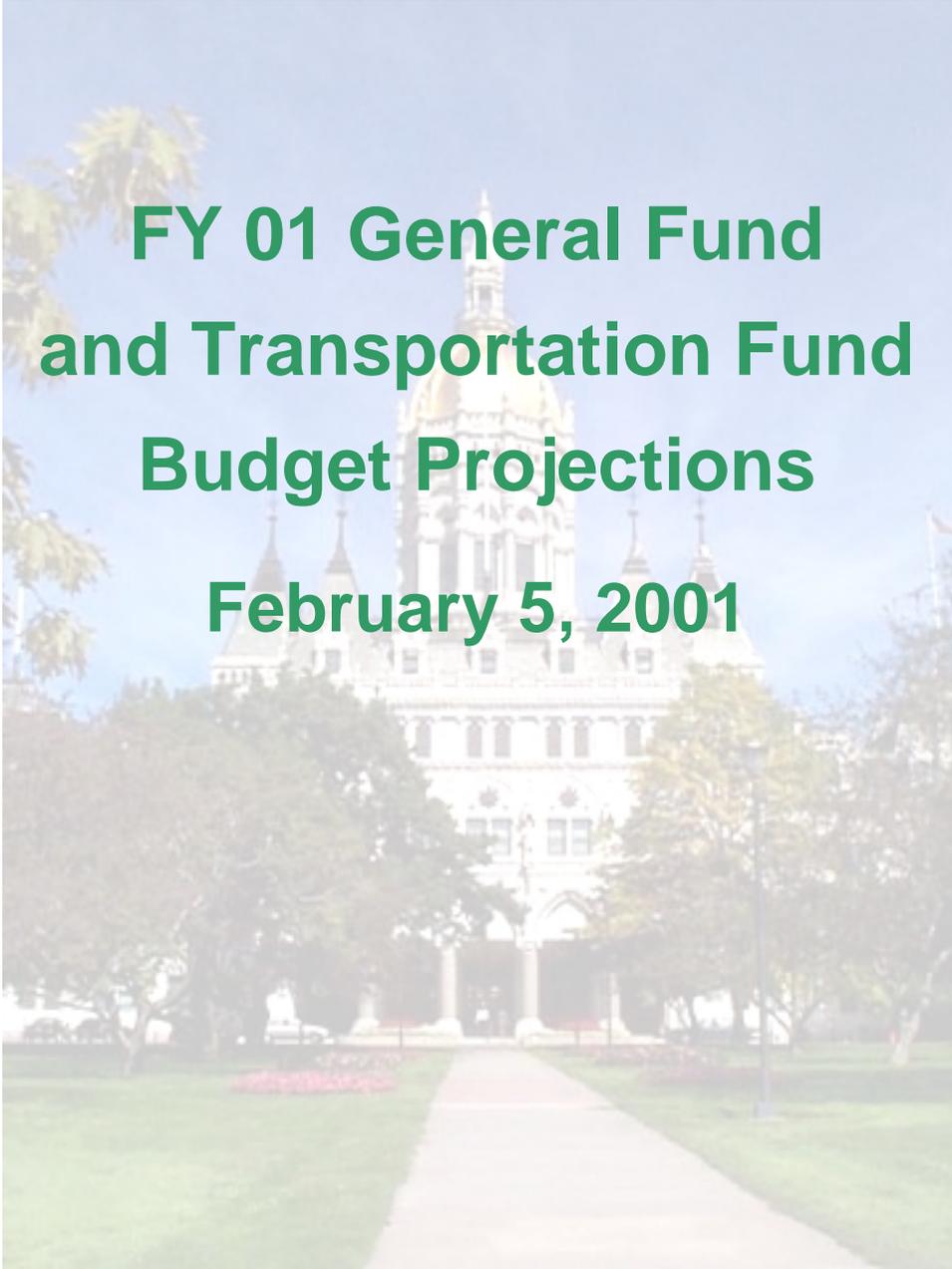


Connecticut General Assembly
OFFICE OF FISCAL ANALYSIS



**FY 01 General Fund
and Transportation Fund
Budget Projections
February 5, 2001**

Report Highlights

- **FY 01 General Fund surplus** has grown by \$607.5 million from the \$.5 million originally budgeted to **\$608 million**. This projection represents an increase of \$108 million over our November 8, 2000 report. See **pages 3 – 7** for details.
- **FY 01 Transportation Fund operating surplus** has grown by \$3.9 million from the \$39.6 million originally budgeted to **\$43.5 million**. This projection remains unchanged from our November 8, 2000 report. See **pages 8 – 11** for details.

