Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS
LEGISLATIVE OFFICE BUILDING
ROOM 5200
HARTFORD, CONNECTICUT 06106-1591
PHONE: (860) 240-0200 FAX: (860) 240-0052 E-MAIL: ofa@po.state.ct.us

General Fund and Transportation Fund Budget Projections

(as of January 27, 1999)

I. FY 99 General Fund

Our projections for the fiscal year ending June 30, 1999 indicate that the potential net surplus has grown by $460 million from the $19.9 million originally budgeted to $479.9 million (which represents 4.8% of the original budget). The $460 million increase is based on revised estimated revenues that are $516.1 million above the budget act estimates and estimated expenditures that are $56.1 million higher than original net appropriations. The amount of funding that the state may receive from the tobacco settlement agreement in FY 99 is uncertain at this time and, therefore, has not been included in our surplus projections.

Revenues

A net increase in General Fund revenue of $516 million results primarily from increases in (1) the personal income tax, (2) sales tax, (3) corporation business tax, (4) transfers from special revenue, (5) Indian gaming payments, and decreases in (6) the oil companies tax and (7) miscellaneous revenue.

The income tax estimate is up $473.9 million (up $243.9 million from our November estimate). The following table presents the adjustments made to four components of the income tax estimate.

Component	Budget Act Estimates	January Estimates	Amount of Change
Withholding	$ 2,445.0	$ 2,486.0	$ 41.0
Estimated Payments	503.0	773.4	270.4
Finals	388.0	510.5	122.5
Refunds	(512.0)	(472.0)	40.0
		Total Change	$ 473.9

As seen from the table above, the largest increases are in estimated and final payments. For the 1998 income year estimated payments are estimated to grow by 21.3% compared to 1997. The budget act estimate assumed negative growth would occur during 1998. Revenue from estimated payments for 1998 continued a trend of double-digit growth that began in 1996. This trend continues to be fueled by the realization of capital gains, primarily the result of the high volume of stock transactions. The drop in the stock market that occurred in July and August 1998 is thought to be a contributory factor in robust collections in the second half of 1998. Falling stock prices induced many investors to sell during this period and realize gains built up during the three and a half-year bull market. Based on the continued strength of capital gain income that occurred in second half of the 1998 income year and the first quarter of 1999, forecasts for estimated payments, finals, and related refunds have been adjusted by $432.9 million (up $157.9 million from our November estimate).

Although tax receipts from non-wage sources continue to fuel much of the increase in income tax collections, tax receipts from wages (withholding) have modestly increased in the first half of the fiscal year. Through the first six months of the fiscal year, collections have grown by 9.4% (adjusted for tax changes), which is higher than the 6% rate forecasted in the budget act estimate. Because growth has been better than anticipated, revenue from withholding has been increased by $41 million. This represents a net change of $86 million from our November statement, when anticipated revenue from withholding was reduced by $45 million from the budget act estimate because collections were sluggish for the August through October period.

The increase in the <u>sales tax</u> revenue estimate of $19.1 million (no change from our November estimate) is due primarily from better than anticipated collections in the last quarter of FY 98, which resulted in a larger FY 99 base.

The increase in the <u>corporation business tax</u> revenue of $46.6 million (up $10 million from our November estimate) is due to stronger than anticipated collections in the first half of FY 99. Collection and refund data suggest that corporations may not be adjusting their estimated payments to reflect changes to the rate. Therefore, corporations may be over-estimating their liability, resulting in higher collections. The effect of this may be an increase in refunds in FY 00, when final 1998 returns from corporations are completed.

<u>Transfers from special revenue</u> have been increased by $12 million (down by $13 million from our November estimate) to reflect stronger than anticipated lottery sales. Sales in July and August significantly exceeded forecasts due to the extraordinarily large jackpots generated by the Powerball lottery. These large jackpots drew a large number of out-of-state participants particularly from the New York corridor, which resulted in higher public safety costs to the town of Greenwich. Realizing the added burden to Greenwich, the Connecticut Lottery Corporation reimbursed the town for these costs. While total lottery sales are stronger than last year's as a result of Powerball and instant ticket sales, sales from other lottery games (Lotto, Cash 5, daily numbers) are all lower compared to sales figures from last year.

<u>Indian gaming payments</u> have been increased by $33.8 million (up $18.8 million from our November estimate) because payments are expected to exceed budget act estimates for the remainder of the fiscal year. Year-to-date payments are up by $14.8 million over estimates ($10.1 million - Mohegan Sun, and $4.7 million - Foxwoods).

The decrease in <u>oil companies</u> revenue of $23.8 million (no change from our November estimate) is due to greater transfers to the Underground Storage Tank Petroleum Clean-Up Account and lower oil prices. Transfers to the clean-up account are anticipated to be $10 million more than originally forecasted. The increased activity is the result of clearing up the backlog of claims and a push to replace older tanks that must be completed by January 1999 in order to meet federal regulations.

Estimated revenue has also been lowered by $13.8 million as a result of a decline in oil and gasoline prices. Oil prices have dropped by approximately 20% to 25% compared to last year, while wholesale gasoline prices for July through December, which includes the peak demand summer months, were 25% to 40% lower. These lower prices weaken gross receipts, thus affecting tax collections.

Miscellaneous revenue has been decreased by $ 53 million. The decrease is mainly the result of the removal of $50 million in one-time revenue anticipated from the sale of home mortgage loans to the Connecticut Housing Finance Authority (CHFA). Since General Fund revenue is far exceeding the budget act estimates, the administration has decided that the sale of mortgages to CHFA will not take place in FY 99.

Expenditures

Lapse/Deficiency

Expenditure requirements are estimated to be $56.1 million higher than budgeted due primarily to the $80 million appropriation to the Stadium Construction account in accordance with the provisions of PA 98-1 (December Special Session), the elimination of the $50 million budgeted savings associated with Agency Statewide Functional Consolidation, projected lapses of $98.1 million in the Department of Social Services and $13.3 million in the Department of Revenue Services, which are partially offset by projected deficiency appropriations of $26.5 million. The additional lapse in the Department of Social Services is largely due to lower than anticipated expenditures for Medicaid, Child Care Services and the Healthcare for Uninsured Kids and Youths (HUSKY) program. The additional lapse in the Department of Revenue Services is primarily due to the Tax Rebate program requiring $13.2 million less for rebates than originally anticipated. A summary of and explanations for General Fund lapsing appropriations can be found beginning on page 11.

The two major areas requiring deficiency appropriations include: (1) the Department of Children and Families (DCF) ($18.3 million) due to hospitalization costs for DCF clients in inpatient psychiatric settings exceeding Medicaid managed care coverage limits and higher than budgeted costs of supporting children in foster care, subsidized adoption and other residential placements; and (2) the Department of Mental Retardation (DMR) ($5.6 million) due primarily to upgraded services at Southbury Training School and higher overtime costs resulting from delays in filling positions vacated due to the Early Retirement Incentive Program (ERIP). Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of $3.5 million and Refunds of Escheated Property at $7.5 million. A further explanation of deficiency requirements can be found beginning on page 7.

Agency Statewide Functional Consolidation

The 1997-1999 biennial budget (passed in June 1997) included $50 million in annual savings beginning in FY 99 from “Agency Statewide Functional Consolidation," which are savings claimed primarily as the result of privatizing or outsourcing the state’s information technology business to a private company. The contractor was originally expected to assume operations by January 1998. The budgeted savings for FY 99 was not changed by the legislature during the 1998 session and remained at $50 million, because the administration indicated that the contract would take effect by January 1999, and that $50 million in savings could be achieved in one-half year. On December 30, 1998, the administration announced that it has selected Electronic Data Systems (EDS) as the private computer firm, and is negotiating the final aspects of the contract. The administration’s current target contract effective date is September 1, 1999. Therefore, none of the $50 million in budgeted savings will be realized for FY 99.

Lapse/Reserve for Salary Adjustments

The original lapse savings of $97.5 million associated with unallocated lapses and Personal Services and Other Expenses holdbacks are anticipated to be achieved by the end of the fiscal year. It should be noted that our November analysis detected a potential lapse of $34.9 million in the Reserve for Salary Adjustments account; however, $20 million of this amount was transferred to the Stadium Construction account and the rest could be needed to address unanticipated contingencies or carried forward into FY 00 through "back of the budget" language as has been the case in recent years. A possible alternative would be to use this amount to pay a portion of the $83.6 million General Fund cost ($91.4 million All Funds) required in FY 00 to pay an additional state employee payroll which occurs approximately every 11 years. Funding for this requirement would not be needed if Generally Accepted Accounting Principles (GAAP) were implemented in accordance with existing statute on July 1, 1999.

