues	\$17,934.8	\$16,392.6	\$17,254.8	\$18,221.8
Expenditures	18,017.8	20,065.9	20,829.1	21,724.1
Balance	(83.0)	(3,673.3)	(3,574.3)	(3,502.3)
Deficit as a % of budget	0.5%	18.3%	17.2%	16.1%

Growth Rates

Expenditures	11.4%	3.8%	4.3%
Revenue	4.4%	5.5%	5.6%



General Fund Growth

(\$ - Millions)

Expenditures

Annual Increase

Cumulative Increase

Revenues

Annual Increase/(Decrease)

Cumulative Increase/(Decrease)

DEFICIT

	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>
Expenditures	\$ 18,017.8	\$ 20,065.9	\$ 20,829.1	\$ 21,724.1
Annual Increase		2,048.1	763.2	895.0
Cumulative Increase			2,811.3	3,706.3
Revenues	\$ 17,934.8	\$ 16,392.6	\$ 17,254.8	\$ 18,221.8
Annual Increase/(Decrease)		(1,542.2)	862.2	967.0
Cumulative Increase/(Decrease)			(680.0)	287.0
DEFICIT	(\$83.0)	(\$3,673.3)	(\$3,574.3)	(\$3,502.3)



FY 11 General Fund Budgeted v. Projected Lapses

	<u>Budgeted Lapse</u>	<u>OPM Projected</u>	<u>OFA Projected</u>	<u>Difference: OFA/OPM</u>
DOIT*, Management, and Personal Services Reduction Lapses - Legislative Agencies	(\$2,134,007)	(\$2,134,007)	(\$2,134,007)	\$ -
General Other Expenses (OE) Reductions	(11,000,000)	(11,000,000)	(11,989,446)	989,446
General Personal Services Reduction	(14,000,000)	(14,000,000)	(18,204,481)	4,204,481
Reduce OE to FY 07 Levels	(32,000,000)	(32,000,000)	(21,627,767)	(10,372,233)
Reduce Outside Consultant Contracts	(95,000,000)	(95,000,000)	(87,789,019)	(7,210,981)
Total Allocated Lapses	<u>(\$154,134,007)</u>	<u>(\$154,134,007)</u>	<u>(\$141,744,720)</u>	<u>(\$12,389,287)</u>
Total Various Unallocated Lapses	(\$142,210,000)	(\$148,310,000)	(\$98,161,243)	(\$50,148,757)
GRAND TOTAL	<u>(\$296,344,007)</u>	<u>(\$302,444,007)</u>	<u>(\$239,905,963)</u>	<u>(\$62,538,044)</u>

