General Fund
and Transportation Fund
Budget Projections
FY 00 – FY 04

Connecticut General Assembly
Office of Fiscal Analysis
February 8, 2000

Report Highlights

- **FY 00 General Fund surplus** has grown by $182.7 million from the $64.4 million originally budgeted to **$247.1 million.** See pages 3 – 18 for details.

- Degree to which the FY 00 – FY 03 budgets remain under the **Spending Cap** depends upon the magnitude of budgetary changes and whether they are made during the 2000 or 2001 legislative session. See page 19 for details.

- **FY 01 General Fund surplus** has grown by $124.6 million from the $4.8 million originally budgeted to **$129.4 million**, based on making budget revisions to reflect current services requirements. See pages 20 – 23 for details.

- **General Fund shortfalls of $87.7 million in FY 02, $153.9 million in FY 03 and $311.6 million in FY 04** would result, assuming budget revisions are made to reflect current services requirements. See pages 21 and 23 – 25 for details.

- **FY 00 Transportation Fund operating surplus** has grown by $39.5 million from the $52.9 million originally budgeted to **$92.4 million.** See pages 26, 27 and 29 – 32 and 34 for details.

- **Transportation Fund operating surplus declines from $52.2 million in FY 01 to $17.4 million in FY 04.** See pages 27, 28, and 32 – 34 for details.

General Fund and Transportation Fund Budget Projections

(as of February 8, 2000)

I. FY 00 General Fund

Our projections for the fiscal year ending June 30, 2000 indicate the **potential net surplus has grown** by $182.7 million from the $64.4 million originally budgeted **to $247.1 million** (which represents 2.3% of the original budget). The $182.7 million increase is based on revised **estimated revenues** that **are $276 million above the budget act estimates** and **estimated expenditures** that **are $93.3 million higher than original net appropriations.** While the projected General Fund surplus is $247.1 million, **there is a potential for reductions to this estimate to the degree that certain account balances, that would otherwise lapse, are authorized to be carried forward into FY 01.** The provisions for additional carry forwards has been a common occurrence in the past, and most likely the governor's mid-term budget adjustments will contain a number of them. If they are approved by the legislature, a downward adjustment to the projected surplus will occur. It has been OFA's policy to base lapse estimates on current law, rather than attempt to anticipate which accounts may be requested (and approved) to be carried forward.

For example, our projections anticipate that the Department of Labor (DOL) will lapse $10.1 million in the Welfare-to-Work Grant program and $8.2 million in the Jobs First Employment Services program and that the Office of Health Care Access (OHCA) will not spend the $8 million appropriated from FY 99 surplus for the Distressed Hospitals Loan program. It should also be noted that our projections do not include any additional funding for the UConn Health Center. If either the DOL or OHCA funding is carried forward rather than lapsed, or if additional funding is provided to the Health Center, our projected surplus would be reduced.

Revenues

A net increase in General Fund revenue of $276 million results primarily from an increase in (1) the personal income tax, (2) sales tax, (3) inheritance and estate tax, (4) oil companies tax, (5) real estate conveyance tax, (6) Indian gaming payments, (7) federal grants, and a decrease in (8) the corporation business tax.

(1) The **income tax** estimate is $175.4 million above budget plan projections: $130.4 million as a result of higher collections and $45 million from lower-than-anticipated refunds. The revision in the estimate is due to the following factors:

a) Withholding taxes through January exceeded estimates: collections grew at 8.6% while the budget plan projected 7.3% growth. Therefore collections have been revised upward by $35 million over the budget plan estimate.

b) Estimated payments through January exceeded projections: collections grew by 4.2% while the budget plan projected no growth. Fourth quarter estimates, due by January 15th, were the primary reason why actual collections exceeded projections though the first half of the fiscal year. Actual payments in December and January exceeded estimates by $32 million. A drop in the stock market in August and September followed by strong growth in the fourth quarter, especially in the Nasdaq, fueled capital gain income during this period.

c) Final payments have been increased by $63 million over budget plan estimates due to the strength of 1999 estimated payments. Historically, higher estimated payments have equaled higher final payments. Therefore, since estimated payments are above budget plan estimates, final payments due by April 2000 have been increased over the budget plan.

d) Refunds have been reduced by $45 million to reflect that total tax liability for 1999 is expected to be greater than anticipated compared to the budget plan estimates. Actual receipts and projected higher final payments signal that taxpayer's liability will be greater than original projections, which is anticipated to result in lower refund payments. Also, since FY 99 refunds were less than originally estimated at the time when the 1999-2001 biennial budget was enacted, a corresponding adjustment has been made to FY 00 refunds.

(2) The **sales tax** estimate is $24.4 million above budget plan estimates. The revised estimates reflect year-to-date collections, which are running ahead of estimates by $10 million. It is projected that this higher level of sales activity will continue through the end of the fiscal year.

(3) The increase in the **inheritance and estate tax** of $32.3 million is due to year-to-date collections. Year-to-date collections continue to support the assumption that the growth in the value of estates caused by increasing stock portfolios and other assets such as housing prices is negating the anticipated revenue loss from the elimination of the tax on lower valued estates.

(4) The **oil companies' tax** has been increased by $12 million to reflect year-to-date collections. Collections have been stronger this year because oil prices have doubled compared to a year ago.

(5) The increase in **the real estate tax** of $9.8 million is due to the growth in housing activity and rise in prices. Compared to 1997 figures, housing permits have increased by 1,400 in each of the last two years and real estate prices grew by 5.5% in 1999.

(6) **Indian gaming payments** have been increased by $13.3 million based on year-to-date payments that are up by $6.8 million ($4.6 million for Foxwoods and $2.2 million for Mohegan Sun).

(7) **Federal Grants** have grown by $32 million as a result of increased state expenditures for programs reimbursed through a federal match. Two programs, Medicaid services and foster care payments, account for $28 million of the total.

(8) The **corporation business tax** is down $53.3 million: $23.3 million as a result of lower collections and $30 million from higher-than-anticipated refunds. The final FY 99 collections were approximately $30 million lower than the amount estimated when the FY 00 budget plan estimates were adopted. The increase in refunds reflects the growth in the amount of corporation tax credits claimed. The amount of credits claimed doubled this past year mainly due to the credit for Research and Development expenses.

Expenditures

Lapse/Deficiency

Expenditure requirements are estimated to be $93.3 million higher than budgeted due primarily to estimated deficiency appropriations of $67.8 million and the $50 million loss of savings associated with the State Information Technology (IT) Privatization. (It should be noted that we calculated the deficiency amount on a gross basis and then partially reduced it to the level permitted by the spending cap. This would be accomplished through the transfer of excess funds in other accounts within certain agencies. The bottom line surplus is not affected by doing this because there is also a corresponding reduction made to anticipated lapses.) The major area requiring a deficiency appropriation is the Department of Social Services (DSS) ($45.1 million) and this is due to: (1) slightly higher expenditures for long-term care than were initially forecasted in the Medicaid budget; (2) continued growth in the number of disabled enrollees and strong pharmaceutical inflation in the ConnPACE program; and (3) higher than anticipated medical bills through the first six months of the fiscal year in the State Administered General Assistance (SAGA) program. Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of $4 million and Refunds of Escheated Property at $10 million. A further explanation of deficiency requirements can be found beginning on page 9. Since slightly more than the $86 million in unallocated lapses anticipated by the budget have already been identified, we have increased our estimated lapse projection by $7 million. A summary of and explanations for General Fund lapsing appropriations can be found beginning on page 14.

State Information Technology (IT) Privatization

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 as the result of privatizing or outsourcing the state’s information technology (IT) 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 had selected Electronic Data Systems (EDS) as the private computer firm, and continued negotiating the contract throughout the 1999 session. On June 28, 1999, 10 days after the 1999-2001 biennial budget became law, the state's chief information officer announced that a contract could not be reached and that the privatization effort would be abandoned. Instead, the state will explore outsourcing individual IT applications on an agency-by-agency basis. Therefore, it is anticipated that none of the $50 million in IT savings budgeted in each of FY 00 and FY 01 will be realized.

Hiring Freeze and Allotment Reductions

The governor anticipates that the hiring freeze (announced on 9/1/99) and the allotment reductions (announced 9/8/99) will save $21.2 million in the General Fund. He anticipates that the hiring freeze will cut 200 jobs and save $4 million and that the allotment reductions will save $17.2 million. It should be noted that these savings are intended to be in addition to the $24.6 million anticipated to be realized in the original budget plan from General Personal Services Reductions ($13.6 million) and General Other Expenses Reductions ($11 million). Since the spending cap is based on appropriations, savings from the hiring freeze and allotment reductions will not affect the cap unless a reduction in appropriations is made. The cap problem for FY 01 may be helped if some of these FY 00 savings result in budget cuts for FY 01.

Estimated Lapses

The original lapse savings of $110.6 million associated with unallocated lapses and Personal Services and Other Expenses holdbacks is anticipated to be achieved by the end of the fiscal year. Since slightly more than the $86 million in unallocated lapses anticipated by the budget have already been identified, we have increased our estimated lapse projection by $7 million.

