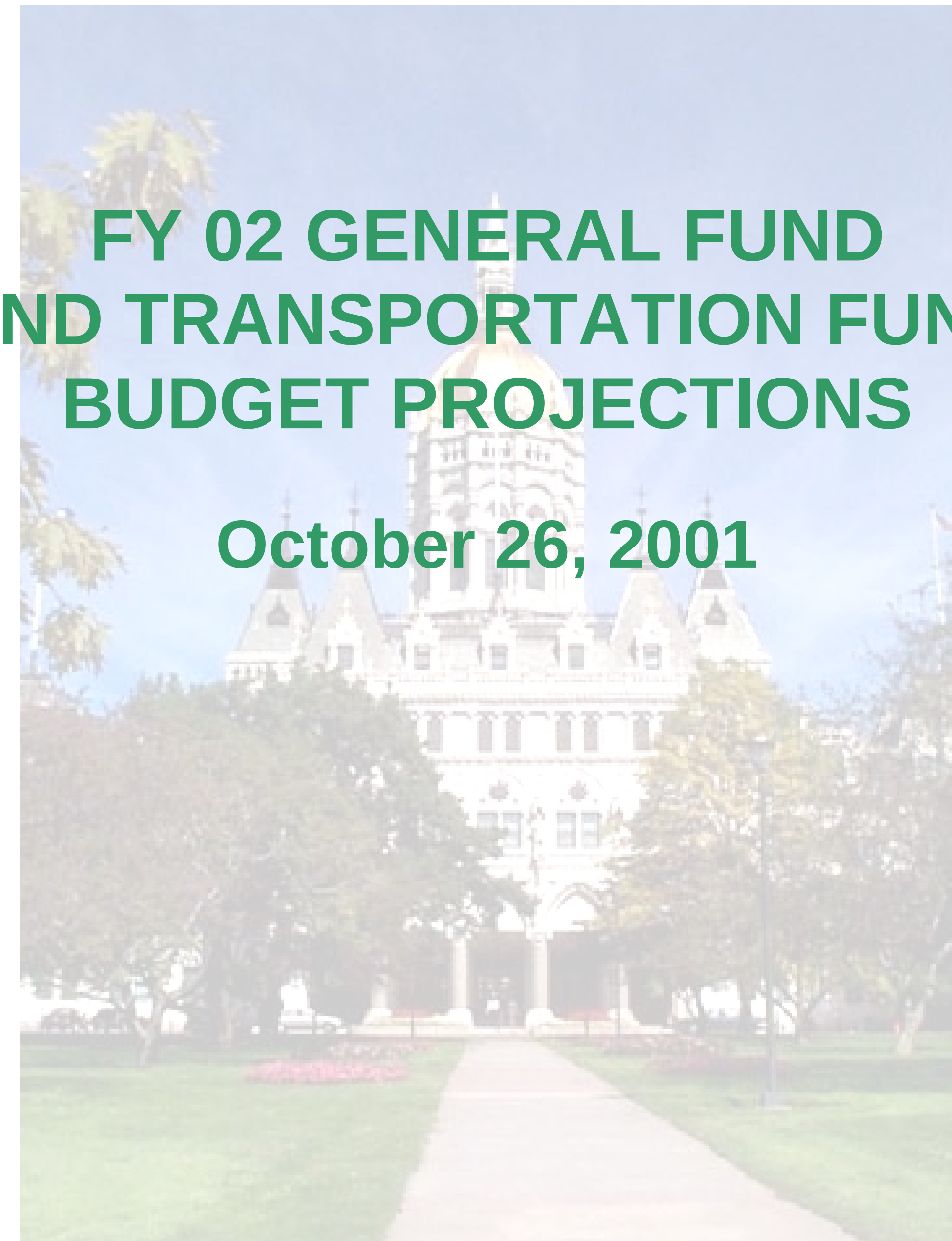
Connecticut General Assembly

**OFFICE OF FISCAL ANALYSIS**



# FY 02 GENERAL FUND AND TRANSPORTATION FUND BUDGET PROJECTIONS

## October 26, 2001

# Report Highlights

- **FY 02 General Fund deficit** is projected at **$348.6 million.** **See pages 3 –7** for details.

- **FY 02 Transportation Fund operating surplus** has increased by $9.0 million from the $21.7 million originally budgeted to **$30.7 million.** **See pages 16–19** for details.

- **FY 04 through FY 06 projections indicate that the Transportation Fund will begin experiencing annual operating deficits beginning in FY 04, which will lower the cumulative surplus of the prior years to $123.3 million in FY 06.** **See page 19** for details.