FY 01 General Fund and Transportation Fund Budget Projections

(as of February 5, 2001)

I. General Fund

Our projections for the fiscal year ending June 30, 2001 indicate the **potential net surplus has grown** by \$607.5 million from the \$.5 million originally budgeted to **\$608 million** (which represents 5.4% of the original budget). The \$607.5 million increase is based on revised **estimated revenues that are \$724.2 million above the budget act estimates** and **estimated expenditures that are \$116.7 million higher than original net appropriations**. While the projected General Fund surplus is \$608 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 02.**

This projection represents an increase in the surplus of \$108 million over our November 8, 2000 report. Of this amount, \$100 million is attributable to an increase in FY 01 revenues.

Revenues

Total net General Fund revenue is up \$724.2 million over budget plan estimates, which is an increase of \$100.0 million compared to our November 8, 2000 report. The majority of changes from our November report are attributable to increases to the Personal Income Tax (\$74.0 million), Sales and Use Tax (\$26.5 million), and Corporation Business Tax (\$15.0 million) partially offset by decreases in Inheritance and Estate Taxes (\$8.9 million), Transfers of Special Revenue (\$5.2 million) and Federal Grants (\$4.8 million).

Expenditures

The \$8 million decrease in expenditures since our November 8, 2000 report is largely attributable to the net effect of lapses increasing by \$36 million and gross deficiencies increasing by \$25 million. Additional lapses are anticipated as follows:

- \$14.3 million in various grant programs of the Office of Policy and Management due to (1) lower than expected participation in various programs that provide property tax reductions for the elderly, disabled and veterans and (2) anticipated lapses from carry forward funds;
- \$10 million in the Debt Service account due to lower than anticipated issuances and interest rates (this brings the total projected Debt Service lapse to \$36.3 million);
- \$5.9 million in the account from which the state pays its share of Social Security costs for its employees due to fewer employees than originally anticipated in part due to the hiring freeze; and
- \$5.2 million in the account from which the state pays for the Health Insurance costs for its retired employees due to fewer new retirees than originally anticipated.

Potential deficiencies have increased by \$25 million since our November 8, 2000 report and this is largely due to a gross deficiency of \$13.7 million in the state Department of Education. This deficiency is largely attributable to an unanticipated increase from 5% to 14% in eligible expenditures by local school districts for which the state provides reimbursement under the Special Education – Student Based (Catastrophic Costs) grant.

Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of \$10 million (an increase of \$5 million over our previous report) and Refunds of Escheated Property at \$7 million (a decrease of \$2 million from our previous report). A summary of General Fund lapses and deficiencies can be found beginning on **page 7**.

**FY 01 General Fund Summary
as of February 5, 2001
(in millions)**

	<u>Budget Plan</u>	<u>Increases (Decreases)</u>	<u>Revised Estimates</u>
Revenues			
Taxes	\$ 8,104.9	\$ 590.3	\$ 8,695.2
Other Revenue	997.7	0.3	998.0
Other Sources	<u>2,178.7</u>	<u>133.6</u>	<u>2,312.3</u>
Total Revenue	\$ 11,281.3	\$ 724.2	\$ 12,005.5
Appropriations			
Original Appropriations - Gross	\$ 11,400.8	\$ -	\$ 11,400.8
Less:			
Estimated Budgeted Lapses	(120.0) [1]	50.3	(69.7) [2]
Plus:			
Estimated Deficiency Appropriations	-	49.4 [3]	49.4
Estimated Adjudicated Claims	-	10.0	10.0
Estimated Refunds of Escheated Property	<u>-</u>	<u>7.0</u>	<u>7.0</u>
Total Estimated Expenditures	\$ 11,280.8	\$ 116.7	\$ 11,397.5
Projected Surplus from Operations for FY 00	\$ 0.5	\$ 607.5	\$ 608.0
Transfer to Fully Fund the Budget Reserve Fund [4]			(30.0)
Remaining Balance (Unappropriated Surplus) to Debt Retirement [5]			\$ 578.0

[1] Includes \$89.4 million in budgeted lapses, \$24.5 million in general PS and OE reductions and \$6.1 million from the statewide hiring freeze.