FY 99 General Fund Summary
as of January 27, 1999
(in millions)

	Budget Plan	Increases/ (Decreases)	Revised Estimates
Revenues			
Taxes	$ 7,236.5	$ 515.9	$ 7,752.4
Other Revenue	921.8	3.8	925.6
Other Sources	1,833.7	(3.6)	1,830.1
Total Revenue	**$ 9,992.0**	**$ 516.1**	**$ 10,508.1**
Appropriations			
Original Appropriations - Gross	$ 10,119.5	$ -	$ 10,119.5
Less:			
Unallocated Lapses	(74.4)	-	(74.4)
Department of Revenue Services Estimated Lapse	-	(13.3)	(13.3)
Department of Social Services Estimated Lapse	-	(98.1)	(98.1)
General PS and OE Reductions	(23.0)	-	(23.0)
Statewide Agency Functional Consolidation	(50.0)	50.0	-
Plus:			
Stadium Construction (PA 98-1 Dec. Sp. Session)	-	80.0	80.0
Estimated Deficiency Appropriations	-	26.5	26.5
Estimated Adjudicated Claims	-	3.5	3.5
Estimated Refunds of Escheated Property	-	7.5	7.5
Total Estimated Expenditures	**$ 9,972.1**	**$ 56.1**	**$ 10,028.2**
Projected Surplus from Operations for FY 99	**$ 19.9**	**$ 460.0**	**$ 479.9**

FY 99 General Fund Revenue
as of January 27, 1999
(in thousands)

	Budget Plan Growth Rate % [1]		Budget Plan FY 99 Estimate		OFA Over/(Under) Budget Plan	OFA Estimate Growth Rate % [1]		OFA Estimate FY 99 Estimate
Taxes								
Personal Income	0.0	$	3,400,200	$	433,900	9.6	$	3,834,100
Sales and Use	5.5		2,878,900		19,100	5.9		2,898,000
Corporations	1.9		586,400		46,600	2.6		633,000
Inheritance and Estate	(3.6)		234,000		4,000	(5.1)		238,000
Hospital Gross Receipts	(2.0)		127,600		(5,000)	(1.2)		122,600
Public Service Corporations	2.3		172,900		(6,000)	(2.0)		166,900
Insurance Companies	3.1		195,300		(5,300)	0.4		190,000
Cigarettes	(2.5)		122,900		-	(3.4)		122,900
Oil Companies	3.0		60,400		(23,800)	(2.7)		36,600
Real Estate Conveyance	0.0		88,000		8,000	2.5		96,000
Alcoholic Beverages	0.0		39,700		-	(0.2)		39,700
Miscellaneous	3.5		26,400		-	(5.7)		26,400
Admissions, Dues and Cabaret	2.0		26,400		-	5.4		26,400
Total Taxes		**$**	**7,959,100**	**$**	**471,500**		**$**	**8,430,600**
Refunds of Taxes			(722,600)		44,400			(678,200)
Net General Fund Taxes		**$**	**7,236,500**	**$**	**515,900**		**$**	**7,752,400**
Other Revenue								
Transfer Special Revenue			263,400		12,000			275,400
Indian Gaming Payments			256,200		33,800			290,000
Licenses, Permits and Fees			116,200		4,000			120,200
Sales of Commodities and Services			32,000		(3,000)			29,000
Rentals, Fines and Escheats			35,000		-			35,000
Investment Income			56,000		10,000			66,000
Miscellaneous [2]			163,000		(53,000)			110,000
Total Other Revenue		**$**	**921,800**	**$**	**3,800**		**$**	**925,600**
Other Sources								
Federal Grants			1,923,700		(3,600)			1,920,100
Net Statutory Transfers From Other Funds			(90,000)		-			(90,000)
Total Other Sources		**$**	**1,833,700**	**$**	**(3,600)**		**$**	**1,830,100**
Total Revenue		**$**	**9,992,000**	**$**	**516,100**		**$**	**10,508,100**

[1] Tax growth rates reflect adjustments for rate and base changes.
[2] Reflects the removal of $50 million in one-time revenue anticipated from the sale of loans to CHFA.

FY 99 Projected General Fund Deficiencies

Agency/Explanation	Amount of Deficiency

State Ethics Commission **$19,000**

The State Ethics Commission will experience a $19,000 deficiency in Personal Services due to: (1) the lack of funds in FY 99 for the reclassification of the commission's clerk which occurred in FY 98 and; (2) three personnel miscalculations that occurred during the last budget cycle when such matters were handled by the former business office. (These miscalculations include failure to properly reflect reclassification of other positions in the current budget, miscalculated annual increments and underestimated longevity payments.) Funds are not available for transfer from elsewhere in the agency due to the reclassification of two additional positions, and due to costs related to the development of the Lobbyist Electronic Filing System.

Office of the Child Advocate **$50,000**

It is anticipated that the Office of the Child Advocate will experience a $50,000 deficiency in Other Expenses for costs incurred related to the Child Fatality Review Panel. Such costs include consulting costs, printing costs and subpoena fees. The panel has reviewed 20 cases and issued four formal reports and anticipates the release of an additional report soon. An appropriation of $20,000 was provided in FY 99 for costs associated with the panel, yet due to the unforeseeable number of cases before the panel, these funds will be exhausted and it is estimated that a $50,000 deficiency will occur. To date the Office of Child Advocate has identified $32,000 in outstanding bills, yet it is anticipated that the total deficiency will approach $50,000 by the end of the fiscal year.

Department of Mental Retardation **$5,646,000**

It is anticipated that the Department of Mental Retardation will experience a deficiency of approximately $5.6 million. This is primarily attributed to a Personal Services shortfall of approximately $9.8 million in the current fiscal year. The department has been upgrading services at Southbury Training School (STS), which has resulted in increased demand on Personal Services resources. The court appointed Special Master assigned to STS (as a result of litigation) has made several recommendations to the court regarding the level of care that clients receive at the facility. In addition, the department has been experiencing delays in filling positions vacated due to the Early Retirement Incentive Program (ERIP). As a result of the delays, the overtime costs have exceeded the budgeted level by 32%.

It is also anticipated that the Other Expenses account will experience a shortfall of approximately $2.8 million in FY 99. A factor in the shortfall is the continued Southbury Training School litigation costs that are exceeding budgeted levels. It is anticipated that both the Personal Services ($2.3 million) and Other Expenses ($952,133) holdbacks will be released to the department thereby reducing the potential shortfalls in both accounts.

It is anticipated that the department has available approximately $2.3 million in the Community Residential Services and $1.9 million in Employment Opportunities and Day Services accounts which can be transferred to PS and OE to help offset those shortfalls. These funds are primarily attributed to a delay in implementation of new community placements. Delays in the provider selection process, housing development and staff training as well as other program issues are resulting in lower expenditure levels. Transfer of these available funds will reduce the department's potential deficiency to $5.6 million.

Department of Mental Health and Addiction Services **$1,500,000**

The Department of Mental Health and Addiction Services has a projected deficiency of $3.2 million in its Personal Services account. This projected deficiency is primarily due to higher than anticipated overtime costs, mainly at the Connecticut Valley Hospital. These overtime costs are primarily related to increased staffing needs for TBI/ABI (Traumatic Brain Injury / Acquired Brain Injury) patients. However, this deficiency estimate includes approximately $1.7 million in holdbacks. Assuming that these funds are released, it is anticipated that the department will have a net deficiency of $1.5 million in Personal Services.

Teachers' Retirement Board **$1,000,000**

Additional funding in the amount of $114,000 in Other Expenses is required to pay for costs associated with the board's health care consultant and communication to its members. An additional $368,888 in the Retirees Health Service Cost account is required due to the delay in implementing the managed care options from January 1, 1999 to July 1, 1999. The budgeted per unit cost was $110 per month and the actual cost has been approximately $135 per month. The state pays 25% of the actual cost from this account. Funding in the amount of $573,000 is also required in the Municipal Retiree Health Insurance Cost account due to the increase in the number of retirees covered by municipal health plans. The budgeted number of retirees was approximately 11,200 and the current number is nearer to 13,000.

Department of Children and Families **$18,300,000**

It is anticipated that the Department of Children and Families will experience a deficiency of approximately $18.3 million (or 4.9% of the agency's $373.1 million General Fund budget) in the current fiscal year. This shortfall is primarily attributable to the following:

Inpatient Psychiatric Treatment - $4,000,000

Commencing October 1, 1997, the Department of Children and Families (DCF) became responsible for payment of hospitalization costs for DCF clients in inpatient psychiatric settings who exceed Medicaid managed care coverage limits. This liability extends to expenses associated with hospitalized children in placement as of that date and those placed prior to September 1, 1998. (An agreement has been reached under which the Department of Social Services will share financial responsibility with managed care organizations for children initially placed after September 1, 1998.)