It should be noted that $18.3 million of our $19.3 million projected lapse in the Department of Labor is related to the Jobs First Employment Services program ($8.2 million) and the Welfare to Work program ($10.1 million). This lapse would not be achieved if these funds were carried forward into FY 01. SA 99-10 (the appropriations act) carried forward $13.7 million for these programs from FY 99 into FY 00, which resulted in these funds not lapsing on June 30, 1999.

FY 00 General Fund Summary
as of February 8, 2000
(in millions)

	Budget Plan	Increases (Decreases)	Revised Estimates
Revenues			
Taxes	$ 7,825.8	$ 207.7	$ 8,033.5
Other Revenue	932.7	35.3	968.0
Other Sources	1,887.5	33.0	1,920.5
Total Revenue	**$ 10,646.0**	**$ 276.0**	**$ 10,922.0**
Appropriations			
Original Appropriations – Gross	$ 10,742.2	$ 0.0	$ 10,742.2
Less:			
Estimated Budgeted Lapses	(86.0)	(17.3)	(103.3)
General PS and OE Reductions	(24.6)	0.0	(24.6)
Allotment Reductions	0.0	(21.2)	(21.2)
Statewide Agency Functional Consolidation (IT Priv.)	(50.0)	50.0	0.0
Subtotal - Lapses / Reductions	(160.6)	11.5	(149.1)
Plus:			
Estimated Deficiency Appropriations (adjusted not to exceed Spending Cap)	0.0	67.8	67.8
Estimated Adjudicated Claims	0.0	4.0	4.0
Estimated Refunds of Escheated Property	0.0	10.0	10.0
Total Estimated Expenditures [1]	**$ 10,581.6**	**$ 93.3**	**$ 10,674.9**
Projected Surplus from Operations for FY 00	**$ 64.4**	**$ 182.7**	**$ 247.1**
Transfer to Fully Fund the Budget Reserve Fund [2]			(25.2)
Remaining Balance (Unappropriated Surplus) to Debt Retirement [3]			**$ 221.9**

[1] Excludes expenditures from prior year carry forwards (including appropriations of FY 99 surplus), but includes lapses from prior year carry forwards as appropriate.

[2] This $25.2 million addition increases the amount in the Budget Reserve Fund (BRF) from $529.1 million to $554.3 million. This keeps the BRF at the statutory limit of 5% of the net General Fund appropriations for FY 01 as reflected in the budget provided by SA 99-10.

[3] The remaining balance (unappropriated surplus) will be used for debt retirement in accordance with the constitutional amendment adopted November 25, 1992.

FY 00 General Fund Revenue
as of February 8, 2000
(in thousands)

	Budget Plan			OFA	OFA Estimate		
	Growth Rate % [1]		FY 00 Estimate	Over/(Under) Budget Plan	Growth Rate % [1]		FY 00 Estimate
Taxes							
Personal Income	5.2	$	3,974,600	$ 130,400	8.6	$	4,105,000
Sales and Use	5.8		3,028,600	24,400	6.1		3,053,000
Corporations	4.7		573,300	(23,300)	5.0		550,000
Inheritance and Estate	4.0		197,700	32,300	21.2		230,000
Hospital Gross Receipts	(2.2)		79,600	1,900	(2.3)		81,500
Public Service Corporations	2.1		170,300	0	1.6		170,300
Insurance Companies	4.1		199,200	0	2.3		199,200
Cigarettes	(2.5)		121,900	0	(1.2)		121,900
Oil Companies	2.1		18,000	12,000	31.6		30,000
Real Estate Conveyance	(2.6)		100,200	9,800	3.1		110,000
Alcoholic Beverages	0.0		40,000	0	(0.7)		40,000
Miscellaneous	3.5		39,300	2,700	3.5		42,000
Admissions, Dues and Cabaret	2.0		24,600	400	1.5		25,000
Total Taxes		**$**	**8,567,300**	**$ 190,600**		**$**	**8,757,900**
Refunds of Taxes			(741,500)	17,100			(724,400)
Net General Fund Taxes		**$**	**7,825,800**	**$ 207,700**		**$**	**8,033,500**
Other Revenue							
Transfer Special Revenue		$	250,000	$ 8,000		$	258,000
Indian Gaming Payments			306,700	13,300			320,000
Licenses, Permits and Fees			124,000	1,000			125,000
Sales of Commodities and Services			32,000	0			32,000
Rentals, Fines and Escheats			35,000	5,000			40,000
Investment Income			70,000	(5,000)			65,000
Miscellaneous			115,000	13,000			128,000
Total Other Revenue		**$**	**932,700**	**$ 35,300**		**$**	**968,000**
Other Sources							
Federal Grants		$	1,989,500	$ 33,000		$	2,022,500
Transfer from Tob. Settlement Fund			78,000	0			78,000
Transfer to Other Funds			(180,000)	0			(180,000)
TOTAL - OTHER SOURCES		**$**	**1,887,500**	**$ 33,000**		**$**	**1,920,500**
TOTAL REVENUE		**$**	**10,646,000**	**$ 276,000**		**$**	**10,922,000**

[1] Tax growth rates reflect adjustments for rate and base changes

FY 00 Projected General Fund Deficiencies

Department of Revenue Services

OPM *Gross Deficiency* $0	OFA *Gross Deficiency* $(10,000,000)	Less: Available Funds $1,000,000	OFA Net (Deficiency) / Surplus $(9,000,000)

The Tax Rebate program is experiencing a $10 million gross deficiency. This amount assumes that $769,000 in Personal Services and Other Expenses holdbacks and $250,000 in allotment reductions are not released, thereby making this $1 million unavailable to offset the projected deficiency. An analysis of revised data received from the Social Security Administration as well as a re-examination of federal return data indicates that the deficiency is caused by underestimations of eligible individuals. The number of unduplicated federal filers (those that did not file a Connecticut return but are eligible for the rebate) was underestimated by approximately 60,000. Additionally, the number of unduplicated social security recipients (those that filed neither a Connecticut nor federal return but are eligible for the rebate) was underestimated by approximately 160,000. These reductions are partially offset by a reduction of 20,000 in the number of rebates that were estimated to be generated for Connecticut filers. Since the number of rebates was underestimated by 200,000, a shortfall of $10 million has resulted in this program.

Department of Mental Retardation

OPM *Gross Deficiency* $(5,300,000)	OFA *Gross Deficiency* $(7,971,000)	Less: Available Funds $4,011,000	OFA Net (Deficiency) / Surplus $(3,960,000)

The Department of Mental Retardation has a projected gross deficiency of $8.0 million in FY 00. This projected deficiency assumes that the Personal Services holdback of $1,896,755 and the Other Expenses holdback of $800,074 are not released, therefore making this $2.7 million unavailable to cover the level of expenditures in these accounts as anticipated in the budget. In addition to the $1.9 million it is also anticipated that the Personal Services (PS) account will experience an additional $947,808 deficiency. This shortfall is attributed to overtime as a result of delays in filling critical direct care vacancies.

The Early Intervention account is estimated to have a $1.7 million deficiency due to an increase in the number of infants and toddlers receiving services in the Birth-to-Three program.

It is anticipated that the Workers' Compensation Claims account will experience a shortfall of approximately $2.6 million. In FY 99, a negative checkbook balance of ($910,420) resulted due to workers' compensation claims. The FY 00 estimated shortfall includes the negative FY 99 balance.

A projected shortfall in the Rent Subsidy account of $75,990 is anticipated to be covered by a Finance Advisory Committee (FAC) transfer from the Community Residential Services account in order to meet the needs of the waiting list new development.

If the $2.7 million in holdbacks and the $169,280 in allotment reductions (Early Intervention and Human Resource Development accounts) are not released to cover the shortfall, an estimated FY 00 lapse of $2.9 million would result. In addition to the $2.9 million, $1.1 million is estimated to lapse in various other department accounts. This lapse is primarily due to a delay in placements and services funded through the Community Residential Services and Employment Opportunities and Day Services accounts. However, if the holdbacks and allotment reductions are released and the other unspent funding is made available via FAC transfer, an estimated net deficiency of $4 million would result.

Department of Mental Health and Addiction Services

OPM ***Gross Deficiency*** **$(6,100,000)**	**OFA** ***Gross Deficiency*** **$(6,075,000)**	**Less:** **Available Funds** **$6,340,000**	**OFA** **Net (Deficiency) / Surplus** **$265,000**

The Department of Mental Health and Addiction Services has a projected gross deficiency of $6.1 million in FY 00. This projected deficiency assumes that the Personal Services holdback of $1.5 million and the Other Expenses holdback of $972,335 will not be released, therefore making this $2.5 million unavailable to cover the level of expenditures in these accounts as anticipated in the budget. The department is also expected to lapse $1.4 million in various other accounts.

The majority of the estimated department deficiency is in the Personal Services account, with a year-end estimated deficiency of $1.7 million. This deficiency is primarily due to higher than anticipated costs associated with the operation of the new forensic ward at Connecticut Valley Hospital. The unbudgeted Finance Advisory Committee (FAC) transfer of $500,000 in August to establish Intermediate Psychiatric Services in the Eastern Region also has contributed to this estimated deficiency.