[2] Includes the following lapse adjustments:

Original Budgeted Lapse	\$120.0
Plus Allotment Reductions	48.5
Plus Additional Growth in Lapses	36.0
Minus Transfers Required to Cover Intra-Agency Deficiencies	-85.2
Minus Transfers Required to Cover Inter-Agency Deficiencies	<u>-49.6</u>
Total	<u>\$69.7</u>

[3] Includes potential transfers from allotment reductions and other available balances, which all combine to eliminate the \$99 million net deficiency:

Net Deficiency	\$99.0
Amount of Additional Appropriations Limited by Spending Cap	<u>-49.4</u>
Unmet Deficiency Needs Requiring Additional Transfers	\$49.6
Funds Available to be Transferred:	
Allotment Reductions	\$48.5
Other Available Balances	<u>70.8</u>
Total Available to be Transferred	<u>\$119.3</u>
	<u>-49.6</u>
	\$0.0

[4] This \$30 million addition would increase the amount in the Budget Reserve Fund (BRF) from \$564 million to \$594 million. Figure represents an approximation only and assumes a 5% increase in the FY 02 budget over FY 01. This would keep the BRF at the statutory limit of 5% of the net General Fund estimated appropriations for FY 02.

[5] The remaining balance (unappropriated surplus) will be used for debt retirement in accordance with the constitutional amendment adopted November 25, 1992, unless a declaration is issued by the governor recommending appropriations by the General Assembly, and approved by at least a three-fifths majority in each house.

**FY 01 General Fund Revenue
as of February 5, 2001
(in thousands)**

	Budget Plan		OFA		OFA Estimate	
	Growth	FY 01	Over/(Under)	Growth	FY 01	
	Rate % [1]	Estimate	Budget Plan	Rate % [1]	Estimate	
Taxes						
Personal Income	5.1	\$4,218,000	\$462,000	11.2	\$4,680,000	
Sales and Use	5.7	3,116,700	103,300	7.6	3,220,000	
Corporations	4.2	512,900	72,100	4.8	585,000	
Inheritance and Estate	3.9	241,400	(23,300)	(2.0)	218,100	
Public Service Corporations	2.0	173,000	(9,000)	(1.0)	164,000	
Insurance Companies	5.1	198,400	5,000	6.6	203,400	
Cigarettes	(2.5)	116,200	4,000	(1.6)	120,200	
Oil Companies	(8.0)	39,200	8,900	(2.0)	48,100	
Real Estate Conveyance	2.0	112,200	(500)	(2.5)	111,700	
Alcoholic Beverages	0.0	40,000	1,000	0.4	41,000	
Miscellaneous	4.0	42,700	0	8.5	42,700	
Admissions, Dues and Cabaret	2.5	24,000	0	(0.1)	24,000	
Total Taxes		\$8,834,700	\$623,500		\$9,458,200	
Refunds of Taxes		(729,800)	(33,200)		(763,000)	
Net General Fund Taxes		\$8,104,900	\$590,300		\$8,695,200	
Other Revenue						
Transfer Special Revenue		\$265,200	(\$5,200)		\$260,000	
Indian Gaming Payments		336,000	0		336,000	
Licenses, Permits and Fees		121,800	6,200		128,000	
Sales of Commodities and Services		32,000	6,000		38,000	
Rentals, Fines and Escheats		41,100	2,300		43,400	
Investment Income		68,000	(6,000)		62,000	
Miscellaneous		133,600	(3,000)		130,600	
Total Other Revenue		\$997,700	\$300		\$998,000	
Other Sources						
Federal Grants		\$2,122,300	\$135,700		\$2,258,000	
Transfer from Tob. Settlement Fund		138,800	(2,100)		136,700	
Transfer to Other Funds		(82,400)	0		(82,400)	
Total Other Sources		\$2,178,700	\$133,600		\$2,312,300	
Total Revenue		\$11,281,300	\$724,200		\$12,005,500	