Clients in these placements frequently experience discharge problems that prolong the number of days of stay. Currently, approximately 40 children first admitted prior to September 1, 1998 remain in placement who have exceeded insurance coverage limits.

It is anticipated that the DCF will expend approximately $4 million in the current fiscal year for this purpose. Budgeted funds did not anticipate DCF payment for these services.

Safety Initiative - $1,975,000

Specialized Shelters	$1,555,000
Training Academy	65,000
Administrative Case Review	355,000
Total	$1,975,000

The department has solicited bids for the development of Specialized Shelters for Children. This will allow the agency to assess children who are experiencing out-of-home placement for the first time so that permanency and treatment plans can be developed in a timely manner. Children from birth through age 12 will be served.

This initiative was developed by the agency following the close of the 1998 legislative session. At this time, the department has received bids from interested parties. It is anticipated that no more than 170 new beds will be approved, which will result in a maximum annualized gross cost to the state of $12.5-$14 million. (These costs will be partially reimbursed by federal financial participation and may be further offset by decreased payments for traditional foster care or group home placements.)

The financial impact of the Specialized Shelter initiative in FY 99 is uncertain at this time. A figure of $1.5 million is included in the Office of Fiscal Analysis' deficiency estimate to reflect three-month support for 75 beds. Additional agency operating costs of approximately $55,000 are assumed to reflect three-month support of three case management staff to oversee the new program. Actual costs will depend upon the number of beds approved by the DCF commissioner, their opening dates and whether the stock of existing community beds of other service types (e.g., group homes) is reduced by conversions to the Specialized Shelter model.

The agency has also received approval of the Finance Advisory Committee (FAC) to increase its authorized position count to allow for the hiring of 37 new positions (27 full-time and 10 part-time). This includes the three Specialized Shelter oversight staff, three additional DCF Training Academy staff (at a partial year cost of approximately $65,000) and 21 Administrative Case Review staff (at a partial year cost of approximately $355,000).

Additional Personnel Costs - Long Lane School/Overtime - $2,950,000

Approximately $3 million in unexpected Personal Services expenditures is anticipated to result due to the hiring of additional positions as well as overtime and other personnel costs that have exceeded original projections. Included in this sum is $740,000 associated with the addition of 48 positions at Long Lane School to allow the agency to meet critical needs. The Finance Advisory Committee approved these positions at its December 1998 meeting. Also included is $2.0 million to reflect other unexpected personnel costs, primarily those of increased overtime performed by children's protective services workers and Long Lane School employees.

Board and Care for Children - $8,500,000

Approximately $8.5 million in higher than budgeted costs of supporting children in foster care, subsidized adoption and other residential placements is anticipated. This exceeds the $156.6 million appropriated for this purpose by 5.4%. Of this, close to $1 million is due to rate increases negotiated by the department with private providers that were not reflected in the revised FY 99 budget. The remainder of the shortfall is based upon current projections, which reflect monthly expenditures to date.

Workers' Compensation Claims - $400,000

Based on prior years' experience and current fiscal year expenditures to date, it is anticipated that a $400,000 deficiency will result in the Workers' Compensation Claims account. This is 25.2% of the $1,588,611 appropriated for FY 99. Actual expenditures in FY 98 were $1,958,948.

Office Rental Costs - $500,000

A shortfall of approximately $500,000 is expected in regional office operating costs. This is due to the need for additional space in response to staffing expansions described above, at a cost of approximately $50,000, as well as unanticipated increases in leasing costs of close to $450,000.

Total Projected Deficiencies	**$26,515,000**

Summary of FY 99 General Fund Lapsing Appropriations

Agency		Amounts (in millions)
Status of Budgeted Lapses:		
Office of Policy and Management	$ 9.7	
Department of Labor	12.0	
Department of Public Health	3.3	
Department of Education	4.6	
Debt Service - State Treasurer	12.0	
Total - Significant Identified Lapsing Appropriations	$ 41.6	
Other Identified Lapses (less than $1 million each)	6.9	
Unidentified Lapses	25.9	
Subtotal		$ 74.4
Additional Identified Lapses:		
Department of Revenue Services (DRS)		13.3
Department of Social Services (DSS)		98.1
General Personal Services and Other Expenses Reductions:		
Personal Services Holdbacks	$ 11.0	
Other Expenses Holdbacks	12.0	
Subtotal		$ 23.0
Agency Statewide Functional Consolidation*		-
Total Projected Lapse		**$ 208.8**

Note: only changes from the budget level are the additions of the DRS estimated lapse of $13.3 million and the DSS estimated lapse of $98.1 million and the elimination of the $50 million budgeted savings associated with Agency Statewide Functional Consolidation.

*The 1997-99 biennial budget (passed in June 1997) included $50 million in annual savings beginning in FY 99 from “Agency Statewide Functional Consolidation," which are savings claimed primarily as the result of privatizing or outsourcing the state’s information technology business to a private company. The contractor was originally expected to assume operations by January 1998. The budgeted savings for FY 99 was not changed by the legislature during the 1998 session and remained at $50 million, because the administration indicated that the contract would take effect by January 1999, and that $50 million in savings could be achieved in one-half year. On December 30, 1998, the administration announced that it has selected Electronic Data Systems (EDS) as the private computer firm, and is negotiating the final aspects of the contract. The administration’s current target contract effective date is September 1, 1999. Therefore, none of the $50 million in budgeted savings will be realized for FY 99.

FY 99 Potential Significant General Fund Lapsing Appropriations

Agency/Explanation	Lapsing Amount

Department of Revenue Services **$13,275,000**

The Appropriations Act, SA 98-6, provided $115 million for a one-time Personal Income Tax rebate for the 1997 income year and an additional $1 million for administration of the rebate program by DRS. The amount appropriated was based on an estimate that included the number of taxpayers who paid tax for the 1996 income year and the projected number of state residents who did not owe Income Tax for 1997 but would file a return and qualify for a rebate. Because this estimate was greater than the amount rebated, it is anticipated that $13.2 million of the original $115 will lapse. In addition, DRS is expected to lapse $75,000 of the $1 million provided for administrative expenses.

Office of Policy and Management **$9,700,000**

The Office of Policy and Management, with a total available appropriation of $197 million, is anticipated to lapse $9.7 million (5% of its budget) based on current estimated expenditures for FY 99. This is largely attributable to surpluses in the following property tax relief programs: Circuit Breaker ($5.5 million), Veterans' Additional Exemption ($2 million) Elderly Freeze ($700,000). These lapses are due to lower than anticipated participation and the stabilization of mill rates statewide.

Department of Labor **$12,000,000**

The projected lapse of $12 million for the Department of Labor includes $4.7 million for the One-Stop Employment Services program and $6.6 million for the Welfare to Work program. The One-Stop Employment Services program has a total appropriation of $24.4 million for FY 99. The Welfare to Work program has a total appropriation of $12 million for FY 99.

The lapse in the One-Stop Employment Services program is composed of two parts; program services and information systems. Due to the transition of the program from the Department of Social Services to the Department of Labor, the process of administering job-training services has been slower than anticipated. Because employment performance benchmarks are measured over 13-week periods, and contract payment is based upon performance, there tends to be a lag between the signing of a contract and payment for services. An estimated $1 million may lapse as a result.

An additional amount of approximately $3 million is also projected to lapse from this account. These are funds earmarked for the Information Processing System within the Department of Labor to be used to track the progress of individuals receiving employment services. The department has indicated that they are still in the process of defining the contract objectives and do not anticipate finalizing an information system contract until the end of the current fiscal year. These funds were appropriated in FY 98 and carried forward into FY 99.

The amount to be lapsed for this fiscal year for Employment Services could even be higher since expenditures for the first six months are only $5 million out of a $24 million appropriation.

For the Welfare to Work program, a lapse of $6.6 million is anticipated out of an appropriation of $12 million. This figure could go higher as only an amount of $2.2 million was spent during the first six months of FY 99. The agency may request several amounts to be carried forward into FY 00, which if approved, will reduce the potential lapse for FY 99.

Department of Public Health **$3,250,000**

It is anticipated that the Department of Public Health will end the current fiscal year with lapsing funds of approximately $3.3 million. This is primarily attributable to savings of $2.3 million under the Personal Services account due to delays in refilling staff; $680,000 under Other Expenses due to efficiencies in agency operation and an anticipated delay in completion of a vital records microfilming project; $150,000 to reflect historical under-utilization of funding under the state loan repayment program; and $120,000 in lapses under various other accounts due to delays in new program development.