* Department of Information Technology



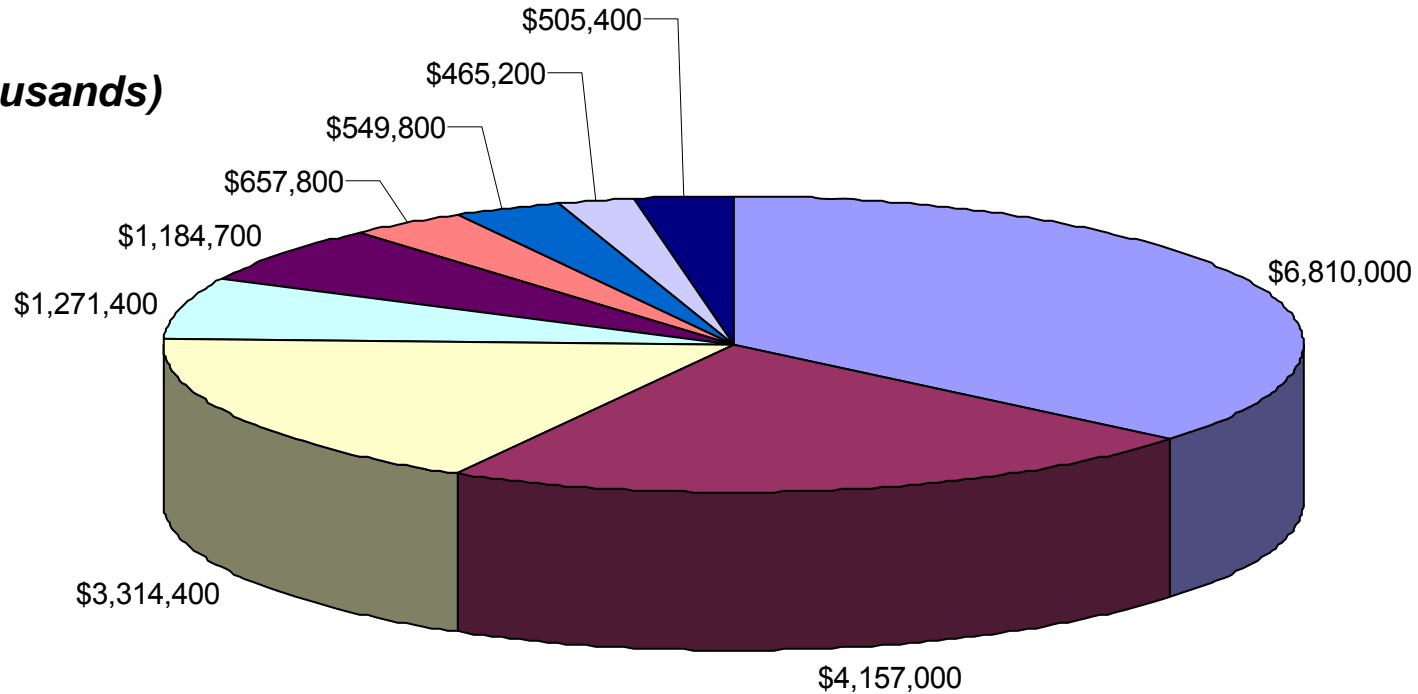
FY 11 GF Revenue Estimates

<i>(In Millions)</i>	<u>FY 11 Budget</u>	<u>Consensus Revisions</u>	<u>FY 11 Consensus</u>
Taxes			
Personal Income	\$6,682.5	\$127.5	\$6,810.0
Sales and Use	3,164.9	149.5	3,314.4
Corporations	662.9	(2.4)	660.5
Public Service Corporations	271.4	1.9	273.3
Inheritance and Estate	99.0	40.0	139.0
Insurance Companies	223.9	4.0	227.9
Cigarettes	386.5	16.0	402.5
Real Estate Conveyance	113.2	(12.2)	101.0
Oil Companies	107.7	2.0	109.7
Alcoholic Beverages	48.1	0.6	48.7
Admissions, Dues and Cabaret	36.5	(1.4)	35.1
Miscellaneous	144.9	(3.5)	141.4
Total Taxes	11,941.5	322.0	12,263.5
Refunds of Taxes	(1,009.3)	39.3	(970.0)
R & D Credit Exchange	(10.5)	0.9	(9.6)
Taxes Less Refunds	10,921.7	362.2	11,283.9
Other Revenue			
Transfer Special Revenue	295.1	(4.1)	291.0
Indian Gaming Payments	365.8	1.0	366.8
Licenses, Permits and Fees	235.4	6.1	241.5
Sales of Commodities and Services	34.3	1.5	35.8
Rentals, Fines and Escheats	99.5	8.2	107.7
Investment Income	6.5	(3.0)	3.5
Miscellaneous	167.0	(5.7)	161.3
Refunds of Payments	(0.9)	(0.4)	(1.3)
Total Other Revenue	1,202.7	3.6	1,206.3
Other Sources			
Federal Grants	4,256.0	(99.0)	4,157.0
Transfer to the Resources of the General Fund	1,354.1	-	1,354.1
Transfer from Tobacco Settlement Fund	102.3	0.6	102.9
Transfer From/ (To) Other Funds	(169.4)	-	(169.4)
Total Other Sources	5,543.0	(98.4)	5,444.6
Total Revenue	\$17,667.4	\$267.4	\$17,934.8



FY 11 General Fund Revenue

(\$ - Thousands)



Personal Income (36.0%)	Federal Grants (22.0%)	Sales and Use (17.5%)
Business (6.7%)	Transfers (6.3%)	Gambling (3.5%)
Other Revenue (2.9%)	Other Taxes (2.5%)	Tobacco (2.7%)

NOTES:

- 1) Business revenue consists of: Corporations (\$660,500), Public Service Corporations (\$273,300), Insurance Companies (\$227,900), and Oil Companies (\$109,700).
- 2) Gambling revenue consists of: Indian Gaming (\$366,800) and Special Revenue (\$291,000).
- 3) Other Revenue includes: Licenses, Permits and Fees (\$241,500), Sales of Commodities and Services (\$35,800), Rentals, Fines and Escheats (\$107,700), Investment Income (\$3,500) and Miscellaneous (\$141,400).
- 4) Other Taxes revenue consists of: Inheritance and Estate (\$139,000), Real Estate Conveyance (\$101,000), Alcoholic Beverages (\$48,700), Admissions, Dues and Cabaret (\$35,100) and Miscellaneous (\$141,400).



Out-Year Revenue Growth Rates

(\$ - Millions)

Revenue Source

Personal Income Tax:

	FY 12		FY 13		FY 14	
	Growth Rate	Amount	Growth Rate	Amount	Growth Rate	Amount
Withholding	4.0%	\$179.2	3.7%	\$172.4	5.5%	\$265.8
Estimates and Final Payments	15.8%	368.5	17.5%	472.8	9.7%	307.1

Sales Tax:

	3.2%	114.0	4.2%	135.7	3.2%	115.2
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Corporate Tax

	3.0%	23.0	3.9%	25.3	5.5%	36.8
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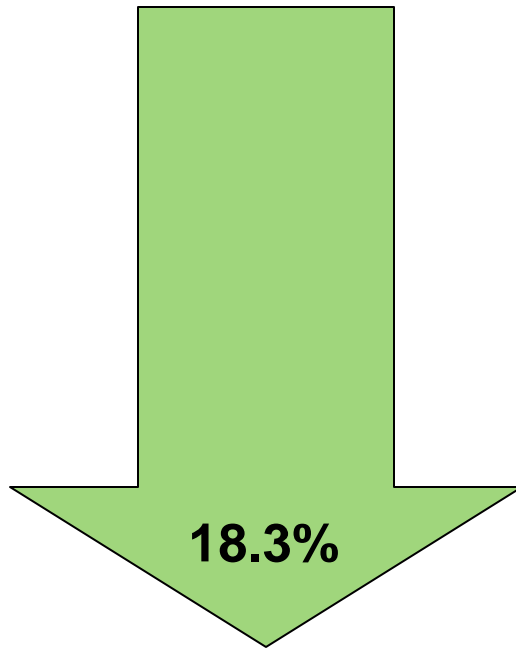
TOTAL