The Workers' Compensation account is estimated to have a $1.5 million deficiency due primarily to the settlement of old claims. The Other Expenses account is expected to have a deficiency of $1.7 million due to increased lease costs and higher utilization of outside consultants by the department.

It should be noted that the expenditure estimates include allotment reductions totaling $2.5 million in addition to the holdbacks noted above. Should both the allotment reductions and holdbacks be released and made available (via FAC action) to deficient accounts (which is not expected at this time), the net year-end estimate for the department would be a surplus of $265,000.

Department of Social Services

OPM ***Deficiency*** **$(32,500,000)**	**OFA** ***Gross Deficiency*** **$(45,100,000)**	**Less:** **Available Funds** **$50,600,000**	**OFA** **Net (Deficiency) / Surplus** **$5,500,000**

It is estimated that the **Department of Social Services** will finish the fiscal year with a balance of $140,000, excluding the PS/OE holdbacks and allotment reductions, in its $3.4 billion budget. When the PS/OE holdbacks and allotment reductions are included, the agency would experience an ending balance of $5.5 million, based upon current estimates. These projections are net of deficiencies and lapses in various accounts. The following forecasts are based upon the fiscal year's first six months of actual expenditures and remaining six months of estimated expenditures.

Medicaid (-$26.5 million) – The Medicaid program has an available appropriation for FY 00 of $2.1 billion. OFA is currently estimating a deficiency of $26.5 million, which represents approximately one percent of the entire account. This forecast is based upon the first six months of actual expenditures.

The increase in the Medicaid account is largely due to slightly higher expenditures for long-term care than were initially forecasted in the budget.

However, it is of significant note that the adopted budget included two expenditure initiatives that were forecasted to result in substantial savings to the Medicaid program. The first initiative, proposed by the governor and adopted by the legislature, requires that $18 million in savings be achieved through the contracting of pharmaceutical services. To date, no contract to achieve this reduction has been negotiated and there appears to be no activity on the part of the agency to offer such a contract to the private sector. At this time, OFA is not projecting any savings from this initiative during the current fiscal year.

The second initiative involves the implementation of a 1991 law that requires DSS to limit payments to providers of services to dual-eligible clients. (Clients who are eligible for both Medicare and Medicaid benefits.) The elimination of co-payments for Medicare services for these clients was projected to save $54 million. Due to delays in instituting necessary programming changes, this policy is just now being implemented. Based upon one month's data, the expected savings to be achieved during the current fiscal year is $35 million. The actual savings can vary depending upon the success in implementing the payment change. Some of the savings may in fact be achieved in FY 01. Electronic Data Systems, Inc. (EDS) is the outside contractor responsible for operating DSS financial information systems. These combined items represent $72 million in savings adopted by the legislature that will not be fully achieved during the current fiscal year.

ConnPACE (-$11.2 million) - OFA estimates a FY 00 shortfall of $11.2 million for the ConnPACE program (or $4.7 million more than the OPM deficiency estimate of $6.5 million). This reflects continued growth in the number of disabled enrollees (from 2,967 in June, 1998 to 3,545 in December, 1999); a potential bottoming out of a multi-year downward trend in the number of elderly clients, possibly due to recent Medicare Managed Care policy changes; strong pharmaceutical inflation and a recognition of the fact that budgeted savings of $2.1 million from implementing revised purchasing protocols will not be realized.

State Administered General Assistance (-$6.1 million) - OFA currently estimates that this account will have a deficiency of approximately $6.1 million for FY 00. This deficiency is due to higher than anticipated medical bills through the first six months of the fiscal year. However, as the behavioral health aspects of this program have recently been transferred to the Department of Mental Health and Addiction Services, certain financial reconciliations between the two departments may still occur. Any such adjustments could lower the deficiency estimate for this account.

Our projections indicate that DSS will lapse approximately $45.2 million in various other accounts. A summary of and explanations for the major lapsing appropriations in DSS can be found beginning on page 16.

Department of Correction

OPM *Gross Deficiency* **$(9,500,000)**	**OFA** *Gross Deficiency* **$(12,000,000)**	**Less: Available Funds $10,800,000**	**OFA Net (Deficiency) / Surplus $(1,200,000)**

The Department of Correction has a projected deficiency of approximately $12 million. The majority of the deficiency (approximately $6.5 million) can be attributed to costs associated with sending inmates out-of-state. In addition, there are projected deficiencies in the inmate medical services

($1.7 million) and workers' compensation accounts ($1.8 million). The workers' compensation deficiency is a recent and unexpected development related to increasing claims.

At this time, it appears that the department will lapse about $5.7 million in its currently available Personal Services account funding. In addition, there is about $5 million in Personal Services and Other Expenses holdbacks. The "Less: Available Funds" figure above represents the sum of the PS/OE holdbacks, the allotment reductions and the additional Personal Services account lapse.

Department of Children and Families

OPM ***Gross Deficiency*** **$(7,800,000)**	**OFA** ***Gross Deficiency*** **$(8,454,000)**	**Less: Available Funds** **$9,264,000**	**OFA Net (Deficiency) / Surplus** **$810,000**

The Department of Children and Families has a projected gross deficiency of $8.5 million in FY 00. This assumes that a Personal Services holdback of $1.4 million, an Other Expenses holdback of $1 million and a $5.2 million allotment reduction under the Board and Care for Children - Residential account are not released. The department is also expected to lapse $1.6 million in various accounts.

Contributing to the gross deficiency are shortfalls of:

$2.1 million in Personal Services, primarily attributable to the agency's inability to meet the programmed holdback while maintaining compliance with court ordered staffing patterns, as well as overtime costs in excess of budget;

$2 million in Other Expenses, primarily attributable to an inability to absorb the impact of the holdback in light of increased regional office and mileage costs associated with expanding children's protective services staffing;

$1.2 million in the Workers' Compensation Claims account to more accurately reflect recent claims patterns;

$600,000 in the No Nexus Special Education account to reflect revised caseload estimates;

and $2.3 million in board and care costs based on current caseload and cost trends.

Judicial Department

OPM ***Gross Deficiency*** **$(3,000,000)**	**OFA** ***Gross Deficiency*** **$(3,000,000)**	**Less: Available Funds** **$3,100,000**	**OFA Net (Deficiency) / Surplus** **$100,000**

A projected $3 million deficiency is required for the agency to accommodate enhancements to the state's three juvenile detention facilities in Bridgeport, Hartford and New Haven. This assumes that a Personal Services holdback of $1.3 million and an Other Expenses holdback of $1.8 million are not released. These enhancements stem from a Department of Children and Families (DCF) investigation that began on February 24, 1999 regarding allegations of abuse at the New Haven Detention Center. On June 4, 1999, DCF confirmed findings of physical abuse by nine employees and physical neglect by 19 employees, found the physical plant to be sub-standard, found inadequate training and supervision and various other deficiencies. Since that time, the Judicial Department, in consultation with DCF and the Office of Policy and Management, has developed a plan to address these and other deficiencies in the detention system.

The plan calls for a wide range of enhancements beginning in FY 00 and ending in FY 02 that includes significant physical improvements to the New Haven facility as well as construction of new facilities in Hartford and Bridgeport (total of $42.6 million in bonding has been authorized). General Fund requirements would be $3 million in FY 00, $6.7 million in FY 01 and $7 million in FY 02. This includes the filling of existing vacancies in the detention facilities, the hiring of 30 additional supervisors and classification and program officers as well as other staff by January 1, 2000, and enhancements to medical and psychiatric services and various alternative programs.

However, if the holdbacks and allotment reductions are released, an estimated net surplus of $100,000 would result.

Workers' Compensation Claims - Department of Administrative Services

OPM *Gross Deficiency* $(2,000,000)	OFA *Gross Deficiency* $(1,650,000)	Less: Available Funds $0	OFA Net (Deficiency) / Surplus $(1,650,000)

The General Fund Workers' Compensation Claims account is projected to have a deficiency of about $1.7 million for FY 00. This is about 14% above the original appropriation. This pays for the workers' compensation costs for almost half of the state employees. The deficiency is the result of increasing workers' compensation costs generally, and the elimination of the $430,000 inflationary increase for FY 00. It should be noted that the FY 01 appropriation is less than the FY 00 appropriation.

Miscellaneous Fringe Benefit Accounts

OPM *Gross Deficiency* $(0)	OFA *Gross Deficiency* $(9,000,000)	Less: Available Funds $11,000,000	OFA Net (Deficiency) / Surplus $2,000,000

The Retired State Employee Health Service Cost account is projected to have a gross deficiency of $9 million, which is 5.5% of the total appropriation of $164 million. This deficiency is the result of an unanticipated increase in retirees in June and necessary trend adjustments. This projected deficiency assumes that the $11 million expected to lapse in several other miscellaneous fringe benefit accounts would not be transferred to the Retired State Employee Health Service Cost through the Finance Advisory Committee (FAC).