# FY 02 General Fund and Transportation Fund Budget Projections

### (as of October 26, 2001)

## I. General Fund

Our projections for the fiscal year ending June 30, 2002 indicate a **potential deficit** of $348.6 million (which represents 2.9% of the original budget). This deficit is based on revised **estimated revenues** that **are $304 million below the budget act estimates** and **estimated expenditures** that **are $44.7 million higher than original net appropriations (partially offset by an original budgeted surplus of $.1 million).** While the projected General Fund deficit is $348.6 million, **this estimate may change if there is further deterioration in economic conditions.**

### Revenues

Total net General Fund revenue is down $304 million compared to budget plan estimates. The reduction in estimated General Fund revenue is based on disappointing collections through the end of October due to a slowing economy and to the effect on consumer and business confidence following the September 11 terrorist attacks. The reductions are mainly in the income tax, sales tax, and inheritance and estate tax as follows:

| | **Income Tax** | | **Sales Tax** | | **Inheritance Tax** | |
|---|---|---|---|---|---|---|
| | **Revenue (000,000)** | **Growth (%)** | **Revenue (000,000)** | **Growth (%)** | **Revenue (000,000)** | **Growth (%)** |
| Budget Act (7/01/01) | $4,841.4 | 2.4 | $3,193.7 | 5.5 | $210.0 | (9.4) |
| OFA Update (10/26/01) | 4,726.4 | (0.4) | 3,099.7 | 3.0 | 160.0 | (30.4) |
| Difference | **$ - 115.0** | | **$ - 94.0** | | **$ - 50.0** | |

The budget act estimates were based on a slowing economy affecting wage and salary income taxes and sales taxes in the first two quarters of FY 02 followed by a pickup in the second half of the fiscal year. At this time the economy appears to have slowed to zero growth and the prospects of a significant pickup in the second half of the fiscal year is less likely. The terrorist attacks have disrupted what remained of consumer and business confidence and it will take several quarters to rebuild confidence even with federal monetary and fiscal stimulus. Eventually, the federal stimulus will boost the U.S. economy but probably not right away. Over the past decade, the Japanese learned that even zero interest rates do not stimulate the economy if consumer and business confidence is shaken.

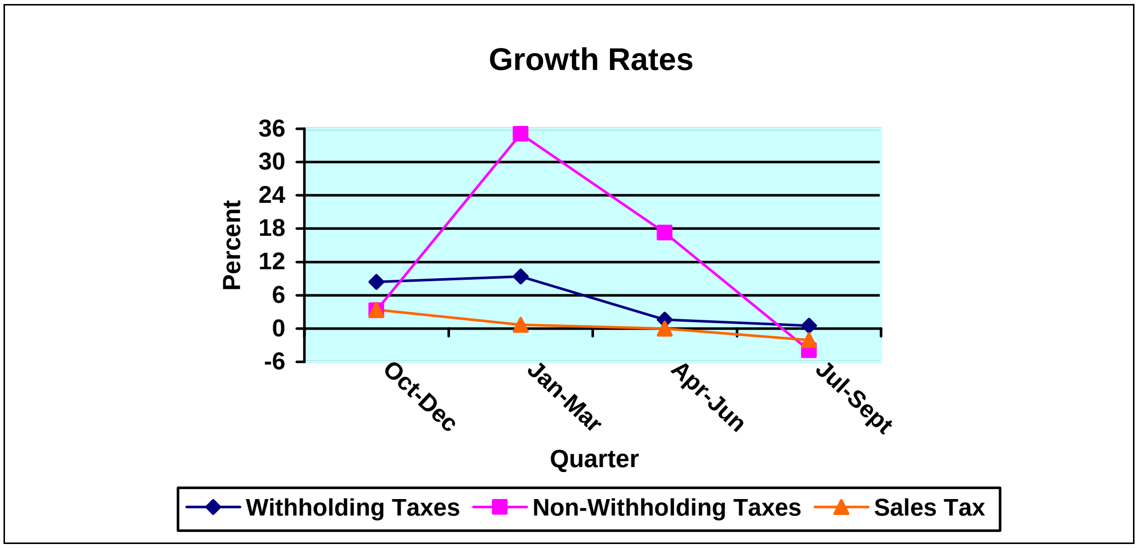
Assuming defense spending will increase an extra $5 billion per quarter for the next eight quarters, it is problematic whether this would stimulate the economy in the near term. A proportional increase of $25 billion during the Persian Gulf War did not significantly stimulate the economy or prevent the 1991-92 recession. Plans for new federal fiscal stimulus are proposed almost every day. However, by the time a plan is agreed upon and has time to filter into the economy it is not expected to have a significant effect on the economy in the near term. However, over the long term, it should help the economy rebound which bodes well for FY 03, assuming there are no other events that shake consumer and business confidence.

The near term effect on employment in Connecticut of the terrorist attack in New York would be a continuation of job losses at a more accelerated pace driving the unemployment rate from 3.6% currently to around 5.5%. The industries most affected would be insurance and the aircraft industry in the Hartford area and financial services (retail brokerages, investment banking and currency trading) in the Fairfield County area.