		<u>\$684.7</u>		<u>\$806.2</u>		<u>\$724.9</u>
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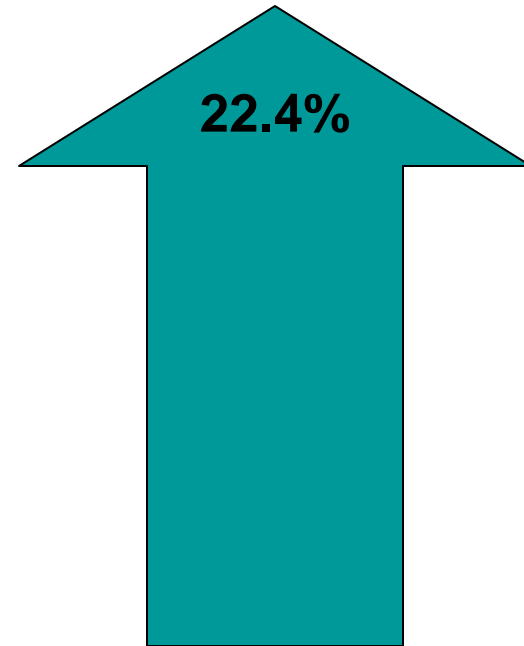


Balancing the Budget

Projected FY 12 Deficit = \$3,673.3 Million



18.3% Decrease in Expenditures
(Cut the budget by \$3.7 billion)



22.4% Increase in Revenues
(Increase revenues by \$3.7 billion)



Explaining the FY 12 Deficit

(\$ - Millions)

Continuation of FY 11 Deficit into FY 12		(\$83.0)
Revenue Issues:		
Loss of One-Time FY 11 Revenue Sources		(2,145.6)
Increase in Transfers and Tax Changes		(95.3)
Revenue Growth at 4.4%		698.7
Income Tax:	\$547.5	
Sales Tax:	\$114.0	
All Other (Net):	\$37.2	
Total Revenue Issues		(\$1,542.2)
Expenditure Issues:		
Growth in Six Major Areas		
Pension Obligations		\$349.6
Caseload Growth		331.6
Inflation		313.3
Statutory Formula Adjustments		311.0
Rates and Standards		305.0
Debt Service		254.5
Subtotal		\$1,865.0
		+
Other Expenditure Growth Across All State Agencies		\$58.6
		+
27th State Payroll Costs		\$124.5
Total Expenditure Issues		\$2,048.1
FY 12 DEFICIT		(\$3,673.3)



Spending Cap

- In FY 11, the state is under the spending cap.
- The state is projected to be over the cap in FY 12 – FY 14.

	FY 2010-11 Estimated <u>Budget</u>	FY 2011-12 Estimated <u>Budget</u>	FY 2012-13 Estimated <u>Budget</u>	FY 2013-14 Estimated <u>Budget</u>
Total All Appropriated Funds - Prior Year	\$ 18,566.2	\$ 19,308.0	\$ 20,411.3	\$ 20,962.4
Less "Non-Capped" Expenditures - Prior Year	<u>3,550.3</u>	<u>3,605.1</u>	<u>4,111.9</u>	<u>4,232.3</u>
Total "Capped" Expenditures	15,015.9	15,702.9	16,299.4	16,730.2
 Multiply by Growth Factor	4.53%	3.34%	2.40%	2.12%
Allowable "Capped" Growth	<u>680.7</u>	<u>524.7</u>	<u>391.0</u>	<u>354.7</u>
Allowable "Capped" Expenditures	15,696.5	16,227.6	16,690.4	17,084.9
 Plus "Non-Capped" Expenditures- Current Year	<u>3,651.8</u>	<u>4,183.7</u>	<u>4,272.0</u>	<u>4,408.5</u>
Total All Expenditures Allowed	19,348.3	20,411.3	20,962.4	21,493.4
Est. Expenditures- Current Year	<u>19,308.0</u>	<u>21,549.5</u>	<u>22,339.6</u>	<u>23,257.9</u>
Amount Over/ (Under) the Cap	<u>\$ (40.4)</u>	<u>\$ 1,138.2</u>	<u>\$ 1,377.2</u>	<u>\$ 1,764.4</u>
 % Change in Total Expenditures Allowed	0.5%	5.5%	2.7%	2.5%



Spending Cap Growth Factor Determination

Per statute, the growth factor is the greater of:

- A) The average of the five-year annual increase in personal income in Connecticut, or
- B) The increase in inflation for the preceding year.

	5-Year Average Personal Income Growth	12-month CPI* Increase
FY 07	4.0%	3.7%
FY 08	3.9%	1.9%
FY 09	5.4%	4.0%
FY 10	6.3%	1.6%
FY 11	4.8%	1.5%
FY 12	3.3%	1.0%
FY 13	2.4%	1.8%
FY 14	1.6%	2.1%

= Projected

* Consumer Price Index



Transportation Fund Projections

	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>
<i>(\$ - Millions)</i>				
Total Revenues	\$1,182.3	\$1,218.5	\$1,281.4	\$1,305.2
Total Expenditures	1,178.2	1,289.9	1,317.7	1,337.9
Net Operating Surplus/(Deficit)	\$4.1	(\$71.4)	(\$36.3)	(\$32.7)



Other Appropriated Funds

- Funds are projected to run an operating deficit of approximately \$1.3 million in FY 11 (revenues less expenditures), with operating surpluses in FY 12 - FY 14.
- FY 11 includes fund sweeps totaling \$25.9 million to the General Fund.
- Fund balances are expected to return to the FY 10 level absent future transfers into the General Fund.

	FY 11 Estimated	FY 12 Projected	FY 13 Projected	FY 14 Projected
Beginning Balance	\$58,385,347	\$34,069,561	\$47,095,377	\$50,982,648
Revenue*	161,540,203	252,681,247	242,789,867	250,686,255
Expenditures*	(162,797,859)	(242,528,638)	(241,833,267)	(244,899,260)
Transfers	(23,058,130)	2,873,207	2,930,671	2,989,285
Ending Balance	\$34,069,561	\$47,095,377	\$50,982,648	\$59,758,928

* In FY 12, expenditures and revenue for the Mashantucket Pequot and Mohegan Fund increases by \$73.2 million, as it is assumed the grant will be fully funded pursuant to CGS 3-55i.