Total Projected Deficiencies:

OPM *Deficiency* $(66,200,000)	OFA *Gross Deficiency* $(103,250,000)*	Less: Available Funds $96,115,000**	OFA Net (Deficiency) / Surplus $(7,135,000)

*Amount shown on the General Fund Summary schedule is $67.8 million, or $35.4 million, lower in order to indicate the maximum net deficiency level (plus $800,000 in the Transportation Fund) which can be appropriated and allow the budget to remain within the spending cap. A corresponding reduction in the lapse has been reflected on the General Fund Summary schedule as well.

**Includes: PS/OE Holdbacks, Allotment Reductions and other projected account balances.

Summary of FY 00 General Fund Lapsing Appropriations

Status of Budgeted Lapses:	Amounts (in millions)	
Agency		
Office of Policy and Management	$ 5.2	
Department of Administrative Services	1.0	
Department of Information Technology	7.2	
Department of Labor	19.3	
Department of Public Health	1.7	
Office of Health Care Access	8.2	
Department of Social Services	45.2	
Department of Education	2.0	
State Library	1.0	
Teachers' Retirement Board	1.0	
Debt Service	14.5	
Unemployment Compensation	1.0	
Employers Social Security Tax	4.0	
State Employees Health Service Cost	6.0	
Total - Significant Identified Lapsing Appropriations	$ 117.3	
Other Identified Lapses (less than $1 million each)	14.4	
Unidentified Lapses	7.0	
Lapse Adjustment to Keep Deficiencies within Spending Cap	(35.4)	
Subtotal		**$ 103.3**
General Personal Services and Other Expenses Reductions:		
Personal Services Holdbacks	$ 13.6	
Other Expenses Holdbacks	11.0	
Subtotal		**$24.6**
Allotment Reductions		**21.2**
Agency Statewide Functional Consolidation*		**-**
Total Projected Lapse		**$ 149.1**

*See page for an explanation.

FY 00 Potential Significant General Fund Lapsing Appropriations

Agency / Explanation	**Lapsing Amount**

Office of Policy and Management **$5,200,000**

OFA projections indicate that OPM will lapse approximately $5.2 million of which $3 million will occur in the following programs:

The Elderly Homeowners Property Tax Relief account is expected to lapse $1.7 million due to two factors; level of participation and postponement of revaluation. (Also, a FAC transfer from this account reduced the "surplus" funds by $1.1 million.) The account was budgeted based on increased participation due to publicity from Rebate '98, which did not occur. One possible explanation is the newly eligible population has income levels above the current thresholds. Additionally, original budget estimates anticipated revaluation in municipalities such as Bridgeport, Waterbury and Naugatuck that opted to postpone their revaluations.

The PILOT for New Manufacturing Machinery and Equipment account is expected to lapse $740,000. This is largely the result of additional audit adjustments being made in the account.

The Tax Relief for Elderly Renters account is expected to lapse $566,000. This is due primarily to the fact that original budget estimates anticipated revaluation in municipalities such as Bridgeport, Waterbury and Naugatuck that opted to postpone their revaluations.

Department of Administrative Services **$1,000,000**

It is anticipated that the Department of Administrative Services (DAS) will lapse a total of approximately $1 million in various accounts in FY 00. This includes the following accounts: $270,000 in Loss Control/Risk Management (38.3% of the original appropriation); $253,000 for the Workers' Compensation Administrator (4.6%); $252,000 in Other Expenses (9.3%); and $182,000 for the Automated Personnel System (9.6%).

Department of Information Technology **$7,200,000**

It is anticipated that the Department of Information Technology (DOIT) will lapse a total of approximately $7.2 million in two accounts in FY 00. Both of these accounts were funded from FY 99 surplus appropriations that were carried forward into FY 00. An estimated $6 million of the $15 million appropriated to complete the state's Year 2000 (Y2K) technology conversions will lapse, due to lower than anticipated spending and no Y2K emergencies. (It should be noted that this figure includes the $3.1 million that the Office of Policy and Management (OPM) proposes to transfer to cover shortfalls in unrelated accounts in other agencies.) An estimated $1.2 million of the $1.7 million appropriated for the electronic forms (e-forms) licenses project will not be spent in FY 00 due to delays in awarding the contract for this project. It is anticipated that OPM will request that the unexpended balances in these accounts be carried forward into FY 01.

Department of Labor **$19,300,000**

The Department of Labor will lapse approximately $19.3 million in FY00. Two new programs, the Connecticut Employment and Training Commission workforce development initiatives and Job Funnels for Hartford's development projects will lapse $1,000,000 and $250,000, respectively. During the first two quarters of FY 00, neither program has expenditures. The Jobs First Employment Services program will lapse approximately $8,200,000 out of an available appropriation of $23,340,477 for FY 00. Expenditures are $7,571,564 for the first six months of FY 00. Based on previous spending, funds spent will increase to over a million dollars on a monthly basis. June of FY 00 should show the largest amount of expenditure as payments for performance contracts are made. The Welfare to Work program will lapse approximately $10,100,000 out of an available appropriation of $16.9 million. During the first two quarters of FY 00, an amount of $3,393,331 has been spent.

Department of Public Health $1,700,000

A total lapse of approximately $1.7 million is projected for the Department of Public Health and is primarily due to the hiring freeze ($1.5 million).

Office of Health Care Access $8,200,000

A lapse of approximately $8.2 million is projected for the Office of Health Care Access. Of this sum, $8 million is attributable to the Distressed Hospitals Loan Program account due to a revised estimate of utilization. The remaining $200,000 is attributable to the hiring freeze and miscellaneous savings in other accounts.

Department of Social Services $45,200,000

Our projections indicate that the Department of Social Services will lapse $45.2 of which $43.6 million will occur in the following programs:

HUSKY ($5.1 million) – OFA currently estimates a $5.1 million lapse in the HUSKY B Program, the state's health care program that provides insurance for children not eligible for Medicaid. Budgeted enrollment was forecast to begin the fiscal year at 6,300 cases and end the year at 11,800 cases. Actual enrollment for the first six months of the fiscal year was 4,051 cases with an estimated year-end enrollment of 8,051 cases. This reduction in caseload is expected to result in a surplus of $3.8 million in the account. An additional savings of $1.3 million will result from lower than expected expenditures for the HUSKY Plus Program. OFA is forecasting a $5.1 million total surplus in the $14.5 million health care account.

Child Care Services ($25.1 million) - The Department of Social Services is projected to lapse $25.08 million of $137.3 million appropriated to the combined Child Care Services accounts due to lower than anticipated caseloads. Enrollment in the second 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 7,000 cases for the first six months of the fiscal year, yet is 51% lower at an average of 3,464 cases for the period. However, the caseload for those who need child care after TFA benefits expire 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.

Temporary Assistance to Families (TFA) ($9.1 million) - OFA currently estimates a surplus of approximately $9.1 million in this account due to lower than anticipated caseloads through the first six months of the fiscal year. Since the state restructured the welfare-related programs in 1996, the cash assistance caseload under the TFA program has been steadily declining. The FY 00 TFA appropriation was based on an estimated annual monthly average paid caseload of 32,196. However, the continued rate of decline during the end of FY 99 and the first six months of FY 00 now indicates that the caseload will average approximately 30,770 paid cases monthly.

Supplemental Assistance ($4.3 million) - The Supplemental Assistance accounts (Aid to the Disabled, Aid to the Blind, Old Age Assistance) are currently projected to have a combined FY 00 surplus of approximately $4.3 million. As with the TFA program, caseloads in these three programs are all currently below the original FY 00 projections. For the Aid to the Disabled account, the average monthly caseload is estimated to be 18,524, which is 1,072 cases below the budgeted estimate of 19,596. In the Old Age Assistance account, the estimated monthly caseload of 7,279 is 271 cases below the original projection. In the Aid to the Blind account, the estimated monthly caseload of 146 is 12 cases below the original projection.

Department of Education **$2,000,000**

Our projections indicate the Department of Education will lapse approximately $2 million through a combination of lapses totaling $5.5 million, partially offset by deficiencies totaling $3.5 million.

The gross lapse of $5.5 million is comprised of: $3.5 million in the ECS grant largely due to prior year adjustments and audits of pupil counts; approximately $500,000 million in the School Transportation grant due to actual school district expenditures being lower than originally reported by the districts in this reimbursement account; $850,000 in the Charter School account due to the closing of the Village Academy in New Haven and lower pupil attendance in other charter schools than was originally reported by the schools; and approximately $650,000 in the Magnet School grant account due to lower than anticipated attendance.

The gross deficiency of $3.5 million is comprised of $1 million in the Adult Education grant and a projected $2.5 million in the Excess Cost – Student Based Special Education grant. In both cases the newly submitted projected local expenditures exceed the projections originally submitted by the local districts. Both these grant accounts are current year reimbursements and can fluctuate until final payments are made.

State Library **$1,000,000**

It is anticipated that the State Library will spend approximately one-half of the $2 million appropriated from FY 99 surplus for relocation of its archives during FY 00 due to delays in completing this project. The agency may request carrying forward the $1 million unexpended balance to cover remaining expenses associated with the project in FY 01.