The job losses will translate into lower personal income growth subsequently lowering personal income tax collections as well as sales tax revenue. The change in the forecast is as follows:

| | **CT Unemployment** | **Personal Income Growth** |
|---|---|---|
| FY 02 Budget Act | 2.5% | 5.2% |
| OFA Update | 5.5% | 4.0% |

The following graph presents the quarterly growth rates for withholding taxes (wages and salaries), non-withheld income (primarily capital gains, interest, dividends, partnership distributions), and sales tax. As the graph shows, growth rates for all three revenue sources (67% of total General Fund revenue) were decelerating prior to any effect from the terrorist attacks.




Primarily due to the stock market decline over the last 15 months, the inheritance tax collections for the first three months are $25 million below projections, and the revised estimate assumes that the collections will continue, on average, to be below last year but at a lesser rate.

Downward adjustments to Public Service Companies and Oil Companies taxes reflect: 1) that energy (oil, natural gas, gasoline) are forecasted to be substantially lower (7% for petroleum based products and 29% for natural gas), 2) demand is expected to be lower because of the slower economy, 3) milder weather conditions compared to last winter, and 4) inventories of key heating fuels, especially natural gas, are noticeable above year-ago levels.

The changes to other various revenue sources are due to actual FY 01 collections or year-to-date collections.

**Expenditures**

The $44.7 million increase in expenditures is largely attributable to the combined effect of projected deficiencies totaling $48 million and allotment reductions of $20.3 million. The increase in net deficiencies is largely due to the Department of Social Services ($19.3 million) and the allotment reductions are spread over a number of agencies and accounts.

Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of $8 million and Refunds of Escheated Property at $9 million.

In addition to $20.3 million in FY 02 operating budget allotment reductions which he can implement under existing statutory authority, the governor has proposed $57.3 million in FY 01 surplus appropriation reductions which would require legislative approval. Our projections do not include any FY 01 surplus appropriation reductions since these will undergo legislative review. The governor has also established $8.9 million additional lapse targets for agencies to achieve in FY 02. Our projections do not include these FY 02 lapse target reductions because it is uncertain whether these targets will be achieved and if so, whether they will become additional savings beyond the lapse associated with the budget plan.

## FY 02 General Fund Summary

## as of October 26, 2001
## (in millions)

| | FY 02 Budget Plan | | FY 02 Increases (Decreases) | | FY 02 Revised Estimates | |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Taxes | $ 8,754.2 | | $ (300.5) | | $ 8,453.7 | |
| Other Revenue | 1,023.6 | | (3.5) | | 1,020.1 | |
| Other Sources | 2,116.3 | | - | | 2,116.3 | |
| **Total Revenue** | **$ 11,894.1** | | **$ (304.0)** | | **$ 11,590.1** | |
| **Appropriations** | | | | | | |
| Original Appropriations - Gross | $ 11,997.8 | | $ - | | $ 11,997.8 | |
| **Less:** | | | | | | |
| Estimated Budgeted Lapses | (103.8) | [1] | - | | (103.8) | |
| Allotment Reductions (as implemented by the Governor on 9/28/01) | - | | (20.3) | [2] | (20.3) | |
| **Plus:** | | | | | | |
| Estimated Deficiency Appropriations | - | | 48.0 | | 48.0 | |
| Estimated Adjudicated Claims | - | | 8.0 | | 8.0 | |
| Estimated Refunds of Escheated Property | - | | 9.0 | | 9.0 | |
| **Total Estimated Expenditures** | **$ 11,894.0** | | **$ 44.7** | | **$ 11,938.7** | |
| **Projected Surplus / (Deficit) from Operations** | **$ 0.1** | | **$ (348.7)** | | **$ (348.6)** | **[3]** |

[1] Includes approximately $77.8 million in budgeted lapses and $26 million in general PS, OE and DoIT reductions (holdbacks) as adopted in the original budget plan.

[2] In addition to $20.3 million in FY 02 operating budget allotment reductions which he can implement under existing statutory authority, the governor has proposed $57.3 million in FY 01 surplus appropriation reductions which would require legislative approval. Our projections do not include any FY 01 surplus appropriation reductions since these will undergo legislative review. The governor has also established $8.9 million additional lapse targets for agencies to achieve in FY 02. Our projections do not include these FY 02 lapse target reductions because it is uncertain whether these targets will be achieved and if so, whether they will become additional savings beyond the lapse associated with the budget plan.

[3] The Budget Reserve Fund currently contains $594.7 million. Since no unappropriated surplus is anticipated for FY 02, no addition to the Budget Reserve Fund (BRF) is anticipated at this time. (If unappropriated surplus were available, $26.9 million would be needed to fully fund the BRF at $621.6 million based on 5% of net General Fund appropriations for FY 03.)