Department of Social Services **$98,120,351**

The Department of Social Services, with a total available appropriation of $3,370.7 million, is estimated to lapse $98.1 million at the end of FY 99, which represents 2.9% of its budget. The most substantial portion of the lapse, $59 million, results from an unanticipated decline in Medicaid expenditures. A second significant area of potential surplus occurs in welfare expenditures. Spending for TANF cash assistance and childcare expenditures are less than budgeted amounts. Childcare has an estimated $16 million surplus, while cash assistance is $5.3 million below expected expenditures. Finally, enrollment in the state's health insurance program for children, HUSKY, has been less than projected, resulting in an estimated lapse of $10.6 million in the $22 million program.

The agency is projecting substantial shortfalls in two accounts -- Other Expenses and Data Processing -- though current spending trends indicate both will end the year within appropriated amounts. Current estimates, based upon six months of actual data and six months of forecasted data, do not warrant recognizing any shortfalls in these two accounts without further information.

Medicaid - $59,012,190

The Medicaid program, budgeted at $2,065.9 million, is estimated to lapse $59 million (2.8% of the total available appropriation). The Medicaid program covers a broad range of services including nursing home care, Medicare and managed care premiums, hospital services, home care, pharmacy, and physicians. The potential surplus in funds can be attributed to three areas: (1) fee-for service hospital expenditures; (2) managed care costs; and (3) nursing homes. These three areas account for $58 million of the $59 million surplus. The surplus would be even greater except that pharmacy spending is estimated at $8.6 million more than was initially appropriated.

The primary factor affecting spending in these three areas – hospital care, managed care, and nursing homes – is that the level of clients being served has either declined or not risen as forecasted. The monthly average number of clients served by nursing homes has dropped by 743 from FY 98 (20,852) to the first six months of FY 99 (20,109). Expenditure forecasts held the client population level from FY 98 to FY 99. Both inpatient and outpatient fee-for-service clients have dropped significantly during the same period and the cost per patient has remained steady. The last area, managed care, was forecasted to increase as a result of expanded outreach associated with the HUSKY program. While there has been growth in the client population served by managed care it has not been as great as had been expected. While the average monthly population is up by nearly 18,000 clients from FY 98 to FY 99, the projected expansion of the program was budgeted at a level greater than that resulting in an estimated $17 million surplus in the $386 million managed care program.

Overall, the growth of Medicaid spending has declined significantly over the past seven years, from 13.1% in FY 93 to 1.1% for FY 99. The rate of decline is the result of a number of factors, including both a leveling off of clients served and a reduction in medical price inflation.

HUSKY Program - $10,665,721

The HUSKY program is experiencing a significant surplus in its budget of $22 million. The surplus of $10.6 million is directly related to the level of enrollment being much less than anticipated based upon the estimated number of uninsured children in Connecticut. The program was initially budgeted to begin the fiscal year with 4,738 clients with 1,180 clients added each month. Actual data for the first six months indicates a level of enrollment far below the forecast. The fiscal year began with only 306 clients with approximately 330 being added each month. The current paid enrollment is 2,692 children, about a quarter of the expected enrollment of 10,000.

State Food Stamp Supplement - $4,000,000

The state established a Food Assistance Program for Legal Immigrants during the past legislative session. This program was intended to provide food stamp benefits for those immigrants who had been cut off from receiving federal benefits under the Personal Responsibility and Work Reconciliation Act (P.L. 104-193). The program established by the state estimated that approximately 4,500 individuals in Connecticut would be eligible for the new state benefit.

In June 1998, Congress acted to restore food stamp benefits to many of the legal immigrants who were excluded under P.L. 104-193. This restoration of federal benefits has resulted in the anticipated surplus of approximately $4 million (the full appropriation) in this account for FY 99.

Old Age Assistance - $1,500,000

Aid to the Disabled - $3,800,000

There is an anticipated surplus in each of these entitlement accounts due to slower than anticipated caseload growth during the first four months of the current fiscal year. In the Old Age Assistance program, the caseload was projected to average 7,681 cases per month in FY 99. However, based on the first six months of data, the caseload is now projected to average approximately 7,500 cases per month. This change, coupled with a lower cost per case, results in the projected $1.5 million surplus.

Similarly, the Aid to the Disabled account was anticipated to average 19,915 clients per month. This caseload is now projected to be 19,500 clients per month. Again, this change, coupled with a lower cost per case, results in the projected $3.8 million surplus.

Temporary Family Assistance - $5,300,000

The Temporary Family Assistance Program (TFA), (formerly Aid to Families with Dependent Children), has seen numerous changes in the past several years. Welfare reform efforts, at both the federal and the state levels, have resulted in a steadily declining caseload. The caseload has gone from more than 60,000 paid cases in 1996 to less than 39,000 currently. A projected surplus of $5.3 million is anticipated in the account in FY 99 due to a continued caseload decline that has, so far this year, been faster than anticipated in the budget.

State Administered General Assistance - ($2,000,000)

The State Administered General Assistance (SAGA) program is projected to have a shortfall of approximately $2 million in FY 99. This is primarily due to higher than anticipated costs for medical claims. The program was originally budgeted for $54.5 million in medical costs for FY 99. Year-to-date information indicates that a total of $57 million in medical expenditures will be incurred. This shortfall will be covered by a transfer of funds, via FAC, from an account with excess funds.

Child Care Services - $16,030,167

In FY 99 the department is projected to lapse $16 million of $151.5 million appropriated in the Child Care Services account due to lower than anticipated caseloads. The caseload for Job Connection Child Care, which serves those engaged in approved job training or job search activities, was projected at a monthly average of 561 cases for the period, yet is 40% lower than expected at an average of 308 cases. The largest segment of Child Care Services - Work Related Child Care - which serves those working while on time-limited assistance, is significantly below expected levels. Work Related Child Care was originally budgeted at a monthly average of 7,800 cases for the first half of the fiscal year, yet is 20% lower at an average of 6,108 cases for the period. However, the caseload for those who need child care after TANF expires and receive Transitional Child Care or Child Care Certificates is at projected levels. The lapse would be larger if it were not for slightly higher than budgeted costs per case in all areas of Child Care Services.

Department of Education $4,600,000

The Department of Education is estimated to lapse approximately one-quarter of one percent of its total budget, or $4.6 million. The overall lapse is the result of various lapses and shortfalls. The largest lapses occur in the Early Childhood account ($2.5 million) and the Magnet School grant program ($1.5 million) both due to lower than anticipated participation by eligible school districts.

General Fund Debt Service $12,000,000

The estimated $12 million lapse for total General Fund debt service is due to saving of $9.4 million for General Fund debt service and $2.6 million for UConn 2000 debt service.

The $9.4 million saving for General Fund debt service is mainly due to differences between assumed and actual dates of bond issuance and the interest rates at which bonds were issued. The differences in dates of issuance include: (1) an unscheduled General Obligation (GO) bond refunding in July 1998, (2) postponement of the August 1998 GO issue until October 1998, and (3) elimination the October 1998 issue for $100 million. The actual amount issued in October 1998 was $224.5 million at an interest rate of 5.25%, rather than the estimated $220 million at 6%.

The saving of $2.6 million for UConn 2000 debt service is due to two factors. First, the April 1998 GO issue was postponed until June 1998 and second, the actual interest rate for the issue was 5.39% rather than the estimated 5.5%.

II. FY 00 through FY 04 General Fund Budget Projections

Our analysis indicates a potential General Fund surplus of $68.4 million in FY 00 based on the spending cap expenditure level and potential shortfalls of $101.6 million in FY 01 and $137.9 million in FY 02 and potential surpluses of $157 million in FY 03 and $266.3 million in FY 04 based on current services expenditure levels (which are projected to be less than the spending cap expenditure levels from FY 01 through FY 04). The potential surplus in FY 00 is due primarily to increased revenue projections based on continued strong economic performance in the current fiscal year. The projections in this report are based on present law, existing policy commitments, and estimated caseload and workload requirements. Table A indicates the projected balances for the General Fund at the end of FY 00 through FY 04.

Revenues

Projected revenues reflect modest growth in collections for FY 00 through FY 04. The projections assume no significant downturn in Connecticut's economy but rather a slow down in the rate of growth in collections that has been experienced over the past four years. Included in the projections is the effect of previously enacted revenue changes. A listing of changes to General Fund revenue can be found on page 21. These have been revised to reflect FY 99 as the base year. Additionally, potential revenue from the Tobacco Settlement has not been included in our projections since finality has not been reached by the settling states. Therefore it is uncertain at this time when Connecticut might begin to receive its share of the settlement.

Expenditures

The FY 00 General Fund spending cap expenditure projection of $10,608.5 million represents a $580.3 million or 5.8% increase over FY 99 estimated expenditures of $10,028.2 million; the FY 01 projection (and those through FY 04 are based on current services) of $11,076.3 million represents a $467.8 million or 4.4% increase over the spending cap level for FY 00; the FY 02 projection of $11,477.2 million represents a $400.9 million or 3.6% increase over FY 01; the FY 03 projection of $11,912.4 million represents a $435.2 million or 3.8% increase over FY 02; and the FY 04 projection of $12,419.6 million represents a $507.2 million or 4.3% increase over FY 03.