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

It is anticipated that the Teachers' Retirement Board will spend only $500,000 of the $1.5 million provided for software needed to complete the new benefit system due to delays in completing this project. The agency may request carrying forward the $1 million unexpended balance to cover remaining expenses associated with the project in FY 01.

General Fund Debt Service **$14,500,000**

A total lapse of $14.5 million is projected for General Fund debt service. This is a combination of $15 million in reductions or savings from five factors and an increase of $500,000 in one factor. The five factors showing reductions or savings were: (1) postponement of scheduled bond issues ($9.2 million), (2) lower premiums on previously issued bonds ($2.4 million). (3) interest rates that were lower than budgeted levels ($1.4 million), (4) a reduction in the amount budgeted for CHEFA day care bonds ($1.5 million), and (5) the saving from a cash defeasance done in the Transportation Fund on bonds originally issued through the General Fund ($500,000).

The postponement of scheduled bond issues included a $125 million nontaxable issue originally scheduled for November 1999 and a $100 million taxable issue scheduled for December 1999, both of which were rescheduled for February 2000. A $20 million tax incremental financing issue for New Haven was rescheduled from September 1999 to March 2000. The premiums were for bonds issued in December 1998, June 1999 and November 1999. And finally, the budgeted interest rate for variable rate bonds issued in May 1997 was 5% while the actual rate paid for this period was 4%.

The $500,000 increase was for arbitrage rebate, which is the penalty paid by the state to the federal government for borrowing bond funds at a lower rate and investing them at a higher rate. The increase reflects greater anticipated differences between the interest rate at which bonds were issued and the interest rate at which they are invested.

Unemployment Compensation $1,000,000

It is anticipated that this account will lapse $1 million. The unemployment account was budgeted to include funds for growth based on historical trends, which did not occur.

Employers Social Security Tax $4,000,000

This account is expected to lapse $4 million, which is 2.5% of the total appropriation of $156.2 million. Recoveries from other funds have been greater that anticipated due to the unexpected growth in the recovery wage base.

State Employees Health Service Cost $6,000,000

The State Employees Health Service Cost account is expected to lapse $6 million or 2.1% of the $281.8 million appropriation. A combination of factors is responsible for this lapse. First, recoveries from other funds have been greater than anticipated due to the unexpected growth in the recovery wage base. Secondly, the appropriation included funds for a vendor if the health plans experienced certain demographic shifts, which did not occur.

Hiring Freeze and Allotment Reductions $21,200,000

The governor anticipates that the hiring freeze (announced on September 1, 1999) and the allotment reductions (announced September 8, 1999) will save $21.2 million in the General Fund. He anticipates that the hiring freeze will cut 200 jobs and save $4 million and that the allotment reductions will save $17.2 million. It should be noted that these savings are intended to be in addition to the $24.6 million anticipated to be realized in the original budget plan from General Personal Services Reductions ($13.6 million) and General Other Expenses Reductions ($11 million). Since the spending cap is based on appropriations, savings from the hiring freeze and allotment reductions will not affect the cap unless a reduction in appropriations is made. The cap problem for FY 01 may be helped if some of these FY 00 savings result in budget cuts for FY 01.

II. Spending Cap Estimates

Scenario I – Appropriate up to the Cap in FY 00 and Re-Open the FY 01 Budget

Fiscal Year 2000

Assuming estimated deficiency appropriations in the General Fund ($67.8 million) and in the Transportation Fund ($800,000), the revised spending cap calculation shows the budget to be at the amount allowed by the cap.

Fiscal Year 2001

Projected current services appropriation requirements are over the amount allowed by the cap by $21.2 million. This projection is based on the assumption that total appropriations for FY 00 are at the capped level, and that $50 million will be restored to the budget in recognition of the loss of Information Technology (IT) savings.

Fiscal Years 2002, 2003 and 2004

Projected current services appropriations requirements are under the cap in each of these fiscal years by $87.2 million, $134 million and $71.7 million, respectively. Projected out-year appropriation requirements assume that FY 01 appropriations are at the capped level, as adjusted for additional FY 00 appropriations.

Scenario II – Cover FY 00 Deficiency Needs by Transferring Funds; No Re-Opening of the FY 01 Budget in the 2000 Session; Appropriate up to the Cap in FY 01 and Meet Additional Spending Requirements by Transferring Funds.

Fiscal Year 2000

Assuming deficiency needs are met by transfers of funds between agencies and accounts, with legislative action as needed, the budget would remain under the cap by $68.6 million.

Fiscal Year 2001

Assuming additional appropriations of $59.3 million (up to the cap limit) to partially fund deficiency needs, and the balance to be covered by transfers of funds between agencies and accounts, the budget would be at the cap level of $12,216.1 million.

Fiscal Years 2002, 2003, 2004

Projected current services appropriations requirements are over the cap in FY 02 by $20.2 million. For FY 03 and FY 04 they are under the cap by $112.7 million and $71.7 million, respectively. The projections for FY 03 assume that FY 02 appropriations are at the capped level.

III. Preliminary FY 01 General Fund Budget Revisions

Our analysis indicates a potential General Fund surplus of $129.4 million in FY 01 based on our projection of update revisions necessary to the budget passed during the 1999 Session. (It should be noted, however, that projected appropriations requirements for all funds exceed the amount allowed by the spending cap by $21.2 million.) The surplus is due primarily to increased revenue collections of $280 million based on continued strong economic performance (plus a beginning surplus balance of $4.8 million). These additional revenues are partially offset by additional spending needs of $155.4 million above original budget projections largely due to the loss of $50 million in Information Technology (IT) savings and projected current year deficiency appropriation needs brought forward into FY 01 at approximately $89.5 million. These revisions projected out, along with other factors, result in shortfall projections into the out-years as discussed in Section IV. The projections in this report are based on present law, existing policy commitments, estimated caseload and workload requirements. The projected balances for the General Fund at the end of FY 01 through FY 04 are indicated on page 21.

FY 01 Revenues

A net increase in General Fund revenue of $280 million results from the revisions made to budget plan estimates in FY 00, projected through FY 01. The adjustments made in FY 00 have been treated as a base adjustment to which the growth rates established in the budget plan for FY 01 have been applied to arrive at the revised estimates.

FY 01 Expenditures

The FY 01 revised General Fund expenditure projection of $11,240.6 million represents a $155.4 million or 1.4% increase (net of increases and decreases) over the original General Fund appropriation of $11,085.2 million. The primary reasons for the increase include the loss of $50 million in Information Technology (IT) savings and projected current year deficiency appropriation needs brought forward into the new fiscal year.

Projected appropriation requirements for FY 01 assume that $50 million will be restored to the budget in recognition of the loss of Information Technology (IT) savings.

In addition to the $50 million loss in IT savings, $89.5 million represents largely the value of projected current year deficiency appropriation needs brought forward into the new fiscal year. These amounts are attributed to the following agencies: $25.3 million for the Department of Social Services; $18.8 million for the Judicial Department; $13.5 million for the Department of Mental Retardation; $12.5 million for the Department of Correction; $9.7 million for the Department of Mental Health and Addiction Services; $7 million for the Department of Children and Youth Services; and $2.7 million for Worker's Compensation Claims.

The revised 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, along with cost savings options.

Preliminary FY 01 – FY 04 General Fund Revenue and Expenditure Projections [1] as of February 8, 2000 (in millions)

	Current Services			
	FY 01	**FY 02**	**FY 03**	**FY 04 [2]**
Revenue Projections Unadjusted for Revenue Changes	$ 11,494.6	$ 11,899.4	$ 12,366.6	$ 12,821.2
Revenue Changes	(124.6)	(208.7)	(256.6)	(286.5)
Current Services Revenues	$ 11,370.0	$ 11,690.7	$ 12,110.0	$ 12,534.7
Current Services Expenditures	11,240.6	11,778.4	12,263.9	12,846.3
Current Services Revenues Less Current Services Expenditures - Potential Gap	$ 129.4	$ (87.7)	$ (153.9)	$ (311.6)

[1] It should be noted that the revised FY 01 figures in this report are based on our preliminary analysis of expenditure needs, which will be further reviewed during the coming Session along with savings options. The FY 02 - FY04 figures are based on using FY 01 as the baseline for revenue and expenditure projections and assume modest growth in the state and national economy. These estimates show the direction of revenues and spending if current laws and policies remain unchanged. They are not forecasts of what will actually occur, since policymakers will likely seek to alter current priorities.

[2] Our projections include the impact of the conversion to Generally Accepted Accounting Principles (GAAP) in FY 04, which could add approximately $30 million to the budget on a net expenditure basis in that year and annualize to approximately $65 million including amortization of the GAAP deficit in each of the following 15 fiscal years.