Major Identifiable Tax Expenditures Estimates [1]

	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>
(\$ - Millions)				
Personal Income Tax	\$589.8	\$599.1	\$616.7	\$630.4
Sales and Use Tax	3,005.5	3,042.7	3,107.3	3,174.9
Petroleum Companies Gross Earnings Tax	206.9	224.0	231.4	234.3
Corporate Business Tax	302.0	315.1	324.5	334.9
Cigarette and Tobacco Products Tax	6.5	7.0	7.2	7.3
Public Service Companies Gross Earnings Tax	105.5	98.1	101.4	104.7
Insurance Premiums Tax	57.9	56.6	58.0	59.4
Admissions and Dues Tax	12.6	11.7	12.1	12.4
Motor Fuels and Motor Carrier Road Fuels Taxes	1,017.6	965.6	997.6	1,019.6
TOTAL	<u>\$5,304.3</u>	<u>\$5,319.9</u>	<u>\$5,456.2</u>	<u>\$5,577.9</u>

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



Significant Tax Expenditures

(\$ - Millions)

Personal Income Tax

Credit for Property Taxes Paid

	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>
Credit for Property Taxes Paid	\$365	\$373	\$381	\$389

Sales & Use Tax

Sales to Nonprofit organizations (combined lease, labor, and goods)

Motor Vehicle Fuel

Sales of Food Products for Human Consumption

Prescription Medicines, Syringes and Needles

Fuel For Heating Purposes

Sales to Nonprofit organizations (combined lease, labor, and goods)	700	678	685	694
Motor Vehicle Fuel	400	410	415	425
Sales of Food Products for Human Consumption	375	380	387	395
Prescription Medicines, Syringes and Needles	325	350	358	362
Fuel For Heating Purposes	175	180	195	205

Petroleum Gross Earnings Tax

Number 2 Oil Used for Heating Purposes

Number 2 Oil Used for Heating Purposes	\$150	\$165	\$170	\$173
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FY 11 Agency Deficiency Requirements

Holdbacks that could be released for these agencies total \$62.9 million.

<i>(\$ - Millions)*</i>	<u>Estimated Deficiency</u>	<u>Estimated Deficiency, Less Holdbacks</u>	<u>Percent of Appropriation</u>
Department of Social Services	\$185.0	\$165.5	3.2%
Department of Mental Health and Addiction Services	16.1	-	-
Department of Correction	12.5	-	-
Department of Public Safety	6.7	-	-
Department of Public Works	6.3	-	-
Child Protection Commission	2.9	2.8	24.6%
Public Defender Services Commission	2.0	1.7	3.6%
Department of Administrative Services - Workers' Compensation	1.4	1.4	20.0
Department of Administrative Services - Workers' Compensation (Special Transportation Fund)	1.3	1.3	-
Department of Administrative Services	1.4	-	-
Total General Fund	\$234.3	\$171.4	2.5%
Total Special Transportation Fund	\$1.3	\$1.3	20.0%

*All General Fund agencies, except where otherwise noted.



General Fund Deficiency Needs

- **Three agencies have required deficiency funding in five to six years out of the last ten years.**
- **These agencies, the Departments of Social Services, Corrections, and Administrative Services - Workers' Compensation, account for 67% of the total ten year deficiency amount.**

FY 10	\$75,184,730
FY 09	110,788,661
FY 08	41,470,000
FY 07	40,200,000
FY 06	26,038,000
FY 05	78,646,500
FY 04	90,507,649
FY 03	75,650,000
FY 02	91,984,000
FY 01	108,845,368

10-year average	\$73,931,491
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Budget Reserve Fund (BRF)

- **Created by PA 79-623, BRF is 30 years old.**
- **Commonly referred to as “the Rainy Day Fund.”**
- **Maximum allowable in BRF is 10% of the net General Fund appropriations for the fiscal year in progress.**
 - **Originally the maximum allowable level was set at 5%; this increased to 7.5% in 2002, and to 10% in 2003.**
- **The first deposit made into BRF (\$165.2 million) was in 1984.**
- **BRF has been exhausted three times to cover or partially cover deficits in: FY 90, FY 02 and FY 11.**
- **It has had a zero balance in 11 fiscal years.**



Statutory Debt Limit on General Obligation Bonds [1]