## FY 02 General Fund Revenue

### as of October 26, 2001
### (in thousands)

| | Budget Plan | | OFA | OFA Estimate | |
|---|---|---|---|---|---|
| | Growth Rate % [1] | FY 02 Estimate | Over/(Under) Budget Plan | Growth Rate % [1] | FY 02 Estimate |
| **Taxes** | | | | | |
| Personal Income | 2.4 | $4,841,400 | ($115,400) | (0.4) | $4,726,000 |
| Sales and Use | 5.5 | 3,193,700 | (94,400) | 3.0 | 3,099,300 |
| Corporations | 3.0 | 501,200 | (10,000) | 1.0 | 491,200 |
| Inheritance and Estate | (9.4) | 210,000 | (50,000) | (30.4) | 160,000 |
| Public Service Corporations | 6.7 | 189,700 | (9,300) | 0.0 | 180,400 |
| Insurance Companies | 2.1 | 192,000 | 0 | 2.6 | 192,000 |
| Cigarettes | (2.5) | 117,000 | 0 | (2.1) | 117,000 |
| Oil Companies | (0.8) | 61,800 | (15,400) | (10.0) | 46,400 |
| Real Estate Conveyance | (2.0) | 110,000 | 0 | (2.0) | 110,000 |
| Alcoholic Beverages | 0.0 | 41,000 | 0 | (0.2) | 41,000 |
| Miscellaneous | 3.0 | 36,100 | 0 | 3.0 | 36,100 |
| Admissions, Dues and Cabaret | 2.0 | 25,300 | 0 | 2.6 | 25,300 |
| **Total Taxes** | | **$9,519,200** | **($294,500)** | | **$9,224,700** |
| Refunds of Taxes | | ($751,000) | $0 | | ($751,000) |
| R & D Credit Exchange | | (14,000) | (6,000) | | (20,000) |
| **Net General Fund Taxes** | | **$8,754,200** | **($300,500)** | | **$8,453,700** |
| **Other Revenue** | | | | | |
| Transfer Special Revenue | | $265,200 | $10,000 | | $275,200 |
| Indian Gaming Payments | | 360,000 | 0 | | 360,000 |
| Licenses, Permits and Fees | | 128,200 | 0 | | 128,200 |
| Sales of Commodities and Services | | 28,800 | 0 | | 28,800 |
| Rentals, Fines and Escheats | | 51,200 | 0 | | 51,200 |
| Investment Income | | 62,700 | 0 | | 62,700 |
| Miscellaneous | | 128,000 | (13,500) | | 114,500 |
| **Total Other Revenue** | | **$1,024,100** | **($3,500)** | | **$1,020,600** |
| Refunds of Payments | | ($500) | $0 | | ($500) |
| **Net Other Revenue** | | **$1,023,600** | **($3,500)** | | **$1,020,100** |
| **Other Sources** | | | | | |
| Federal Grants | | $2,144,300 | $0 | | $2,144,300 |
| Transfer from Tob. Settlement Fund | | 120,000 | 0 | | 120,000 |
| Transfer to Other Funds | | (148,000) | 0 | | (148,000) |
| **Total - Other Sources** | | **$2,116,300** | **$0** | | **$2,116,300** |
| **Total Revenue** | | **$11,894,100** | **($304,000)** | | **$11,590,100** |

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

## FY 02 Projected General Fund Deficiencies

### Department of Public Safety

| OPM *Deficiency* | OFA *Gross Deficiency* | Less: Available Funds | OFA Net (Deficiency)/ Surplus |
|---|---|---|---|
| **$(1,000,000)** | **$(1,000,000)** | **$1,700,000** | **$700,000** |

### Military Department

| OPM *Deficiency* | OFA *Gross Deficiency* | Less: Available Funds | OFA Net (Deficiency)/ Surplus |
|---|---|---|---|
| **$(1,000,000)** | **$(0)** | **$121,852** | **$121,852** |

The latest estimates from the Office of Policy and Management indicate that both the Department of Public Safety (DPS) and the Military Department (MD) will have deficiencies of approximately $1 million each. These costs are primarily related to overtime within DPS involving threats needing emergency responses and providing personnel for airport security in the state by both MD and DPS. In addition, while certain identified posts are being funded by the federal government at federal airports (Groton, New London, Tweed & Bradley) state dollars will be necessary to fund those airport posts designated by the state as requiring additional security. The Public Safety and Military departments' FY 02 general fund appropriation is $137 million and $6.7 million respectively. Both departments receive additional federal and private contributions.

Realistically, because of the nature of what these agencies are facing, it is difficult to project whether costs will exceed their current appropriation as related to staff overtime and additional safety and security measures that may be deemed necessary. In the Department of Public Safety, first quarter overtime costs exceeded projected costs by over $300,000. While this increase can be handled within the current budget, it is uncertain whether this trend will continue. The Military Department has projected that the costs of providing security at the state's federal airports will be approximately $800,000 for a six-month period. While it is anticipated that the majority of these costs will be reimbursed through Federal Emergency Management Agency (FEMA), any increase in the period to provide security in both federal and non-federal airports will result in additional costs.