FY 01 General Fund Revenue
as of February 8, 2000
(in thousands)

	Budget Plan		OFA	OFA Estimate	
	Growth Rate % [1]	FY 01 Estimate	Over/(Under) Budget Plan	Growth Rate % [1]	FY 01 Estimate
Taxes					
Personal Income	4.7	$ 4,135,500	$ 133,200	4.7	$ 4,268,700
Sales and Use	5.7	3,162,200	25,800	5.7	3,188,000
Corporations	4.2	537,700	(24,300)	4.2	513,400
Inheritance and Estate	3.9	213,100	34,800	3.9	247,900
Hospital Gross Receipts	0.0	68,800	1,900	0.0	70,700
Public Service Corporations	2.0	173,000	0	2.0	173,000
Insurance Companies	5.1	208,900	0	5.1	208,900
Cigarettes	(2.5)	118,900	0	(2.5)	118,900
Oil Companies	5.4	18,000	12,600	5.4	30,600
Real Estate Conveyance	2.0	102,200	10,000	2.0	112,200
Alcoholic Beverages	0.0	40,000	0	0.0	40,000
Miscellaneous	3.5	40,700	2,800	3.5	43,500
Admissions, Dues and Cabaret	2.0	25,100	400	2.0	25,500
Total Taxes		**$ 8,844,100**	**$ 197,200**		$ **9,041,300**
Refunds of Taxes		(784,800)	25,000		(759,800)
Net General Fund Taxes		**$ 8,059,300**	**$ 222,200**		**$ 8,281,500**
Other Revenue					
Transfer Special Revenue					
Indian Gaming Payments		$ 252,200	$ 10,000		$ 262,200
Licenses, Permits and Fees		312,900	13,100		326,000
Sales of Commodities and Services		122,000	0		122,000
Rentals, Fines and Escheats		32,000	0		32,000
Investment Income		35,900	4,100		40,000
Miscellaneous		60,000	8,000		68,000
Total Other Revenue		120,000	10,000		130,000
		$ 935,000	**$ 45,200**		**$ 980,200**
Other Sources					
Federal Grants		$ 2,035,400	$ 12,600		$ 2,048,000
Transfer from Tob. Settlement Fund		150,300	0		150,300
Transfer to Other Funds		(90,000)	0		(90,000)
TOTAL - OTHER SOURCES		**$ 2,095,700**	**$ 12,600**		**$ 2,108,300**
TOTAL REVENUE		**$ 11,090,000**	**$ 280,000**		**$ 11,370,000**

[1] Tax growth rates reflect adjustments for rate and base changes

General Fund Revenue Estimates for FY 00 – FY 04
as of February 8, 2000
($'s in Thousands)

	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	8.6	$ 4,105,000	4.6	$ 4,268,700	5.0	$ 4,477,300	5.0	$ 4,694,400	5.0	$ 4,917,300
Sales and Use	6.1	3,053,000	5.7	3,188,000	4.0	3,282,000	4.0	3,381,000	4.0	3,512,000
Corporations	5.0	550,000	4.2	513,400	5.3	526,100	4.0	561,600	4.2	585,100
Inheritance and Estate	21.2	230,000	3.9	247,900	4.0	255,500	4.0	261,500	4.0	236,300
Hospital Gross Receipts	(2.3)	81,500	0.0	70,700	0.0	70,700	0.0	70,700	0.0	70,700
Public Service Corporations	1.6	170,300	2.0	173,000	3.0	178,200	3.0	183,500	3.0	189,000
Insurance Companies	2.3	199,200	5.1	208,900	3.2	215,600	3.2	222,500	3.2	229,600
Cigarettes	(1.2)	121,900	(2.5)	118,900	(2.5)	115,900	(2.5)	113,000	(2.5)	110,200
Oil Companies	31.6	30,000	5.4	30,600	3.0	31,300	3.0	32,200	3.0	33,200
Real Estate Conveyance	3.1	110,000	2.0	112,200	2.0	114,400	2.0	116,700	2.0	119,000
Alcoholic Beverages	(0.7)	40,000	0.0	40,000	0.0	40,000	0.0	40,000	0.0	40,000
Miscellaneous	3.5	42,000	3.5	43,500	3.0	44,800	3.0	46,100	3.0	47,500
Admissions, Dues and Cabaret	1.5	25,000	2.0	25,500	2.0	26,000	2.0	26,500	2.0	27,000
Total Taxes		**$ 8,757,900**		**$ 9,041,300**		**$ 9,377,800**		**$ 9,749,700**		**$ 10,116,900**
Refunds of Taxes		$ (724,400)		$ (759,800)		$ (767,000)		$ (770,000)		$ (771,000)
Net General Fund Taxes		**$ 8,033,500**		**$ 8,281,500**		**$ 8,610,800**		**$ 8,979,700**		**$ 9,345,900**
Other Revenue										
Transfer Special Revenue										
Indian Gaming Payments		$ 258,000		$ 262,200		$ 264,800		$ 267,600		$ 270,300
Licenses, Permits and Fees		320,000		326,000		329,000		332,000		335,000
Sales of Commodities and Services		125,000		122,000		125,000		123,000		126,000
Rentals, Fines and Escheats		32,000		32,000		32,000		32,000		32,000
Investment Income		40,000		40,000		40,000		40,000		40,000
Miscellaneous		65,000		68,000		60,000		60,000		60,000
Total Other Revenue		**128,000**		**130,000**		**130,000**		**130,000**		**130,000**
		$ 968,000		**$ 980,200**		**$ 980,800**		**$ 984,600**		**$ 993,300**
Other Sources										
Federal Grants		$ 2,022,500		$ 2,048,000		$ 2,083,800		$ 2,130,400		$ 2,180,200
Transfer from Tob. Settlement Fund		78,000		150,300		150,300		150,300		150,300
Transfer to Other Funds		(180,000)		(90,000)		(135,000)		(135,000)		(135,000)
TOTAL - OTHER SOURCES		**$ 1,920,500**		**$ 2,108,300**		**$ 2,099,100**		**$ 2,145,700**		**$ 2,195,500**
TOTAL REVENUE		**$ 10,922,000**		**$ 11,370,000**		**$ 11,690,700**		**$ 12,110,000**		**$ 12,534,700**

[1] Tax growth rates reflect adjustments for rate and base changes

IV. FY 02, FY 03 and FY 04 General Fund Budget Projections

The FY 01 budget revisions projected out, along with other factors, result in current services shortfall projections into the out-years in the amount of $87.7 million in FY 02, $153.9 million in FY 03 and $311.6 million in FY 04. (The out-year projections are based on current services expenditures because spending cap expenditures are projected to exceed current services expenditures in each of the out-years.) These gaps are attributable to the projected FY 00 deficiency appropriation needs brought forward into the out-years and the tax cuts enacted in previous years.

Out-Year Revenues

The largest factor affecting the revenue estimates in the out-years is the effect of previously enacted tax cuts, which are being phased in (primarily in income, sales, corporation, inheritance and estate taxes). The revenue reduction is expected to increase by $162 million from FY 01 to FY 04.

The economic growth rate assumptions for the personal income tax and sales tax for this period reflect moderate job growth, low inflation, and normal capital gain income levels. The growth rates for the other taxes and revenue sources are based on long-term trends, after adjusting for tax changes.

Out-Year Expenditures

The FY 02 General Fund expenditure projection of $11,778.4 million represents a $537.8 million or 4.8% increase over FY 01, the FY 03 projection of $12,263.9 million represents a $485.5 million or 4.1% increase over FY 02 and the FY 04 projection of $12,846.3 million represents a $582.5 million or 4.8% increase over FY 03. These projections have been developed by applying inflationary guidelines and other specific growth factors to the FY 01 revised expenditure level. The guidelines utilized reflect 4.5% in each year for state employee salary increases (which includes 2.5% for cost of living adjustments and 2% for Annual Increments) and 3% in each year 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 major out-year increases include the following (first figure shown is for FY 02, second is for FY 03 and third is for FY 04): Medicaid ($98.6 million; $103.1 million; $107.7 million); Debt Service ($82.2 million; $54.3 million; $103.8 million); Teachers' Retirement Contributions ($50.5 million; $13.3 million; $13.9 million); and Education Equalization Grants ($41.9 million; $43.1 million; $44.4 million).

Under current law, implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 2003. Our projections include the impact of the conversion to GAAP in FY 04, which adds approximately $30 million to the budget on a net expenditure basis in that year and annualizes to approximately $65 million including amortization of the GAAP deficit in each of the following 15 fiscal years.

Current law also requires that the Teachers' Retirement account be funded at 100% of normal cost plus 40-year amortization of unfunded liabilities and our out-year amounts include funding at that level. If funding were maintained at the 1999-2001 biennium level of

85% (where it has been funded for several years), our figures could be reduced by $39.8 million in FY 02, $41.8 million in FY 03 and $43.9 million in FY 04.

Our FY 02 – FY 04 projections do not include savings for Statewide Agency Functional Consolidation based on the inability to achieve the $50 million reduction included in each of the FY 99 through FY 01 budgets.

The FY 02 – FY 04 figures are based on using FY 01 as the baseline for revenue and expenditure projections and assume modest growth in the state and national economy. These estimates show the direction of revenues and spending if current laws and policies remain unchanged. They are not forecasts of what will actually occur, since policymakers will likely seek to alter current priorities.