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

**Summary of Lapses and Deficiencies
as of February 5, 2001**

Agency	OPM PS & OE Holdbacks	Governor's Allotment Reductions	Identified Potential Lapse	Total Funds Available (Potential Gross Lapse)	Gross Deficiency	Agency Net Balance	Net Lapse	Net Deficiency
Office of Policy and Management	\$ 234,283	\$ 1,362,855	\$ 14,315,381	\$ 15,912,519	\$ -	\$ 15,912,519	\$ 15,912,519	\$ -
Department of Labor	138,524	883,014	6,837,632	7,859,170	-	7,859,170	7,859,170	-
Department of Public Health	553,702	718,944	1,905,853	3,178,499	-	3,178,499	3,178,499	-
Department of Mental Retardation	3,786,929	3,346,114	4,097,486	11,230,529	(5,200,000)	6,030,529	6,030,529	-
Department of Mental Health and Addiction Services	3,384,351	1,625,471	5,640,757	10,650,579	(17,708,636)	(7,058,057)	-	(7,058,057)
Department of Social Services	2,754,203	8,287,646	25,839,369	36,881,218	(105,048,095)	(68,166,877)	-	(68,166,877)
Department of Education	1,529,831	1,720,683	7,268,257	10,518,771	(13,700,450)	(3,181,679)	-	(3,181,679)
Board of Education and Services for the Blind	98,301	7,181	-	105,482	(1,500,000)	(1,394,518)	-	(1,394,518)
University of Connecticut	879,768	3,500,000	-	4,379,768	(3,500,000)	879,768	879,768	-
Teachers' Retirement Board	41,925	1,338	968,294	1,011,557	-	1,011,557	1,011,557	-
Regional Community - Technical Colleges	595,685	2,983,912	-	3,579,597	-	3,579,597	3,579,597	-
Connecticut State University	663,186	3,000,000	-	3,663,186	-	3,663,186	3,663,186	-
Department of Correction	6,091,673	9,097,125	1,191,432	16,380,230	-	16,380,230	16,380,230	-
Department of Children and Families	2,947,909	514,454	812,363	4,274,726	(22,995,324)	(18,720,598)	-	(18,720,598)
Judicial Department	3,893,039	1,811,704	1,904,667	7,609,410	(4,225,340)	3,384,070	3,384,070	-
Public Defender Services Commission	320,786	39,145	500,000	859,931	(1,349,931)	(490,000)	-	(490,000)
Debt Service - State Treasurer	-	-	37,282,176	37,282,176	(1,000,000)	36,282,176	36,282,176	-
Workers' Compensation Claims - DAS	-	684,653	1,772,960	2,457,613	-	2,457,613	2,457,613	-
Employer's Social Security Tax	-	-	5,882,612	5,882,612	-	5,882,612	5,882,612	-
Retired State Employees Health Service Cost	-	-	5,200,000	5,200,000	-	5,200,000	5,200,000	-
Totals - Above Items	\$ 27,914,095	\$ 39,584,239	\$ 121,419,239	\$ 188,917,573	\$(176,227,776)	\$ 12,689,797	\$ 111,701,526	\$(99,011,729)
All Others	(3,414,095)	8,915,761	10,086,915	15,588,581	(8,033,358)	7,555,223	7,555,223	-
Grand Totals	\$ 24,500,000	\$ 48,500,000	\$ 131,506,154	\$ 204,506,154	\$(184,261,134)	\$ 20,245,020	\$ 119,256,749	\$(99,011,729)

II. Transportation Fund

Our projections for the fiscal year ending June 30, 2001 indicate the **potential surplus from operations, based on revised estimated revenues, has grown by \$3.9 million** from the \$39.6 million originally budgeted to **\$43.5 million** (which represents 5.3% of the original budget). The balance in the fund at the start of FY 01 is \$90.2 million, which includes the \$20 million that was a minimum required balance under prior law. PA 00-170 repealed the provisions under 13b-68(b) of the general statutes, which required that amounts in excess of \$20 million be used for debt retirement. Thus, the cumulative surplus as of June 30, 2001 is projected to be \$133.7 million. The severity of the remainder of the winter season, implementation of the safety inspection program by the Department of Motor Vehicles (DMV), and rising fuel costs could affect the outcome.

This projection remains unchanged from our November 8, 2000 report.

Revenues

Transportation Fund revenue is estimated at \$858 million, which is an increase of \$3.9 million over budget act estimates. Increases in Motor Vehicle Receipts (\$2.5 million) and in Licenses, Permits and Fees (\$2.0 million) are due to a combination of higher than anticipated FY 00 collections and year-to-date FY 01 collections. Please refer to the FY 01 Transportation Fund Revenue Schedule on [page 11](#).