The FY 00 through FY 04 General Fund expenditure projections have been developed by applying inflationary guidelines and other specific growth factors to the FY 99 expenditure level. The guidelines utilized reflect 4% in FY 00, FY 02, FY 03 and FY 04 and 5.5% in FY 01 for state employee salary increases (which include 2% in each year for annual increments and the balance for cost of living adjustments) and 2% in FY 00 and FY 01 and 3% from FY 02 through FY 04 for other accounts; however, each 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 projected major out-year changes can be found on Table D.

Under current law, implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 1999. The amounts for the FY 00 through FY 04 period include the operating budget impact of $37 million associated with GAAP conversion in FY 00 plus an additional $46.3

million for the amortization of the $694.3 million GAAP deficit over 15 years beginning in FY 01 for a total of $83.3 million for each of the 15 years. If GAAP were not implemented in FY 00, approximately $83.6 million (or $46.6 million more than the amount required under GAAP) would be required in that year to pay an additional state employee payroll which occurs approximately every 11 years. A normal fiscal year contains 26 biweekly payrolls; FY 00 will contain 27.

Current law also requires that the Teachers' Retirement account be funded at 100% of normal cost plus forty-year amortization of unfunded liabilities and our out-year amounts include funding at that level. If funding were maintained at the FY 1997-1999 biennium level of 85% (where it has been funded for several years), our figures could be reduced by $34.9 million in FY 00, $36.6 million in FY 01, $38.5 million in FY 02, $40.4 million in FY 03 and $42.4 million in FY 04.

The revenue figures also assume that the Mashantucket Pequot and Mohegan Fund will intercept $85 million in General Fund revenue in FY 00 through FY 04 (in lieu of the existing $135 million during each year of the FY 1997-1999 biennium) in accordance with the provisions of current law.

Although our FY 00 through FY 04 projections include savings for Statewide Agency Functional Consolidation based on the $50 million reduction included in the FY 99 budget, it is uncertain as to the manner in which these savings will be achieved. The administration's current target contract effective date is September 1, 1999. Although none of the $50 million in budgeted savings will be realized for FY 99, some level of savings could be achieved in FY 00 through FY 04 depending upon the terms of the final contract and its approval.

Our estimates do not include funding for the public housing unit grant program established by PA 98-263 (Section 15) because the level to be provided is not yet known.

The FY 00 and FY 01 figures in this report are based on our preliminary analysis of expenditure needs which will be further reviewed after the governor presents his budget recommendations during the coming weeks along with savings options. The FY 02 through FY 04 estimates are based on the latest available revenue and expenditure data and certain national and regional economic assumptions; however, there is a potential for significant changes to occur given that the period covered (July, 2001 through June, 2004) is almost 2 ½ to 5 ½ years into the future.

Table A
Preliminary Out-Year General Fund Revenue and Expenditure Projections [1]
FY 00-04 as of January 27, 1999
(in millions)

	Current Services [2]				
	FY 00	**FY 01**	**FY 02**	**FY 03**	**FY 04**
Revenue Projections Unadjusted for Tax Changes	$ 10,834.3	$ 11,164.3	$ 11,578.8	$ 12,339.0	$ 12,956.6
Revenue Changes	(157.4)	(189.6)	(239.5)	(269.6)	(270.7)
Current Services Revenues [3]	$ 10,676.9	$ 10,974.7	$ 11,339.3	$ 12,069.4	$ 12,685.9
Current Services Expenditures	$ 10,625.6	$ 11,076.3	$ 11,477.2	$ 11,912.4	$ 12,419.6
Spending Cap Expenditures [4]	$ 10,608.5	$ 11,156.1	$ 11,615.9	$ 12,028.7	$ 12,513.2
Spending Reductions Necessary/(Not Necessary) for Cap Compliance	$ 17.1	$ (79.8)	$ (138.7)	$ (116.3)	$ (93.6)
Current Services Revenues Less Spending Cap Expenditures - Potential Surplus/(Gap)	$ 68.4	$ (181.4)	$ (276.6)	$ 40.7	$ 172.7
Current Services Revenues Less Current Services Expenditures - Potential Surplus/(Gap)	$ 51.3	$ (101.6)	$ (137.9)	$ 157.0	$ 266.3

[1] It should be noted that the FY 00 and FY 01 figures in this report are based on our preliminary analysis of expenditure needs which will be further reviewed after the Governor presents his budget during the coming weeks along with savings options. The FY 02 through FY 04 figures are based on the latest available revenue and expenditure data and certain national and regional economic assumptions; however, there is a potential for significant changes to occur given that the period covered (July, 2001 through June, 2004) is almost 2 ½ to 5 ½ years into the future.

[2] Expenditure figures reflect net costs associated with implementation of Generally Accepted Accounting Principles (GAAP) effective 7/1/99. The revenue figures assume that the Mashantucket Pequot and Mohegan Fund will intercept $85 million in General Fund revenue from FY 00 through FY 04 (in lieu of the existing $135 million during each year of the FY 97-99 biennium) in accordance with the provisions of current law. Although our FY 00 and FY 01 projections include savings for Statewide Agency Functional Consolidation based on the $50 million reduction included in the FY 99 budget, it is uncertain as to the manner in which these savings will be achieved. Our estimates do not include funding for the public housing unit grant program established by PA 98-263 (Section 15) because the level to be provided is not yet known.

[3] Additional, potential revenue from the Tobacco Settlement has not been included in our projections since finality has not been reached by the settling states at this time.

[4] The Spending Cap is normally calculated based on all funds. For purposes of this analysis, an estimate was made for the General Fund alone.

Table B
OFA General Fund Revenue Estimates
as of January 27, 1999
(in thousands)

	Actual FY 98	Growth Rate % [1]	OFA FY 99 Estimate	Growth Rate % [1]	OFA FY 00 Estimate	Growth Rate % [1]	OFA FY 01 Estimate	Growth Rate % [1]	OFA FY 02 Estimate	Growth Rate % [1]	OFA FY 03 Estimate	Growth Rate % [1]	OFA FY 04 Estimate
Taxes													
Personal Income	$3,596,200	9.6	$3,834,100	5.1	$4,012,500	4.6	$4,193,700	5.0	$4,400,200	6.6	$4,690,600	6.7	$5,004,900
Sales and Use	2,772,100	5.9	2,898,000	5.6	3,030,200	5.5	3,166,700	5.6	3,312,300	5.5	3,460,800	6.0	3,662,200
Corporations	663,700	2.6	633,000	4.7	564,500	4.2	529,200	5.3	516,200	5.3	743,000	4.8	779,000
Inheritance and Estate	279,200	(5.1)	238,000	4.0	196,300	4.0	181,000	4.0	153,800	4.0	153,200	4.0	144,700
Hospital Gross Receipts	140,900	(1.2)	122,600	(2.2)	102,800	0.0	97,800	0.0	97,800	0.0	97,800	0.0	97,800
Public Service Corporations	170,400	(2.0)	166,900	2.1	170,300	2.0	173,500	2.0	177,000	4.3	184,600	4.3	192,500
Insurance Companies	192,800	0.4	190,000	4.1	196,300	5.1	206,300	5.2	216,900	5.0	227,700	5.0	239,100
Cigarettes	127,200	(3.4)	122,900	(2.5)	119,800	(2.5)	116,800	(2.5)	113,900	(2.5)	111,100	(2.5)	108,300
Oil Companies	61,900	(2.7)	36,600	2.1	32,300	5.4	33,800	6.2	35,700	6.4	38,000	7.3	40,800
Real Estate Conveyance	93,600	2.5	96,000	(2.6)	93,500	2.0	95,400	2.0	97,300	2.0	99,200	2.0	101,200
Alcoholic Beverages	39,800	(0.2)	39,700	0.0	39,700	0.0	39,700	0.0	39,700	0.0	39,700	0.0	39,700
Miscellaneous	28,000	(5.7)	26,400	3.5	27,300	3.5	28,300	3.5	29,300	4.0	30,500	4.0	31,700
Admissions, Dues and Cabaret	25,000	5.4	26,400	2.0	26,900	2.0	27,400	2.0	27,900	2.0	28,500	2.0	29,100
Total Taxes	**$8,190,800**		**$8,430,600**		**$8,612,400**		**$8,889,600**		**$9,218,000**		**$9,904,700**		**$10,471,000**
Refunds of Taxes	(580,800)		(678,200)		(706,500)		(716,000)		(726,000)		(736,000)		(746,000)
Net General Fund Taxes	**$7,610,000**		**$7,752,400**		**$7,905,900**		**$8,173,600**		**$8,492,000**		**$9,168,700**		**$9,725,000**
Other Revenue													
Transfer Special Revenue	267,300		275,400		250,400		252,900		255,400		257,900		260,500
Indian Gaming Payments	257,600		290,000		306,500		313,000		316,100		319,200		322,400
Licenses, Permits and Fees	123,200		120,200		120,000		117,000		120,000		117,000		120,000
Sales of Commodities and Services	29,500		29,000		32,000		32,000		32,000		32,000		32,000
Rentals, Fines and Escheats	37,100		35,000		35,000		35,900		35,900		35,900		36,800
Investment Income	54,700		66,000		70,000		55,000		55,000		55,000		55,000
Miscellaneous [2]	118,400		110,000		109,000		118,600		109,000		109,000		109,000
Total Other Revenue	**$887,800**		**$925,600**		**$922,900**		**$924,400**		**$923,400**		**$926,000**		**$935,700**
Other Sources													
Federal Grants	1,824,600		1,920,100		1,933,100		1,961,700		2,008,900		2,059,700		2,110,200
Net Statutory Transfers From Other Funds	(180,000)		(90,000)		(85,000)		(85,000)		(85,000)		(85,000)		(85,000)
Total Other Sources	**$1,644,600**		**$1,830,100**		**$1,848,100**		**$1,876,700**		**$1,923,900**		**$1,974,700**		**$2,025,200**
Total Revenue [3]	**$10,142,400**		**$10,508,100**		**$10,676,900**		**$10,974,700**		**$11,339,300**		**$12,069,400**		**$12,685,900**