V. Transportation Fund

Current Fiscal Year

Our projections for the fiscal year ending June 30, 2000, indicates **the potential surplus from operations, based on revised estimated revenues, has grown by $39.5 million from the $52.9 million originally budgeted to $92.4 million** (which represents 11.3% of the original budget). In accordance with Section 13b-68 of the General Statutes, (PA 97-309), the $92.4 million surplus would be used for debt retirement and the required fund balance of $20 million will be maintained as of June 30, 2000. These estimates could change due to various factors including the severity of the winter season and its impact on the Snow and Ice Removal budget. (Please refer to the FY 00 Transportation Fund Summary on page 29)

Revenues

Transportation Fund revenue is estimated at $901.8 million, which in an increase of $28 million over budget act estimates. The most significant item affecting the revenue increase was the $16.2 million resulting from a cash defeasance of $81.8 million of Special Tax Obligation bonds done in December, 1999. The cash defeasance was structured to reduce expenditure requirements in years of peak debt service. A direct effect of such a debt service reduction, is a reduction in the amount that the Transportation Fund is required by bond covenant to maintain in a debt service reserve fund. This amount is equal to the maximum projected principal and interest payment needed in any future fiscal year. Thus, the reduction in projected debt service requirements resulted in the release of $16.2 million from the debt service reserve fund and the transfer of this amount to the Transportation Fund as revenue. (Please refer to the Revenue Schedule on page 30).

Expenditures

FY 00 estimated expenditures for the Transportation Fund are projected to be $809.4 million or $11.5 million lower than the budget act estimate of $820.9 million. Lapses are estimated to be $12.3 million higher than the $20 million originally budgeted, primarily due to a $18.9 million lapse from the $26.7 million carry forward from the FY 99 Reserve for Salary Adjustment account. The proposed budget allotment reduction totaling $1.8 million for both the Department of Motor Vehicles (DMV) and the Department of Transportation (DOT) is expected to be achieved by June 30, 2000. Debt Service is expected to lapse $5.8 million, ($3.8 million from lower expenditures and $2 million resulting from the above-mentioned defeasance). Unallocated lapses are estimated to total $5.8 million. These savings have not yet been identified within the various Transportation Fund accounts.

The Workers' Compensation account administered by the Department of Administrative Services (DAS) projects a deficiency of $810,452. This is approximately 42% above the original appropriation. This account was transferred from the DOT's operating budget to DAS in July, 1999 to fund both the DOT's and the DMV's workers' compensation costs. It appears that this account is experiencing a shortfall due to the settlement of five cases and large medical payments, which were negotiated and settled.

The Metro North Personal Injury Claim for which $2 million was carried forward to FY 00 from the FY 99 Rail Operations appropriation was settled for $7 million in late Fall, 1999. As per contract agreement with the Metropolitan Transit Authority (MTA), the DOT's share of the claim is 65% or $4.6 million. However, since the MTA had made payments in kind to the plaintiff totaling $295,810 during the years the case was in negotiations, the DOT's remaining financial responsibility is $4.4 million. Since $2 million was carried forward into FY 00, the remaining payment of $2.4 million will be paid from funds that otherwise could have lapsed from this year's Rail Operations appropriation.

In addition, the pending claim from the Saturn Construction Co. concerning cost overruns for the DOT headquarters building in Newington was settled for $3.9 million. This amount had been appropriated and carried forward into FY 00 from the FY 99 Transportation Fund surplus.

It is anticipated that the Reflectorized License Plate Program will become fully operational by July, 2000. Only $250,000 of the $12.9 million appropriation from the FY 99 Transportation Fund surplus (for use during fiscal years 2000 and 2001) is expected to be expended by the end of the current fiscal year. Since the replacement of the 2.5 million existing plates will be completed over a two-year period, it appears that any balance of the funds will need to be carried forward into FY 02.

Out-Year Projections

The largest factor affecting revenue estimates in the out years is the effect of transferring a greater share of the annual sales tax revenue collected by the DMV into the Fund. Motor fuels taxes are estimated to grow at an annual rate of 1%. The other various revenue sources of the Fund are based on long-term collection trends. (Please refer to the Transportation Fund revenue schedule for FY 99 – FY 04 on page 34 for further details.)

Future year expenditures for the Transportation Fund reflect current law and customary inflationary factors of 4.5% for Personal Services (PS) and 3% for all other accounts. However, programs which would necessitate legislative action to alter the funding level, i.e., the Town Aid Road program, have been retained at current year's spending levels.

The DMV's out-year expenditures include $1.4 million in FY 01 and FY 02 for the CVISN (Commercial Vehicle Information Systems and Network) project. This project is part of a national effort to link the computer systems of motor carriers, state regulatory agencies and roadside safety screening/inspection stations. The funds have been included with the following caveats:

- State funds will become available upon approval of a federal appropriation by October 1, 2000. Currently, no funds have been earmarked for this project under TEA-21 (Transportation Equity Act for the 21st Century).
- Funds must be utilized for the specific project.

In addition, in accordance with Section 7 of PA 99-287, which postpones the Vision Screening program to July 1, 2001, $1 million has been included in the DMV's budget commencing in FY 02.

Also, funding of $540,700 has been included in the out-year projections, starting in FY 02, for the implementation of the Social Security Number program per Section 20 of PA 99-368, which postpones the program to October 1, 2001. Under this program, the DMV would have responsibility for obtaining the Social Security Number and/or the Federal Employer Identification Number of anyone registering a motor vehicle.

The Workers' Compensation account administered by DAS assumes an inflationary rate of 7.5%. The higher inflation rate reflects increased salaries due to collective bargaining agreements and rising medical costs. Similarly, due to anticipated higher medical costs, the State Employees Health Service account assumes an average inflationary rate of 8%. Based on actuarial figures, the State Employees Retirement Contributions reflect an average inflation increase of 9%.

The Debt Service out-year projections are based on assumptions concerning bond issuance and the use of the Transportation Fund surplus. The projections assume an average issuance of $200 million in Special Tax Obligation (STO) bonds at a 6% interest rate for the remainder of FY 00 and 6.25% for FY 01 through FY 04. They also assume that no additional Transportation General Obligation bonds will be issued. The projections only reflect savings from the December 22, 1999 cash defeasance and do not include any reductions in debt service that may result from the use of the Special Transportation Fund surplus in the future.

Based on current law, and inflationary and other adjustments, the Transportation Fund will be able to maintain the required $20 million fund balance through FY 04. However, the annual operating surplus declines from $92.4 million for the current fiscal year to $17.4 million in FY 04. (Please refer to the table on Revenue and Expenditure Projections on page 32 for further details).

FY 00 Transportation Fund Summary
as of February 8, 2000
(In Millions)

	Budget Plan	Increases (Decreases)	Revised Estimates
Revenues			
Taxes	$ 540.5	$ 6.1	$ 546.6
Other Revenue	333.3	5.7	339.0
Release from Debt Service [1]	0.0	16.2	16.2
Total Estimated Revenues	$ 873.8	$ 28.0	$ 901.8
Appropriations			
Original Appropriations – Gross	$ 840.9	$ 0.0	$ 840.9
Plus: Estimated Deficiency Appropriation - Workers' Compensation	0.0	0.8	0.8
Less: Additional Estimated Lapses	0.0	(12.3)	(12.3)
Unallocated Lapses	(20.0)	0.0	(20.0)
Total Estimated Lapses	(20.0)	(12.3)	(32.3) [2]
Total Estimated Expenditures	$ 820.9	$ (11.5)	$ 809.4
Projected Surplus from Operations for FY 00 [3]	**$ 52.9**	**$ 39.5**	**$ 92.4**
Plus: Available Fund Balance (Required per Section 13b-68) [3]	**20.0**	0.0	**20.0**
Cumulative Surplus as of June 30, 2000	**$ 72.9**	**$ 39.5**	**$ 112.4**
Less: Reserve for Debt Retirement [3]	52.9	39.5	92.4
Fund Balance as of June 30, 2000 [3]	**$ 20.0**	**$ 0.0**	**$ 20.0**

[1] As the result of the $81.8 million cash defeasance on 12/22/99, $16.2 million was released from the Debt Service Reserve Fund.

[2] The breakdown of the Total Estimated Lapses is as follows: Agency Allotment Reductions, $1.8 million; Debt Service, $5.8 million; Reserve for Salary Adjustment, $18.9 million; Unallocated Lapses, $5.8 million.

[3] Please note that Sec. 13b-68, CGS requires that amounts in excess of $20 million be used by the State Treasurer to reduce the future cost of Special Tax Obligation (STO) debt service. On 12/22/99, the Office of the State Treasurer completed a cash defeasance of $81.8 million using most of the combined surplus from FY 98 and FY 99.