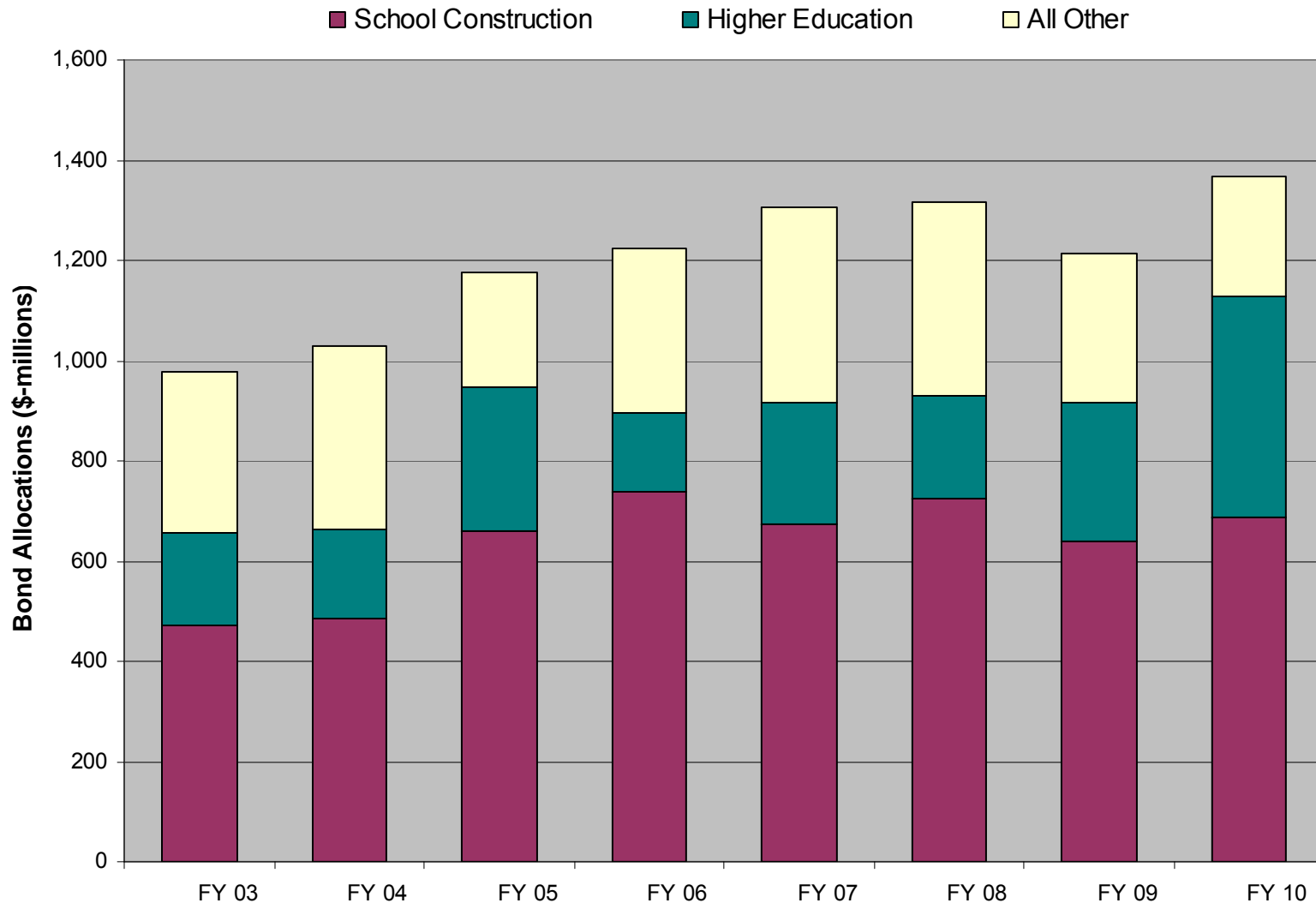
	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>
<i>(\$ - Millions)</i>				
Net General Fund Tax Revenue	\$11,283.9	\$11,854.2	\$12,638.1	\$13,316.6
Multiplier	1.6	1.6	1.6	1.6
Debt Limit	18,054.2	18,966.7	20,221.0	21,306.6
Bonds Subject to Limit [2]	15,055.9	15,000.0	14,950.0	15,000.0
Percentage of Debt Limit	83.4%	79.1%	73.9%	70.4%
Debt incurring Margin	2,998.3	3,966.7	5,271.0	6,306.6
90% Bond Limit	\$16,248.8	\$17,070.0	\$18,198.9	\$19,175.9
Capacity before 90% Limit	\$1,192.9	\$2,070.0	\$3,248.9	\$4,175.9

[1] Does not include Tax Incremental Financings, Special Transportation, Bradley Airport, Clean Water Fund Revenue, Connecticut Unemployment Revenue Bonds, Economic Recovery Notes and Pension Obligation Bonds.

[2] FY 11 from the Office of the State Treasurer; OFA projections for FY 12 - FY 14



Education Bond Allocations in Relation to Total Bond Allocations





Growth in Major Spending Categories

	FY 04 Actual Expenditures	FY 10 Actual Expenditures	Growth from FY 04 to FY 10	Average Growth Per Year
State Employee Personal Services and Related Fringe Benefits	\$3,021,989,515	\$4,006,586,178	24.57%	4.52%
Medicaid	2,785,097,010	3,855,090,206	27.76%	5.19%
Education Equalization Grants	1,522,564,466	1,883,943,766	19.18%	3.43%
Debt Service	1,051,726,805	1,452,593,714	27.60%	5.34%
Retirement Contributions - Teachers' Retirement Board	185,348,143	559,224,245	66.86%	14.19%
State-Wide Other Expenses	430,046,805	455,731,447	5.64%	0.66%
Community Residential Services	248,679,073	379,343,096	34.44%	6.74%
Operating Expenses - UConn	178,793,075	220,166,958	18.79%	3.36%
Board & Care For Children Residential	146,843,501	185,058,868	20.65%	3.65%
State Admin General Assistance	\$133,808,685	\$197,382,348	32.21%	6.09%