**Department of Environmental Protection**

| OPM *Deficiency* | OFA *Gross Deficiency* | Less: Available Funds | OFA Net (Deficiency)/ Surplus |
|---|---|---|---|
| $(500,000) | $(500,000) | $3,100,000 | $2,600,000 |

The Office of Policy and Management indicates that the Department of Environmental Protection (DEP) will have a projected gross deficiency of approximately $500,000. It is assumed that these costs are due to the additional activity incurred by the DEP as a result of the ongoing Anthrax scares and the increased need for emergency responses. This deficiency assumes that a Personal Services holdback of $258,760 and an Other Expense holdback of $147,743 are not released. The department is also estimated to lapse $2.7 million in surplus funds at this time. If the holdbacks are released and the unspent funds are made available through FAC transfer, an estimated net surplus of $2.6 million would result. The department has a general fund appropriation of $38.6 million dollars. Funding for emergency responses and related activities including clean ups is currently provided through a separate account within the Environmental Quality Fund. The account is capitalized with a specified amount of revenue ($8 million in FY 02 and FY03) from the Petroleum Gross Earnings Tax.

Over the past couple of weeks, there have been approximately 270 emergency calls (30-60 a day) related to Anthrax and approximately 240 resulting in a need for a response from DEP. This results in increased costs for overtime, contractors, decontamination, chemical suits, etc. The additional costs have not been calculated at this time. Due to the unknown potential for these activities to continue, it is uncertain what the total impact to the agency will be if they must continue to respond in the same manner.

**Department of Public Health**

| OPM *Deficiency* | OFA *Gross Deficiency* | Less: Available Funds | OFA Net (Deficiency)/ Surplus |
|---|---|---|---|
| $(500,000) | $(500,000) | $1,595,050 | $1,095,050 |

The Department of Public Health is anticipated to incur a gross deficiency of approximately $500,000 under its Other Expenses account due to greater than budgeted laboratory costs, unexpected increases in costs associated with the installation and maintenance of the electronic vital records system, continued support of a school-based health center, unbudgeted pay increases for certain data processing staff and other miscellaneous charges. This assumes that a Personal Services holdback of $233,724, an Other Expenses holdback of $262,093 and $749,233 in allotment reductions under various accounts are not released. The agency is also anticipated to lapse $350,000 in other accounts. If the holdbacks, allotment reductions and lapse are released and/or made available via FAC transfer, an estimated surplus of approximately $1,595,050 would result.

**Department of Mental Retardation**

| OPM *Deficiency* | OFA *Gross Deficiency* | Less: Available Funds | OFA Net (Deficiency)/ Surplus |
|---|---|---|---|
| $(2,000,000) | $(2,500,000) | $4,086,636 | $1,586,636 |

The Department of Mental Retardation has a projected gross deficiency of $2.5 million, which represents .36% of the original FY 02 appropriation. This assumes that a Personal Services holdback of $2.17 million, an Other Expenses holdback of $838,373 and $224,098 in allotment reductions from the Human Resource Development and Clinical Services accounts are not released. The department is also expected to lapse $850,000 in other accounts. If the holdbacks and allotment reductions are released and the other unspent funding is made available via FAC transfer, an estimated net surplus of $1.6 million would result.

This gross deficiency is due to higher than anticipated costs in the Early Intervention account. The Early Intervention shortfall reflects annual costs for an additional increase of infants and toddlers in the Birth-to-Three program. There is an anticipated 10% increase in the number of direct service units in the program over FY 01. The $2.5 million projected deficiency represents 13.7% of the original appropriation in the Early Intervention account.

Although the FY 02 – FY 03 Biennium Budget provided for additional funding in the Birth-to-Three program, the number of infants and toddlers continues to rise and given the current FY 03 appropriated level, the FY 03 anticipated shortfall is estimated between $2.5 - $5 million.

**Department of Mental Health and Addiction Services**

| OPM *Deficiency* | OFA *Gross Deficiency* | Less: Available Funds | OFA Net (Deficiency)/ Surplus |
|---|---|---|---|
| $(2,000,000) | $(1,480,000) | $4,924,058 | $3,444,058 |

The Department of Mental Health and Addiction Services has a projected gross deficiency of $1.48 million, which represents .29% of the original FY 02 appropriation. This assumes that a Personal Services holdback of $1.8 million, an Other Expenses holdback of $1.1 million and $2 million allotment reductions from various accounts are not released. If the holdbacks and allotment reductions are released and the other unspent funding is made available via FAC transfer, an estimated net surplus of $3.4 million would result.

This gross deficiency is due to higher than anticipated costs in Other Expenses. The Other Expenses deficiency of $1.48 million represents 5.2% of the original appropriation. This is primarily due to inflationary increases in medications, food and software licensing as well as clean up costs due to a fire at the Connecticut Mental Health Center.

**Department of Social Services**

| OPM *Deficiency* | OFA *Gross* *Deficiency* | Less: Available Funds | OFA Net (Deficiency)/ Surplus |
|---|---|---|---|
| **$(19,300,000)** | **$(19,293,913)** | **$13,365,879** | **$(5,928,034)** |

The Department of Social Services has a projected gross deficiency of $19.3 million, which represents one-half percent of the original FY 02 appropriation. This assumes that a Personal Services holdback of $971,000, an Other Expenses holdback of $1.7 million, an Information Technology holdback of $331,735 and $2.5 million allotment reductions from various accounts are not released. The department is also expected to lapse $8 million in various accounts. If the holdbacks and allotment reductions are released and the other unspent funding is made available via FAC transfer, an estimated net deficiency of $5,928,034 million would result.