FY 00 Transportation Fund Revenues
as February 8, 2000
(in thousands)

	FY 00 Budget Plan	OFA Over/(Under) Budget Plan	FY 00 OFA Estimate
TAXES			
Motor Fuels Tax	$ 500,000	$ 6,100	$ 506,100
Petroleum Products Tax	36,000	0	36,000
Sales Tax - DMV	10,000	0	10,000
Refunds of Taxes	(5,500)	0	(5,500)
Total - Taxes Less Refunds	**$ 540,500**	**$ 6,100**	**$ 546,600**
OTHER SOURCES			
Motor Vehicle Receipts	$ 185,800	$ 3,200	$ 189,000
Licences, Permits, and Fees	111,000	2,000	113,000
Interest Income	36,000	0	36,000
Federal Grants (FTA)	2,500	500	3,000
Release from Debt Service Account	0	16,200	16,200
Transfer to Conservation Fund	(2,000)	0	(2,000)
Total -Other Sources	**$ 333,300**	**$ 21,900**	**$ 355,200**
Total Revenue	**$ 873,800**	**$ 28,000**	**$ 901,800**

Transportation Fund Cumulative Surplus
$ Millions

	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Total Net Revenues	855.7	901.8	904.1	922.2	940.1	948.3
Total Net Expenditues	804.2	809.4	851.9	876.3	906.0	930.9
Annual Operating Surplus	51.5	92.4	52.2	45.9	34.1	17.4
Cumulative Surplus - Future Debt Service Payments [1]	1.5	93.9	146.1	192.0	226.1	243.5

[1] Section 13b-68, CGS (PA 97-309) requires the Treasurer to use any ending balance of the Transportation Fund in excess of $20 million to reduce outstanding indebtedness or debt service requirements. This may be done by : (1) Redeeming outstanding STO bonds before their maturity; (2) Buying STO bonds on the open market; (3) Transferring funds to an escrow account for future scheduled payments; (4) Paying debt service for the next fiscal year, beginning with FY 99; and (5) Any combination of these methods. FY 00 through FY 04 projections reflect a cash defeasance of $81.8 million completed by the Office of the State Treasurer on 12/22/99, which used the combined surplus from FY 98 and FY 99 and left a balance of $1.5 million.

Transportation Fund Revenue and Expenditure Projections for FY 99 – FY 04
($ Millions)

	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PROJECTED REVENUES						
Motor Fuels Tax, MV Receipts, and						
Licenses, Permits, and Fees	799.8	808.1	815.6	823.7	831.7	839.9
Sales Tax - DMV Payments	0.0	10.0	20.0	30.0	40.0	40.0
Federal Transportation Administration (FTA)	3.1	3.0	3.0	3.0	3.0	3.0
Interest Income	38.5	36.0	37.0	37.0	37.0	37.0
Petroleum Companies Gross Earnings (PA 97-309)	20.0	36.0	36.0	36.0	36.0	36.0
Release from Debt Service Reserve Account [1]	0.0	16.2	0.0	0.0	0.0	0.0
Transfer to Conservation Fund (PA 96-160)	(0.5)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Subtotal: Projected Revenues	860.9	907.3	909.6	927.7	945.7	953.9
Less: Refunds of Taxes	(5.2)	(5.5)	(5.5)	(5.5)	(5.6)	(5.6)
TOTAL NET REVENUES	855.7	901.8	904.1	922.2	940.1	948.3
PROJECTED EXPENSES						
Agency Operating Expenses						
DOT Budgeted Expenses	283.5	324.7	334.5	345.2	356.0	366.9
Non-Bonded Highway & Bridge Projects	21.0	15.6	16.0	16.4	16.7	17.1
Airport Payment in Lieu of Taxes (PA 93-433)	0.9	0.3	0.0	0.0	0.0	0.0
Subtotal: DOT Operating Expenses	305.4	340.6	350.5	361.6	372.7	384.0
DPS Highway Motor Patrol (Prior Year Carry Forward)	4.3	0.0	0.0	0.0	0.0	0.0
DMV Budgeted Expenses	45.0	49.9	52.3	55.9	56.5	58.8
Fringe Benefits	57.1	56.5	59.6	64.1	69.0	74.2
Reserve for Salary Adjustment	0.0	8.1	0.4	0.4	0.4	0.4
Other Budgeted Expenses	3.8	6.5	6.9	7.2	7.5	7.8
Subtotal: Operating Expenses	415.6	461.6	469.7	489.2	506.1	525.2
Debt Service Expenditures						
STO Debt Service	344.3	351.3	377.6	390.6	407.5	428.6
GO Debt Service	44.8	31.4	29.2	21.0	17.3	13.7
Total Debt Service	389.1	382.7	406.8	411.6	424.8	442.3
Less: Reduction in Debt Service per CGS Sec. 13b-68 [1]	(9.7)	(2.6)	(4.6)	(4.5)	(4.9)	(16.6)
Subtotal: Net Debt Service Expenditures	379.4	380.1	402.2	407.1	419.9	425.7
Total: Gross Expenditures	795.0	841.7	871.9	896.3	926.0	950.9
Less: Estimated Lapse	0.0	(32.3)	(20.0)	(20.0)	(20.0)	(20.0)
TOTAL NET EXPENDITURES	795.0	809.4	851.9	876.3	906.0	930.9
Year-End Adjustment Due to Carry Forwards [2]	9.2	0.0	0.0	0.0	0.0	0.0
ADJUSTED TOTAL NET EXPENDITURES/NET APPROPRIATIONS	804.2	809.4	851.9	876.3	906.0	930.9
Annual Operating Surplus	51.5	92.4	52.2	45.9	34.1	17.4
Debt Service Coverage Ratio [3]	2.5	2.6	2.4	2.4	2.4	2.3

[1] Section 13b-68, CGS, (PA 97-309) requires the Treasurer to use any ending balance of the Transportation Fund in excess of $20 million to reduce outstanding indebtedness or debt service requirements. The FY 99 debt service figure reflects the Treasurer's use of the FY 97 excess of $9.7 million to pay debt service. FY 00 through FY 04 projections reflect a cash defeasance of $81.8 million completed by the Office of the State Treasurer on 12/22/99, which used the combined surplus from FY 98 and FY 99. The results of the cash defeasance are: (1) a revenue gain of $16.2 million in FY 00 resulting from a release from the Debt Service Reserve Fund; and (2) a reduction in debt service costs from FY 00 through FY 04

[2] The year-end adjustment reflects the difference between previous year carry forwards ($48.1 million) and carry forwards to FY 00 ($56.9 million). The adjustment includes the following carryforwards: Refectorized License Plate Program, $12.9 million; DOT building settlement, $3.9 million; and Metro North personal injury claim, $2.0 million.

[3] 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 $209.3 million in FY 00 to $133.2 million in FY 04.

FY 01 Transportation Fund Revenues
as February 8, 2000
(in thousands)

	FY 01 Budget Plan	OFA Over/(Under) Budget Plan	FY 01 OFA Estimate
TAXES			
Motor Fuels Tax	$ 505,000	$ 6,700	$ 511,700
Petroleum Products Tax	36,000	0	36,000
Sales Tax - DMV	20,000	0	20,000
Refunds of Taxes	(5,500)	0	(5,500)
Total - Taxes Less Refunds	**$ 555,500**	**$ 6,700**	**$ 562,200**
OTHER SOURCES			
Motor Vehicle Receipts	$ 187,700	$ 3,200	$ 190,900
Licences, Permits, and Fees	112,000	1,000	113,000
Interest Income	37,000	0	37,000
Federal Grants (FTA)	2,500	500	3,000
Transfer to Conservation Fund	(2,000)	0	(2,000)
Total -Other Sources	**$ 337,200**	**$ 4,700**	**$ 341,900**
Total Revenue	**$ 892,700**	**$ $11,400**	**$ 904,100**

Transportation Fund Revenues for FY 99 – FY 04
as of February 8, 2000
($'s in Thousands)

	ACT FY 99	EST FY 00	EST FY 01	EST FY 02	EST FY 03	EST FY 04
TAXES						
Motor Fuels Tax	$ 499,900	$ 506,100	$ 511,700	$ 516,900	$ 522,000	$ 527,300
Petroleum Products Tax	20,000	36,000	36,000	36,000	36,000	36,000
Sales Tax -DMV Payments	0	10,000	20,000	30,000	40,000	40,000
Refunds of Taxes	(5,200)	(5,500)	(5,500)	(5,500)	(5,600)	(5,600)
Total - Taxes Less Refunds	**$ 514,700**	**$ 546,600**	**$ 562,200**	**$ 577,400**	**$ 592,400**	**$ 597,700**
OTHER SOURCES						
Motor Vehicle Receipts	$ 187,000	$ 189,000	$ 190,900	$ 192,800	$ 194,700	$ 196,600
Licences, Permits, and Fees	113,000	113,000	113,000	114,000	115,000	116,000
Interest Income	38,500	36,000	37,000	37,000	37,000	37,000
Federal Grants (FTA)	3,000	3,000	3,000	3,000	3,000	3,000
Release from Debt Service	0	16,200	0	0	0	0
Transfer to Conservation Fund	(500)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Total -Other Sources	**$ 341,000**	**$ 355,200**	**$ 341,900**	**$ 344,800**	**$ 347,700**	**$ 350,600**
Total Revenue	**$ 855,700**	**$ 901,800**	**$ 904,100**	**$ 922,200**	**$ 940,100**	**$ 948,300**