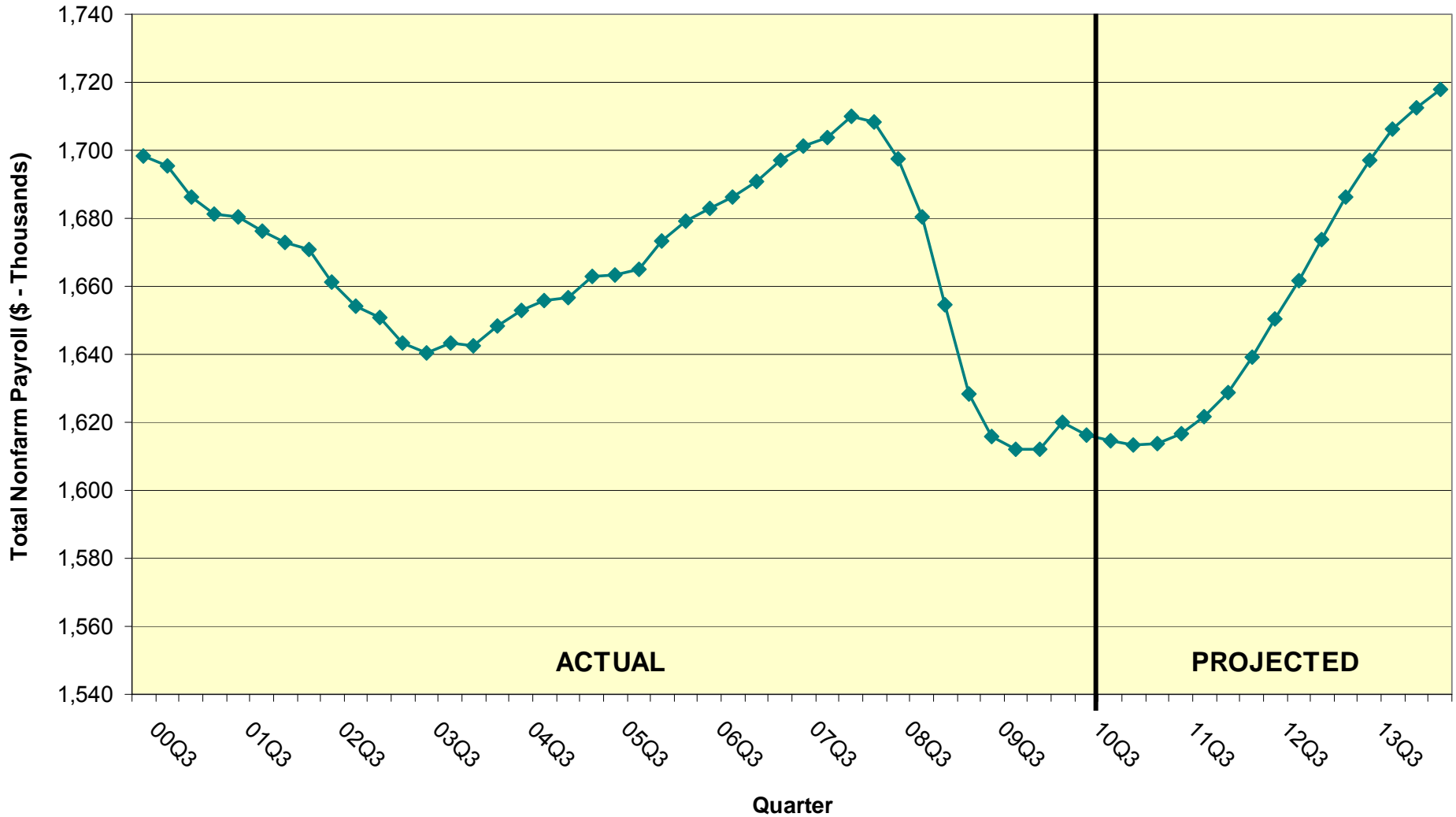
Long-Term Obligations

(\$ - Billions)

Debt Outstanding	\$19.3
State Employee Pensions – Unfunded	11.8
Teachers’ Pensions – Unfunded	9.1
State Post Retirement Health and Life – Unfunded	26.6
Teachers’ Post Retirement Health and Life	2.9
Generally Accepted Accounting Principles (GAAP) Deficit	2.3
TOTAL	\$72.0