[1] Tax growth rates reflect adjustments for rate and base changes.
[2] Reflects the removal of $50 million in one-time revenue anticipated from the sale of loans to CHFA.
[3] Revenue from the Tobacco Settlement has not been included.

Table C
General Fund Revenue Changes from FY 00 to FY 01-04

Described below are public acts that will affect revenue collections between FY 00 and FY 04. Each entry includes the public act number(s) that enacted the change, a brief description, and the estimated revenue impact. Changes with revenue impacts of less than $0.1 million are not included in the list. The revenue impact listed for each item is the amount expected to occur using FY 99 as the base year.

Public Act #	Description	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Income						
95-160, 97-309 & 97-322	Reduce rate from 4.5% to 3%: Filer 1/1/96 1/1/97 1/1/98 1/1/99 Joint 9,000 12,500 15,000 20,000 H.of H. 7,000 10,000 12,000 16,000 Single 4,500 6,250 7,500 10,000	(17.0)	(17.0)	(17.0)	(17.0)	(17.0)
95-160, 97-309 97-322 & 98-110	Property Tax Credit on taxes paid on residence or car: Effective Max Credit 1/1/96 $100 1/1/97 $215 1/1/98 $350	(12.0)	(12.0)	(12.0)	(12.0)	(12.0)
	Subtotal Personal Income Tax	**(29.0)**	**(29.0)**	**(29.0)**	**(29.0)**	**(29.0)**
Sales and Use						
94-4 & 95-160	Phase out tax on computer and data processing services, beginning 7/1/97.	(14.5)	(30.3)	(47.4)	(65.4)	(65.4)
98-110	Exempts: newspapers, trade-ins, coupons, discounts, deposits (7/1/98), repair and replacement parts, (1/1/99).	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
98-110	Transfers sales tax collected by DMV on motor vehicle sales between individuals to the Transpiration Fund.	(10.0)	(20.0)	(30.0)	(40.0)	(40.0)
98-28	Electric distribution companies must provide all customers their service areas a standard offer option from 1/1/00 to 1/1/04 that is at least 10% below the approved rate on 12/1/96.	(1.7)	(3.4)	(3.4)	(3.4)	(3.4)
	Subtotal Sales Tax	**(29.4)**	**(56.9)**	**(84.0)**	**(112.0)**	**(112.0)**
Corporation Business						
93-74 & 95-160	Net income base rate reductions	(50.7)	(50.7)	(50.7)	(50.7)	(50.7)
93-74 & 94-4	Reduce interest rate on underpayments	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)

Public Act #	Description	FY 00	FY 01	FY 02	FY 03	FY 04
96-175	S-corp net income phase out	(4.0)	(9.0)	(15.0)	(15.0)	(15.0)
92-193 & 93-74	Job training credit phase-in	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
93-382, 94-4, 95-160 & 96-144	Capital goods credit for small and medium-sized firms, effective for 1997 income year.	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
94-4 & 95-160	Clean Air Act credit, effective for 1997 income year.	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
97-283	Permit S Corporations to take tax credits in conjunction with the phase-out of the tax.	(0.9)	(0.5)			
97-295	Fixed Capital Investment Credit. Phase in - 3% for 1998, 4% for 1999, and 5% for 2000 and after.	(5.5)	(7.6)	(9.3)	(9.3)	(9.3)
97-295	Human Capital Investment Credit. Phase in - 3% for 1998, 4% for 1999, and 5% for 2000 and after.	(1.4)	(2.0)	(2.4)	(2.4)	(2.4)
97-295	Construction Trades Apprenticeship Credit.	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
97-295	Repeal of Home Grown Cattle deduction and the following credits: Air Pollution, Industrial Waste, Work Education, Employee Training, and New Facilities.	4.4	4.5	4.5	4.5	4.5
98-110	Provides for single factor apportionment formula for financial services companies and excludes financial services companies from the capital base.	2.2	2.2	2.2	2.2	2.2
98-110	Establishes an exemption for Passive Investment Companies (PICs).	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
98-110	Exempts domestic insurers from the tax.	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
98-110	Restricts the deductibility of certain intangible expenses and certain interest expenses with a related member.	6.8	6.8	6.8	6.8	6.8
98-110	Extends the carry-forward for up to 15 years, of the research and experiment credit to any corporation.	-	(3.8)	(3.9)	(4.0)	(4.1)
98-110	Extends the 6% research and development credit to qualified small business, defined as firms with a gross income of under $100 million.	-	(1.2)	(3.0)	(5.0)	(6.0)
98-244	Exempts tax payments under the minimum tax and and capital base for S-Corporations.	-	-	(3.5)	(3.5)	(3.5)
	Subtotal Corporation Tax	**(62.1)**	**(74.4)**	**(87.4)**	**(89.5)**	**(90.6)**

Public Act #	Description	FY 00	FY 01	FY 02	FY 03	FY 04
Estate and Inheritance						
95-298	Phase out tax beginning 1/1/97	(37.9)	(58.6)	(88.3)	(99.3)	(160.0)
Insurance Premiums Tax						
98-110	Exempting domestic insurers from the Corporation Business Tax increases the Premiums Tax on small companies, who no longer will be able to credit 80% of the Corporation Tax against the Premiums Tax.	0.5	0.5	0.5	0.5	0.5
98-110	Eliminates the tax on policies written for Medicaid, HUSKY, and manage care contacts to serve clients in the General Assistance program.	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
	Subtotal Insurance Premiums Tax	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**	**(1.5)**
Public Service Companies						
96-205	Phase out tax on steam	**(0.3)**	**(0.5)**	**(0.7)**	**(0.7)**	**(0.7)**
Oil Companies						
97-281	Phase out tax on fuel used in interstate vessels and #6 fuel oil used by industrial firms.	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)
97-309	Transfer revenues generated from tax on petroleum products to Transportation Fund.	(16.0)	(16.0)	(16.0)	(16.0)	(16.0)
	Subtotal Oil Companies	**(16.2)**	**(16.4)**	**(16.4)**	**(16.4)**	**(16.4)**
Hospital Gross Receipts						
96-144	Decrease 11% rate to 9.25% 10/96, 8.25% 10/97, 7.25% 10/98, 6.25% 10/99	**(15.8)**	**(20.8)**	**(20.8)**	**(20.8)**	**(20.8)**
Licenses, Permits and Fees						
98-233	Fee established for all construction in the state at 16 cents per $1,000 of construction value.	0.3	0.3	0.3	0.3	0.3
Miscellaneous Revenue						
98-237	Delays repayment of loan made to the Connecticut Interlocal Risk Management Agency (CIRMA) until July 1, 2000.	(3.4)	9.6			
	Total	**(157.4)**	**(189.6)**	**(239.5)**	**(269.6)**	**(270.7)**