Expenditures

FY 01 estimated expenditures for the Transportation Fund are projected to be \$814.5 million (unchanged from original appropriations). Thus, the estimated lapse savings of \$20 million included in the budget act are anticipated to be achieved. (Please refer to the FY 01 Transportation Fund Summary on [page 10](#)).

Currently, a projected debt service lapse of \$3.2 million is anticipated. The lapse is attributed to the following two factors:

- the difference between the actual interest rate of 5.04% for bonds issued in July, 2000 and the budgeted interest rate of 6.25%, \$1.7 million .
- the use of funds remaining in the account designated for Transportation Fund debt reduction to pay FY 01 debt service, \$1.5 million.

The remaining lapse totaling \$16.8 million is expected to be achieved throughout the various Transportation Fund accounts. However, three factors could affect expenditures. These are:

- the severity of the remainder of the winter season
- the announcement made by Governor Rowland to terminate the \$2.2 million a year contract with Envirotest to perform safety inspections. The Department of Motor Vehicles plans to have its own employees conduct safety inspections in the future.
- the costs of diesel and heating oil. A significant increase in diesel fuel could affect the Bus Operations program. In addition, the Department of Transportation (DOT) maintains 129 workplaces and 600 buildings which are partially heated. An increase in heating oil could affect the DOT's operating budget.

Allotment reductions within the Department of Transportation (\$2,575,317) and the Department of Motor Vehicles (\$27,164) total \$2.6 million. The ultimate disposition of these savings, which are anticipated to be in addition to the \$20 million Transportation Fund lapse, is unclear at this time. The savings could allow for a reduction in FY 01 appropriations from the Transportation Fund, and an increase in FY 01 General Fund appropriations (to meet deficiency needs), while keeping the overall budget within the spending cap.

**FY 01 Transportation Fund Summary
as of February 5, 2001
(In Millions)**

	<u>Budget Plan</u>	<u>Increases (Decreases)</u>	<u>Revised Estimates</u>
Revenues			
Taxes	\$ 513.2	\$ (0.6)	\$ 512.6
Other Revenue	340.9	4.5	345.4
Total Estimated Revenues	\$ 854.1	\$ 3.9	\$ 858.0
Appropriations			
Original Appropriations - Gross	\$ 834.5	\$ 0.0	\$ 834.5
Less: Estimated Budgeted Lapses	(20.0)	0.0	(20.0)
Total Estimated Expenditures	\$ 814.5	\$ 0.0	\$ 814.5
Estimated Surplus from Operations for FY 01	\$ 39.6	\$ 3.9	\$ 43.5
Plus: Cumulative Surplus as of June 30, 2000 [1]	90.2	0.0	90.2
Projected Fund Balance as of June 30, 2001 [2]	\$ 129.8	\$ 3.9	\$ 133.7

[1] The General Assembly's budget plan estimated a Transportation Fund balance of \$76.9 million for FY 00. The unaudited final balance subsequently grew to \$90.2 million.

[2] Section 13b-68(b) of the general statutes previously required 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. However, Section 13 of PA 00-170 repealed the aforementioned provisions effective July 1, 2000. Thus, no surplus funds will be designated for debt retirement unless specifically mandated in subsequent legislation.

**FY 01 Transportation Fund Revenues
as of February 5, 2001
(in thousands)**

	FY 01 Budget Plan	OFA Over/(Under) Budget Plan	FY 01 OFA Estimate
TAXES			
Motor Fuels Tax	\$417,500	\$0	\$417,500
Petroleum Products Tax	46,000	0	46,000
Sales Tax - DMV	55,200	0	55,200
Refunds of Taxes	(5,500)	(600)	(6,100)
Total - Taxes Less Refunds	\$513,200	(\$600)	\$512,600
OTHER SOURCES			
Motor Vehicle Receipts	\$190,900	\$2,500	\$193,400
Licences, Permits, and Fees	113,000	2,000	115,000
Interest Income	37,000	0	37,000
Federal Grants (FTA)	3,000	0	3,000
Transfer to Conservation Fund	(3,000)	0	(3,000)
Total -Other Sources	\$340,900	\$4,500	\$345,400
Total Revenue	\$854,100	\$3,900	\$858,000