This gross deficiency is primarily due to increased costs in the Temporary Family Assistance and State Administered General Assistance (SAGA) programs.

**Temporary Family Assistance**

OFA is currently projecting a deficiency for the Temporary Family Assistance (TFA) account of $14.3 million in FY 02 and $10 million in FY 03. This deficiency is primarily due to two factors. First, the caseload has begun to rise for the first time since 1995. The budget projection assumed that the caseload would stabilize. However, the paid caseload increased by over 400 cases in the first two months of FY 02. Given the slowing economy, the OFA deficiency estimate assumes that the base caseload will continue to grow at a moderate pace through the end of the fiscal year. Should the pace of growth of the first two months continue throughout the year, the deficiency could be significantly higher.

The second factor driving the TFA deficiency is the manner of implementation of the three extension limit passed in the last legislative session. The budget as passed assumed that DSS would implement a mass modification to the system after the first quarter , resulting in a reduction of approximately 2,000 cases in October. However, DSS has opted to implement this limit at the time of a family's six-month review. This rolling implementation of the policy has significantly reduced anticipated savings in FY 02.

**SAGA**

OFA is projecting a deficiency of $1.2 million in the SAGA program. This deficiency is due to higher than budgeted medical costs over the first two months of the fiscal year.

**Department of Correction**

| OPM *Deficiency* | OFA *Gross Deficiency* | Less: Available Funds | OFA Net (Deficiency)/ Surplus |
|---|---|---|---|
| **$(7,000,000)** | **$(3,500,000)** | **$5,800,000** | **$2,300,000** |

The Department of Correction (DOC) has a projected gross deficiency of $3.5 million, which represents approximately .1% of the original FY 02 appropriation. This assumes that a Personal Services holdback of $2.6 million, an Other Expenses holdback of $2.7 million and $471,000 in allotment reductions from various accounts are not released. If the holdbacks and allotment reductions are released and the other unspent funding is made available via FAC transfer, no deficiency would result. It should be noted that an additional $9 million is being withheld in Personal Services pending settlement of an NP-4 contract.

This gross deficiency is due to the recent increase in the number of offenders in the department's custody. On July 1, 2001 there were approximately 17,700 incarcerated offenders and in just three months this figure has grown to 18,200. This growth in the inmate population has had an impact on the department's overtime, medical services, and other expenses. In addition, areas of prisons that had been closed last year, particularly dorms located at J.B. Gates Correctional Institution in Niantic, have been reopened to deal with the growing prison population. It is anticipated that before the end of the calendar year about 150 correction officers will enter the staff rotation and reduce overtime considerably.

Historically, deficiency projections for the department at such an early point in the fiscal year have significantly decreased as the year progresses. It does not appear that the current projected deficiency will have an impact on FY 03. The department's appropriation will increase by 5% in FY 03 and the 600-bed expansion at MacDougall Correctional Institution in Suffield is expected to be in operation. Finally, it should be noted that DOC may experience a deficiency in the workers compensation account related to the delay in the sale of certain claims through a statewide initiative. The department's budget was reduced by $4 million for this purpose.

**Department of Administrative Services (DAS) – Workers' Compensation Claims (General Fund/Special Transportation Fund)**

| OPM *Deficiency* | OFA *Gross Deficiency* | Less: Available Funds | OFA Net (Deficiency)/ Surplus |
|---|---|---|---|
| **$(5,000,000)** | **$(5,260,000)** | **$0** | **$(5,260,000)** |

There is a state-wide deficiency in Workers' Compensation (WC) Claims accounts of $5.26 million in the General Fund and $380,000 in the Special Transportation Fund, an increase of 11.8% over original FY 02 appropriations. This deficiency is due to a delay in the transfer of certain WC Claims to a private insurance company. WC appropriations are made directly to five state agencies (the Departments of Correction, Mental Retardation, Mental Health and Addiction Services, Public Safety, and Children and Families) and to the DAS WC Claims accounts for all other state agencies. The WC Claims budgets were reduced by 22% from Current Services in FY 02 (and 21% in FY 03) due to the proposal to transfer claims to a private insurer. Savings were based on a July 1st transfer date. The transfer of claims is not expected to occur before December 1, 2001. OPM has proposed that the shortfalls be covered by one deficiency appropriation to the central DAS WC Claims account. The moneys would then be transferred to the respective state agencies by action of the Finance Advisory Committee as authorized by Section 29 of SA 01-1, JSS, the Appropriations Act.