Actual and Projected CT Employment FY 01 – FY 14

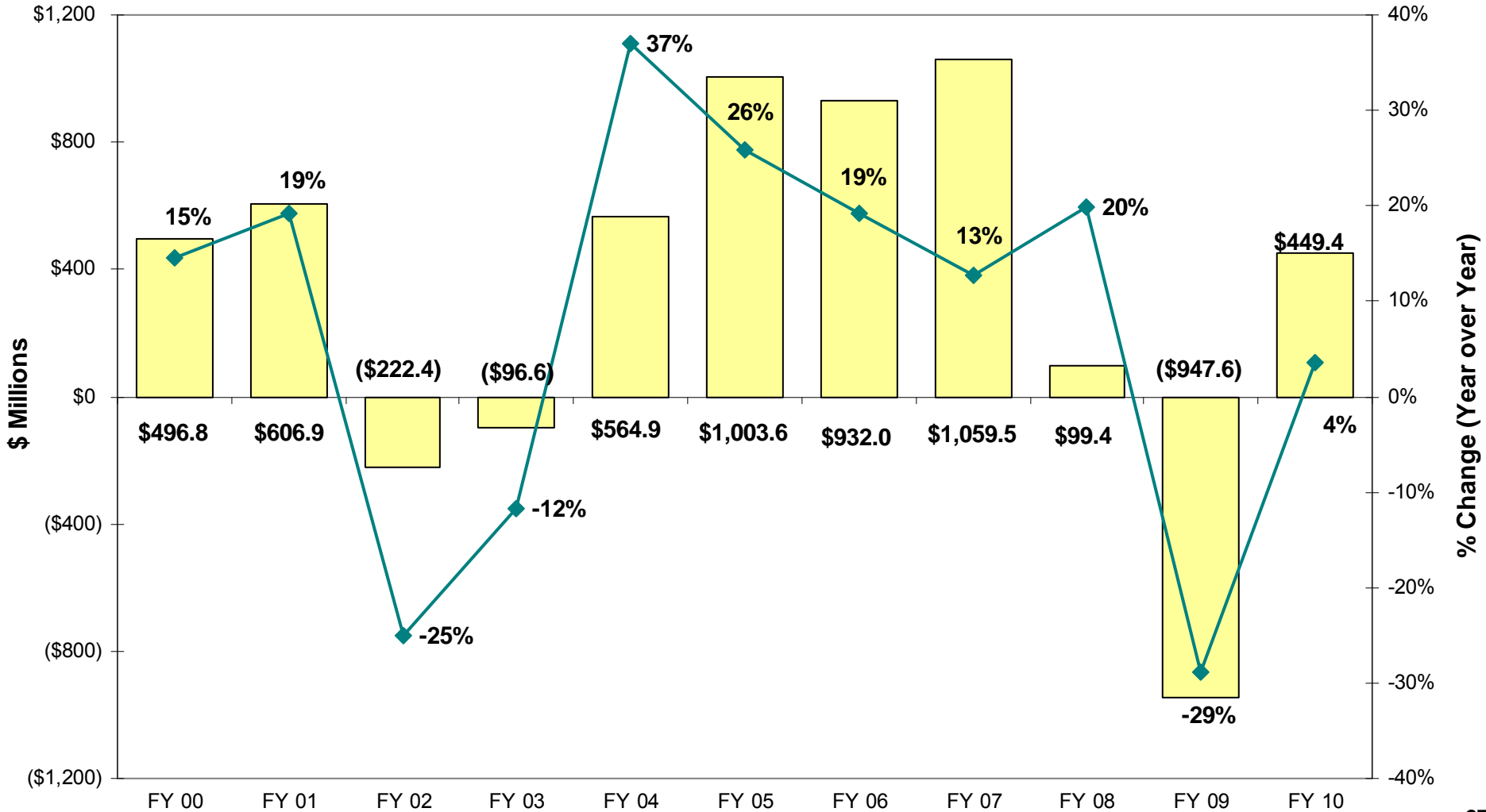




Tax Volatility

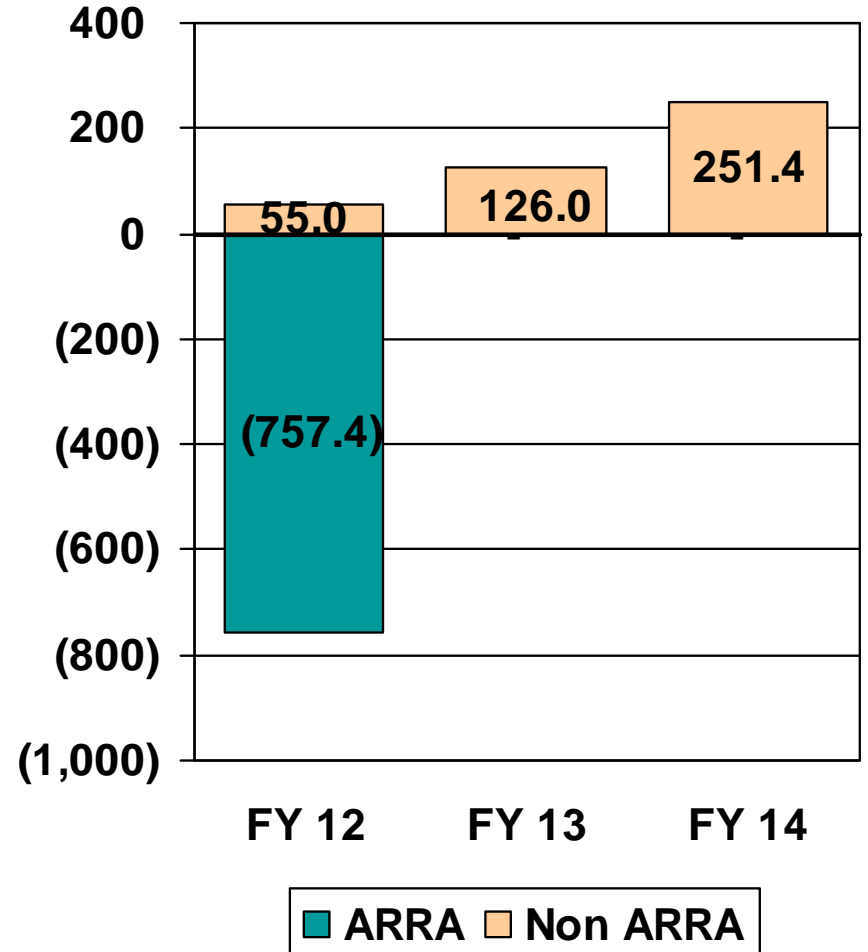
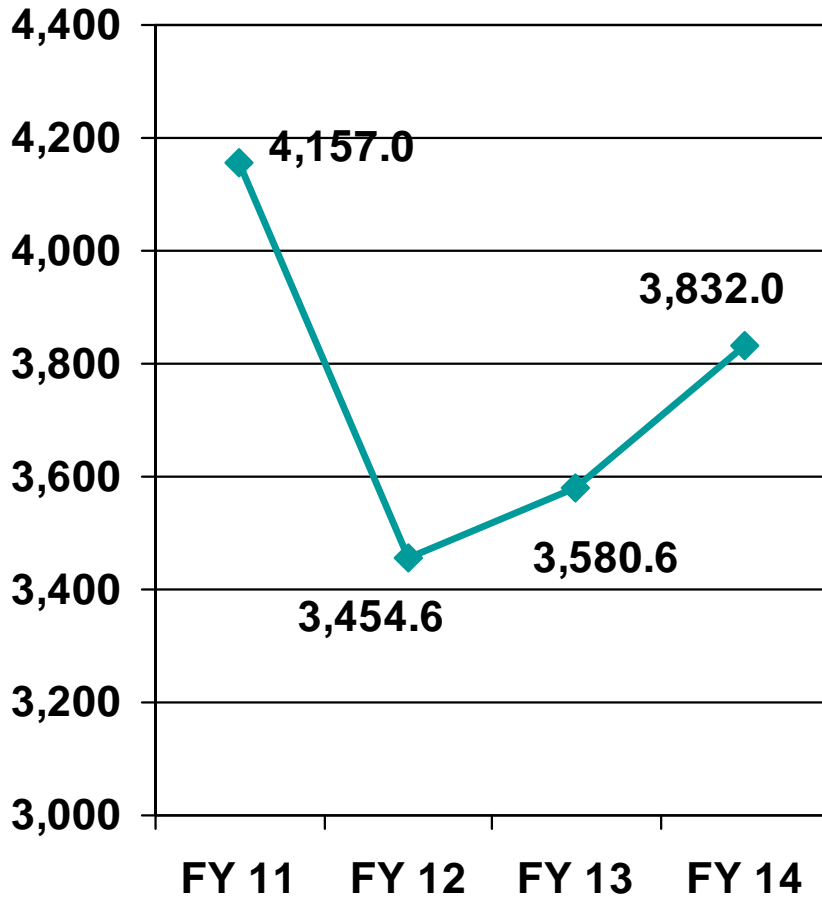
Estimated/Final Payments & Year-End Surplus/(Deficit)