Table D
Agencies and Accounts with Projected Major Out-Year Changes

	FY 99	FY 00			FY 01			FY 02			FY 03			FY 04		
Agency or Account	**Est.**	**Est.**	**$ Inc.**	**% Inc.**	**Est.**	**$ Inc.**	**% Inc.**	**Est.**	**$ Inc.**	**% Inc.**	**Est.**	**$ Inc.**	**% Inc.**	**Est.**	**$ Inc.**	**% Inc.**
Dept. of Public Safety	$101.0	$119.4	$18.4	18.2%	$125.1	$5.7	4.8%	$129.8	$4.7	3.8%	$134.8	$5.0	3.9%	$140.0	$5.2	3.9%
Dept. of Mental Retardation	580.0	600.7	20.7	3.6%	625.1	24.4	4.1%	650.1	25.0	4.0%	675.9	25.8	4.0%	702.6	26.7	4.0%
Dept. of Mental Health and Addiction Services	253.6	271.1	17.5	6.9%	283.2	12.1	4.5%	297.8	14.6	5.2%	313.0	15.2	5.1%	328.7	15.7	5.0%
Medicaid	2,006.9	2,108.1	101.2	5.0%	2,181.9	73.8	3.5%	2,258.3	76.4	3.5%	2,337.3	79.0	3.5%	2,419.1	81.8	3.5%
All Other Dept. of Social Services	1,243.8	1,284.4	40.6	3.3%	1,272.1	(12.3)	-1.0%	1,274.3	2.2	0.2%	1,292.2	17.9	1.4%	1,310.9	18.7	1.4%
Education Cost Sharing	1,299.4	1,332.0	32.6	2.5%	1,364.0	32.0	2.4%	1,394.0	30.0	2.2%	1,435.8	41.8	3.0%	1,478.9	43.1	3.0%
All Other Dept. of Education	379.6	407.2	27.6	7.3%	431.9	24.7	6.1%	444.8	12.9	3.0%	458.2	13.4	3.0%	471.9	13.7	3.0%
Teachers' Retirement Conts.	188.3	232.6	44.3	23.5%	244.3	11.7	5.0%	256.5	12.2	5.0%	269.3	12.8	5.0%	282.8	13.5	5.0%
Dept. of Correction	413.3	452.8	39.5	9.6%	472.2	19.4	4.3%	489.4	17.2	3.6%	507.3	17.9	3.7%	525.9	18.6	3.7%
Dept. of Children and Families	396.9	432.9	36.0	9.1%	447.5	14.6	3.4%	462.7	15.2	3.4%	478.4	15.7	3.4%	494.7	16.3	3.4%
Judicial Dept.	243.8	256.3	12.5	5.1%	267.0	10.7	4.2%	276.7	9.7	3.6%	286.8	10.1	3.7%	297.2	10.4	3.6%
Debt Service	838.3	949.9	111.6	13.3%	1,020.4	70.5	7.4%	1,085.4	65.0	6.4%	1,143.6	58.2	5.4%	1,258.5	114.9	10.0%
St. Empl. Retirement Conts.	199.3	227.0	27.7	13.9%	248.6	21.6	9.5%	273.5	24.9	10.0%	300.8	27.3	10.0%	330.9	30.1	10.0%
St. Empl. Health Costs	179.0	214.8	35.8	20.0%	229.5	14.7	6.8%	245.3	15.8	6.9%	262.2	16.9	6.9%	280.2	18.0	6.9%
Retired St. Empl. Health Costs	130.9	163.6	32.7	25.0%	174.8	11.2	6.8%	186.8	12.0	6.9%	199.6	12.8	6.9%	213.4	13.8	6.9%
Generally Accepted Acct. Principles	-	37.0	37.0	NA	83.3	46.3	125.1%	83.3	-	0.0%	83.3	-	0.0%	83.3	-	0.0%
Agency Statewide Func. Consol.	-	(50.0)	(50.0)	NA	(50.0)	-	0.0%	(50.0)	-	0.0%	(50.0)	-	0.0%	(50.0)	-	0.0%
Totals - Above Ags. and Accts.	8,454.1	9,039.8	585.7	6.9%	9,420.9	381.1	4.2%	9,758.7	337.8	3.6%	10,128.5	369.8	3.8%	10,569.0	440.5	4.3%
All Others - Net	1,574.1	1,568.7	(5.4)	-0.3%	1,655.4	86.7	5.5%	1,718.5	63.1	3.8%	1,783.9	65.4	3.8%	1,850.6	66.7	3.7%
Total Budget	**$10,028.2**	**$10,608.5**	**$580.3**	**5.8%**	**$11,076.3**	**$467.8**	**4.4%**	**$11,477.2**	**$400.9**	**3.6%**	**$11,912.4**	**$435.2**	**3.8%**	**$12,419.6**	**$507.2**	**4.3%**

III. Transportation Fund

Fiscal Year 1999

The Office of Fiscal Analysis (OFA) projects an operational surplus of $34.1 million for the Transportation Fund by June 30, 1999. This is primarily due to revenues that are $21.4 million higher and expenditures that are $15.6 million lower than originally anticipated. In accordance with PA 97-309, a fund balance of $20 million from the cumulative surplus must be maintained. The difference is used for debt retirement. These estimates could change due to various factors such as the severity of the winter season and its impact on the Snow and Ice Removal budget. (Please refer to the FY 99 Transportation Fund Summary on page 27).

Revenues

Transportation Fund revenue is estimated at $830.1 million, which is an increase of $21.4 million over budget act estimates. The motor fuel tax estimate has been increased by $16 million. Year-to-date collections are up by 3.4% over last year, and are higher than the budget act estimate of 1%. The strength in collections can be attributed to an increase in demand resulting from a drop in gasoline prices compared to last year.

The increase in revenue from licenses, permits and fees of $6 million is primarily due to an increase in court fees/fines over last year. (Please refer to the Transportation Fund Revenue Schedule on page 28).

Expenditures

Due to a Debt Service lapse, estimated expenditures for the Transportation Fund are $796 million or $15.6 million lower than the originally budgeted amount of $811.6 million.

The Debt Service lapse of $15.6 million has two components. First, the Treasurer's Office used $9.7 million of the FY 97 Transportation Fund surplus to pay debt service due in FY 99. This action permitted $9.7 million to become part of the FY 99 estimated lapse. Second, the remaining $5.9 million is due to differences between assumed and actual dates of bond issuance and the interest rates at which bonds were issued. The differences in dates of issuance include postponement of the $100 million spring 1998 Special Tax Obligation (STO) issue until the fall of 1998, issuance of the planned $125 million fall 1998 STO bonds one month early, and the elimination of the $100 million spring 1999 issue. The actual interest rate for the $225 million issued in the fall of 1998 was 4.67% rather than the 6.25% estimated for the spring and fall 1998 issues.

The appropriations for the two new programs in the Department of Transportation, that is, Tweed-New Haven Airport Improvements, ($600,000) and Dial-A-Ride, ($2.5 million), are expected to be committed and expended by the end of the fiscal year.

The budget act savings of $10 million associated with estimated unallocated lapses are anticipated to be achieved by June 30, 1999.

Out-Year Projections

Our projections for the Transportation Fund indicate operating surpluses through FY 04. The positive outlook is due partly to an improved revenue projection resulting from the revised higher base for FY 99. The other factor is the assumption of the use of fund balances in excess of $20 million for STO debt service. The provisions of Section 3 of PA 97-309 require the treasurer to use any ending balance in the fund exceeding $20 million to reduce future debt service by (1) redeeming outstanding bonds before their maturity, (2) buying the bonds on the open market, (3) transferring funds to an escrow account to retire bonds when they mature, (4) paying debt service in a following fiscal year, or any combination of (1) through (4). Because the treasurer has not chosen options (1), (2) or (3), but has chosen option (4) for FY 99, our projections have assumed option (4) for FY 00 through FY 04.

It should be noted that the state is required by the bond indenture to provide revenues in each fiscal year equal to two times the debt service on STO bonds. Our projections indicate that the amount by which the state would exceed this requirement declines from $157.1 million in FY 99 to $61.2 million in FY 04.

The projections are based on current estimates for FY 99 and OFA projections. The projections include a modest level of inflation in the out years. They have been modified to reflect the transfer into the General Fund of the Highway Motor Patrol program in FY 99 and its associated fringe benefits beginning in FY 00. In addition, based on the requirements of existing law, out-year projections include funds for three new programs in the Department of Motor Vehicles' budget, namely, (1) Vision Screening, (2) Social Security Numbers on Registrations and (3) Anatomical Donations. FY 00 and FY 01 funding for these three new programs is projected to be as follows:

Program	**FY 00**	**FY 01**
Vision Screening	$ 250,000	$ 250,000
Social Security Numbers on Registrations	350,000	350,000
Anatomical Donations	400,000	-
Total	**$ 1,000,000**	**$ 600,000**

As stated above, a modest inflationary increase has been applied to Vision Screening and Social Security Numbers on Registrations into the out years. A one-time appropriation is anticipated for Anatomical Donations.