| **Budget Reductions from Transferring Workers' Compensation Cases to a Private Insurer** | | | |
|---|---|---|---|
| | | | |
| **STATE AGENCY** | **FY 02** | **FY 03** | **BIENNIUM** |
| | | | |
| Department of Correction | $4,098,299 | $4,339,007 | $8,437,306 |
| DAS - WC Claims (All Other GF State Agencies) | 3,011,908 | 2,873,291 | 5,885,199 |
| Department of Mental Retardation | 2,631,414 | 2,570,555 | 5,201,969 |
| Department of Mental Health and Addiction Services | 1,511,140 | 1,516,406 | 3,027,546 |
| Department of Children and Families | 801,065 | 788,726 | 1,589,791 |
| Department of Public Safety | 566,931 | 533,819 | 1,100,750 |
| **TOTAL - GENERAL FUND** | **$12,620,757** | **$12,621,804** | **$25,242,561** |
| DAS - WC Claims – Special Transportation Fund | $910,043 | $888,996 | $1,799,039 |
| **TOTAL – SPECIAL TRANSPORTATION FUND** | **$910,043** | **$888,996** | **$1,799,039** |
| **TOTAL - ALL FUNDS** | **$13,530,800** | **$13,510,800** | **$27,041,600** |

**Reserve for Salary Adjustments Account (General Fund/Special Transportation Fund)**

| **OPM *Deficiency*** | **OFA *Gross Deficiency*** | **Less: Available Funds** | **OFA Net (Deficiency)/ Surplus** |
|---|---|---|---|
| **$(4,000,000)** | **$(4,000,000)** | **$0** | **$(4,000,000)** |

The Reserve for Salary Adjustments General Fund account has a projected deficiency of $4 million and the Special Transportation Fund has a projected gross deficiency of $4.6 million.

The gross deficiency is due primarily to the approval of the Maintenance (NP-2) Arbitration Award and the New England Health Care Employees Union, District 1199 (P-1) and (NP-6) Arbitration Award. Both of these awards exceeded the budgeted resources of the Reserve for Salary Adjustment Account.

**State Employee Health Services**

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

The State Employees Health Service Cost account has a projected deficiency of $10 million, which represents 3.98 % of the original FY 02 appropriation. This deficiency is due primarily to lower than anticipated recoveries from other funds. The State Employees Health Service Cost account is funded on a net basis and the anticipated recovery rate was higher than the actual recovery rate set by the State Comptroller.

**Total Projected General Fund Deficiencies:**

| OPM *Deficiency* | OFA *Major Deficiencies* | Less: Available Funds | OFA Net (Deficiency)/ Surplus |
|---|---|---|---|
| **$(54,000,000)** | **$(48,033,913)** | **$34,343,475*** | **$(13,690,438)** |

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

## Summary of General Fund Lapsing Appropriations for FY 02

| Agency | | Amount (in millions) |
|---|---|---|
| **Status of Budgeted Lapses:** | | |
| Office of Policy and Management - Justice Assistance Grants | $ 1.3 | |
| Office of Policy and Management - Drug Enforcement | 2.0 | |
| Department of Labor - Jobs First Employment Services | 1.5 | |
| Dept. of Environmental Protection - Kelda Land Acquisition | 1.2 | |
| Dept. of Environmental Protection - Residential Underground Storage Tanks | 1.5 | |
| Dept. of Economic and Community Dev. - Clusters and Central Tourism | 1.4 | |
| Department of Social Services - ConnPACE, Aid to the Disabled, etc. | 8.0 | |
| Debt Service | 15.1 | |
| Social Security | 1.0 | |
| Retired State Employee Health Benefits | 3.6 | |
| Total - Significant Identified Lapsing Appropriations | $ 36.6 | |
| Other Identified Lapses (less than $1 million each) & Unidentified Lapses | 42.7 | |
| Subtotal | | $ 79.3 |
| **General Personal Services and Other Expenses Reductions:** | | |
| Personal Services Holdbacks | $ 13.5 | |
| Other Expenses Holdbacks | 11.0 | |
| Subtotal | | 24.5 |
| **Total Projected Lapses** | | $ 103.8 |
| **Allotment Reductions [1]** | | 20.3 |
| **Total Projected Lapses / Reductions** | | $ 124.1 |

1] In addition to $20.3 million in FY 02 operating budget allotment reductions which he can implement under existing statutory authority, the governor has proposed $57.3 million in FY 01 surplus appropriation reductions which would require legislative approval. Our projections do not include any FY 01 surplus appropriation reductions since these will undergo legislative review. The governor has also established $8.9 million additional lapse targets for agencies to achieve in FY 02. Our projections do not include these FY 02 lapse target reductions because it is uncertain whether these targets will be achieved and if so, whether they will become additional savings beyond the lapse associated with the budget plan.

## II. Transportation Fund

Our projections for the fiscal year ending June 30, 2002 indicate the **potential surplus from operations, based on increased revenues, has increased by $9.0 million** from the $21.7 million originally budgeted **to $30.7 million** (which represents 3.7% of the original budget). The cumulative surplus as of June 30, 2002 is projected to be $166.4 million.