Surplus (Deficit) Growth in Estimates & Final Payments





Consensus Federal Revenue





Structural FY 12 Deficit Factors

(\$ - Millions)

One-Time Measures Utilized in FY 11 (and Not Available in FY 12)

Federal Stimulus	\$757.4
Proceeds from the Economic Recovery Revenue Bonds	646.6
FY 10 Balance Reserved for FY 11	449.4
Reductions to Certain Funds (Sweeps)	154.9
Budget Reserve Fund	103.2
Corporate Surcharge	34.1
Total	\$2,145.6

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Impact of ERN's

Economic Recovery Notes – Debt Service	\$208.4
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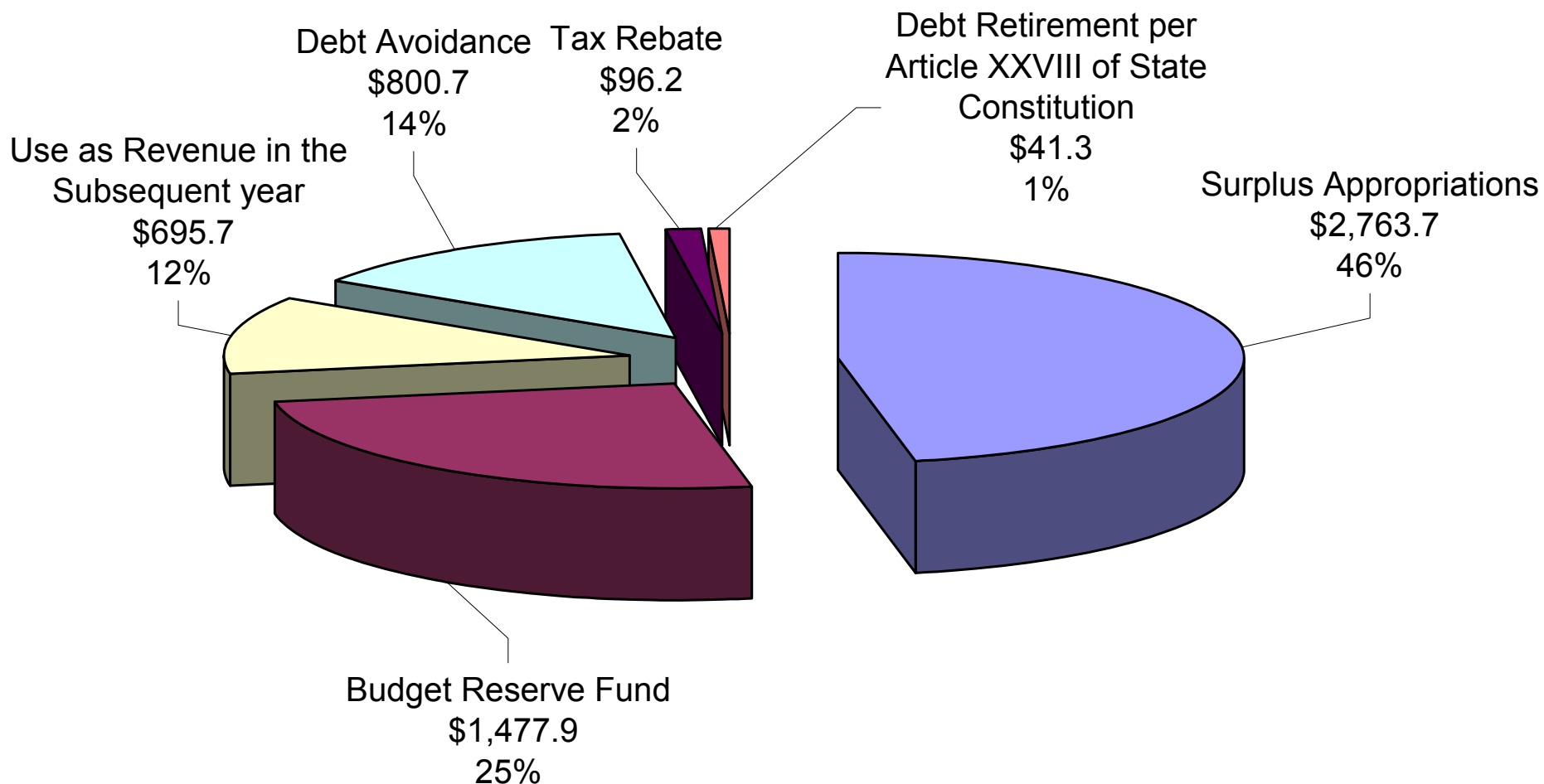
GRAND TOTAL **\$2,354.0**



Uses of Surplus: FY 99 – FY 10

\$5.87 Billion Over the Last 12 Years

(\$ - Millions)





Historical Surplus/Deficit from Operations