The cumulative balance has been adjusted to reflect the use of Transportation Fund balances in excess of $20 million for debt retirement, as provided in Section 3 of PA 97-309. The Debt Service out-year projections are based on an average issuance of $200 million in Special Tax Obligation (STO) bonds per year at a 5.5% to 6% interest rate in FY 00 and 6.25% in FY 01 through FY 04. The projections also assume that no additional Transportation General Obligation bonds will be issued.

The out-year revenue projections for the motor fuels tax and other revenue sources of the Transportation Fund are based primarily on historical growth rates and trends. The projections also reflect the increase in the transfer of the Petroleum Products Tax to the Transportation Fund of an additional $16 million beginning in FY 00 and the portion of sales tax collected by the Department of Motor Vehicles that will be deposited into the fund each year beginning in FY 00. (Please refer to the schedule of Transportation Fund Revenues on page 30).

Please note that OFA assumes the implementation of Generally Accepted Accounting Principles (GAAP), effective July 1, 1999.

FY 99 Transportation Fund Summary
as of January 27, 1999
(in millions)

	Budget Plan	Increases (Decreases)	Revised Estimates
Revenues			
Taxes	$ 490.4	$ 15.4	$ 505.8
Other Revenue	318.3	6.0	324.3
Total Revenue	**$ 808.7**	**$ 21.4**	**$ 830.1**
Appropriations			
Original Appropriations - Gross	$ 821.6	$ -	$ 821.6
Less:			
Unallocated Lapses	(10.0)	-	(10.0)
Debt Service Estimated Lapse	-	(15.6)	(15.6)
Total Estimated Expenditures	**$ 811.6**	**(15.6)**	**$ 796.0**
Projected Surplus from Operations for FY 99	**$ (2.9)**	**$ 37.0**	**$ 34.1**
Required Fund Balance (per Section 3, PA 97-309)	**20.0**	**-**	**20.0**
Cumulative Surplus as of June 30, 1999	**$ 17.1**	**$ 37.0**	**$ 54.1**

FY 99 Transportation Fund Revenue
as of January 27, 1999
(in thousands)

	FY 99 Budget Plan	OFA Over/(Under) Budget Plan	FY 99 OFA Estimate
Taxes			
Motor Fuels Tax	$ 476,000	$ 16,000	$ 492,000
Petroleum Products Tax	20,000	-	20,000
Refunds of Taxes	(5,600)	(600)	(6,200)
Total Taxes Less Refunds	**$ 490,400**	**$ 15,400**	**$ 505,800**
Other Sources			
Motor Vehicle Receipts	177,000	-	177,000
Licenses, Permits and Fees	104,000	6,000	110,000
Interest Income	35,000	-	35,000
Federal Grants (FTA)	2,800	-	2,800
Transfer to Conservation Fund	(500)	-	(500)
Total Other Sources	**$ 318,300**	**$ 6,000**	**$ 324,300**
Total Revenue	**$ 808,700**	**$ 21,400**	**$ 830,100**

Preliminary Transportation Fund Revenue and Expenditure Projections
FY 99 - FY 04 as of February 5, 1999
(in millions)

	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Projected Revenues						
Motor Fuels Tax, Motor Vehicle Receipts, and Licenses, Permits, and Fees	779.0	786.8	794.6	802.4	810.2	818.0
Sales Tax - Department of Motor Vehicle payments	-	10.0	20.0	30.0	40.0	40.0
Petroleum Companies Gross Earnings	20.0	36.0	36.0	36.0	36.0	36.0
Federal Transportation Administration	2.8	2.5	2.5	2.5	2.5	2.5
Interest Income	35.0	36.0	37.0	37.0	37.0	37.0
Transfer to Conservation Fund	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Subtotal: Projected Revenues	836.3	870.8	889.6	907.4	925.2	933.0
Less: Refunds of Taxes	(6.2)	(6.3)	(6.3)	(6.3)	(6.4)	(6.4)
Total Net Revenues	830.1	864.5	883.3	901.1	918.8	926.6
Projected Expenses						
Agency Operating Expenses						
Department of Transportation Budgeted Expenses	308.0	314.9	324.3	334.4	344.5	354.8
Non-bonded highway and bridge projects	14.2	14.6	14.6	15.0	15.5	16.0
Airport PILOT	0.9	0.3	-	-	-	-
Subtotal: Department of Transportation Operating Expenses	323.1	329.8	338.9	349.4	360.0	370.8
Department of Motor Vehicle Budgeted Expenses	45.6	47.7	49.3	51.2	53.0	55.0
Fringe Benefits	60.8	60.0	63.4	67.3	71.7	76.3
Reserve for Salary Adjustment	1.1	0.4	0.4	0.4	0.4	0.4
Other Budgeted Expenses	3.9	3.9	3.9	4.0	4.1	4.1
GAAP Implementation	-	1.0	1.0	1.0	1.0	1.0
Subtotal: Operating Expenses	434.5	442.8	456.9	473.3	490.2	507.6
Debt Service Expenditures						
STO Debt Service	336.5	354.6	378.1	393.5	409.3	432.7
GO Debt Service	44.7	31.4	29.2	21.0	17.3	13.7
Total Debt Service	381.2	386.0	407.3	414.5	426.6	446.4
Less: Debt Service from surplus [1]	(9.7)	(31.4)	(34.1)	(79.2)	(67.3)	(108.5)
Subtotal: Net Debt Service Expenditures	371.5	354.6	373.1	335.3	359.3	337.9
Less: Estimated Lapse	(10.0)	(12.0)	(14.0)	(16.0)	(18.0)	(20.0)
Total Net Expenditures	796.0	785.4	816.0	792.6	831.5	825.5
Projected Surplus - Future Debt Service Payments	34.1	79.2	67.3	108.5	87.4	101.2
Cumulative Projected Surplus	54.1	99.2	87.3	128.5	107.4	121.2
(Includes $20 million fund balance from prior year)						
Required Fund Balance	20.0	20.0	20.0	20.0	20.0	20.0
Debt Service Coverage Ratio [2]	2.5	2.4	2.3	2.3	2.2	2.1

[1] Section 3 of PA 97-309 requires the Treasurer to use any ending balance of the Transportation Fund in excess of $20 million to reduce future debt service. The FY 99 debt service figures reflect the Treasurer's use of the FY 97 surplus ($9.7 million) in that year. Our estimates assume that surplus balances will be used in the fiscal year following the year in which the actual amount is certified by the Comptroller. Thus, the FY 00 estimate assumes that the FY 98 surplus ($31.4 million) will be used in that year; the FY 01 estimate assumes that the projected FY 99 surplus ($34.1 million) will be used in that year, and so on through FY 04.

[2] The state is required by the bond indenture to provide revenues in each fiscal year equal to two (2) times the debt service on STO bonds. Our projections indicate that the amount by which the state would exceed this requirement declines from $157.1 million in FY 99 to $62.1 million in FY 04.

Transportation Fund Revenues
FY 98 through FY 04
as of January 27, 1999
Based on Current Law
(in thousands)

	Actual FY 98	Estimated FY 99	Estimated FY 00	Estimated FY 01	Estimated FY 02	Estimated FY 03	Estimated FY 04
Taxes							
Motor Fuels Tax	$530,600	$492,000	$497,000	$502,000	$507,000	$512,000	$517,000
Petroleum Products Tax	-	20,000	36,000	36,000	36,000	36,000	36,000
Sales Tax -Department of Motor Vehicle Payments	-	-	10,000	20,000	30,000	40,000	40,000
Refunds of Taxes	(6,700)	(6,200)	(6,300)	(6,300)	(6,300)	(6,400)	(6,400)
Total Taxes Less Refunds	**$523,900**	**$505,800**	**$536,700**	**$551,700**	**$566,700**	**$581,600**	**$586,600**
Other Sources							
Motor Vehicle Receipts	$186,000	$177,000	$178,800	$180,600	$182,400	$184,200	$186,000
Licenses, Permits and Fees	107,700	110,000	111,000	112,000	113,000	114,000	115,000
Interest Income	35,400	35,000	36,000	37,000	37,000	37,000	37,000
Federal Grants (FTA)	3,100	2,800	2,500	2,500	2,500	2,500	2,500
Release from Debt Service	3,000	-	-	-	-	-	-
Transfer to Conservation Fund	(250)	(500)	(500)	(500)	(500)	(500)	(500)
Total Other Sources	**$334,950**	**$324,300**	**$327,800**	**$331,600**	**$334,400**	**$337,200**	**$340,000**
Total Revenue	**$858,850**	**$830,100**	**$864,500**	**$883,300**	**$901,100**	**$918,800**	**$926,600**