### Revenues

Transportation Fund revenue is estimated at $875.0 million, which is an increase of $12.6 million over budget plan estimates. Increases in the Motor Fuels Tax ($7.7 million), Sales Tax collected by the Department of Motor Vehicles ($2.0 million), and Interest Income ($5.0 million) is partially offset by an increase in refunds ($2.1 million).

The modifications made to FY 02 budget plan estimates are due to higher than anticipated FY 01 collections. Since FY 01 actual collections turned out to be higher than what was anticipated back when the FY 02 estimates were adopted, FY 02 estimates have been adjusted to reflect FY 01 actuals.

### Expenditures

Transportation Fund expenditures are estimated at $844.3 million, which is $3.6 million higher than the original appropriation. The increased expenditures are the result of a $4.6 deficiency in the Reserve for Salary Adjustment Account as a result of the new collective bargaining contract for the maintainer's unit. (Please refer to the FY 01 Transportation Fund Summary on **page 17**.)

Based on the Appropriations budget, long-term projections indicate that the Transportation Fund will begin experiencing annual operating deficits beginning in FY 04, which will lower the cumulative surplus of the prior years to $123.3 million in FY 06. (Please refer to **page 19** for Transportation Fund projections from FY 02 through FY 06).

**FY 02 Transportation Fund Summary**

**as of October 26, 2001**
**(in millions)**

| | FY 02 Budget Plan | Increases (Decreases) | Revised Estimates |
|---|---|---|---|
| **Revenues** | | | |
| Taxes | $ 514.4 | $ 7.6 | $ 522.0 |
| Other Revenue | 348.0 | 5.0 | 353.0 |
| Total Estimated Revenues | $ 862.4 | $ 12.6 | $ 875.0 |
| **Appropriations** | | | |
| Original Appropriations – Gross | $ 860.7 | $ 0.0 | $ 860.7 |
| Plus: Estimated Deficiency Appropriations [1] | 0.0 | 4.6 | 4.6 |
| Less: Estimated Budgeted Lapses [2] | (20.0) | (1.0) | (21.0) |
| Total Estimated Expenditures | $ 840.7 | $ 3.6 | $ 844.3 |
| **Estimated Surplus from Operations for FY 02** | **$ 21.7** | **$ 9.0** | **$ 30.7** |
| **Plus: Cumulative Surplus as of June 30, 2001** | **$ 135.7** | **$ 0.0** | **$ 135.7** |
| **Projected Fund Balance as of June 30, 2002** | **$ 157.4** | **$ 9.0** | **$ 166.4** |

[1] Estimated deficiency of $4.6 million for impact of maintainer's unit collective bargaining contract in Reserve for Salary Adjustment Account.

[2] Includes $1.0 million allotment rescission in the Department of Transportation.

## FY 02 Transportation Fund Revenues

**as of October 26, 2001**
**(in millions)**

| | FY 02 Budget Plan | OFA Over/(Under) Budget Plan | FY 02 OFA Estimate |
|---|---|---|---|
| **TAXES** | | | |
| Motor Fuels Tax | $413.9 | $7.7 | $421.6 |
| Petroleum Products Tax | 46.0 | 0 | 46.0 |
| Sales Tax - DMV | 60.0 | 2.0 | 62.0 |
| Refunds of Taxes | (5.5) | (2.1) | (7.6) |
| **Total - Taxes Less Refunds** | **$514.4** | **$7.6** | **$522.0** |
| **OTHER SOURCES** | | | |
| Motor Vehicle Receipts | $197.3 | $0 | $197.3 |
| Licences, Permits, and Fees | 123.0 | 0 | 123.0 |
| Interest Income | 37.0 | 5.0 | 42.0 |
| Federal Grants (FTA) | 3.0 | 0 | 3.0 |
| Transfer to Conservation Fund | (3.0) | 0 | (3.0) |
| Refunds of Payments | (2.8) | 0 | (2.8) |
| Transfer to Emissions Fund | (6.5) | 0 | (6.5) |
| **Total -Other Sources** | **$348.0** | **$5.0** | **$353.0** |
| **Total Revenue** | **$862.4** | **$12.6** | **$875.0** |

## Transportation Fund Projections FY 02 - FY 06
## (in millions)

| | FY 02 | FY 03 | FY 04 | FY 05 | FY 06 |
|---|---|---|---|---|---|
| Estimated Balance as of June 30 | $135.7 | $166.4 | $181.8 | $179.9 | $162.4 |
| Revenues | 875.0 | 892.1 | 903.5 | 909.7 | 910.6 |
| Expenditures | 844.3 | 876.7 | 905.4 | 927.2 | 949.4 |
| **Annual Operating Surplus/(Deficit)** | **$30.7** | **$15.4** | **$(1.9)** | **$(17.5)** | **$(39.1)** |
| **Cumulative Operating Surplus/(Deficit)** | **$166.4** | **$181.8** | **$179.9** | **$162.4** | **$123.3** |