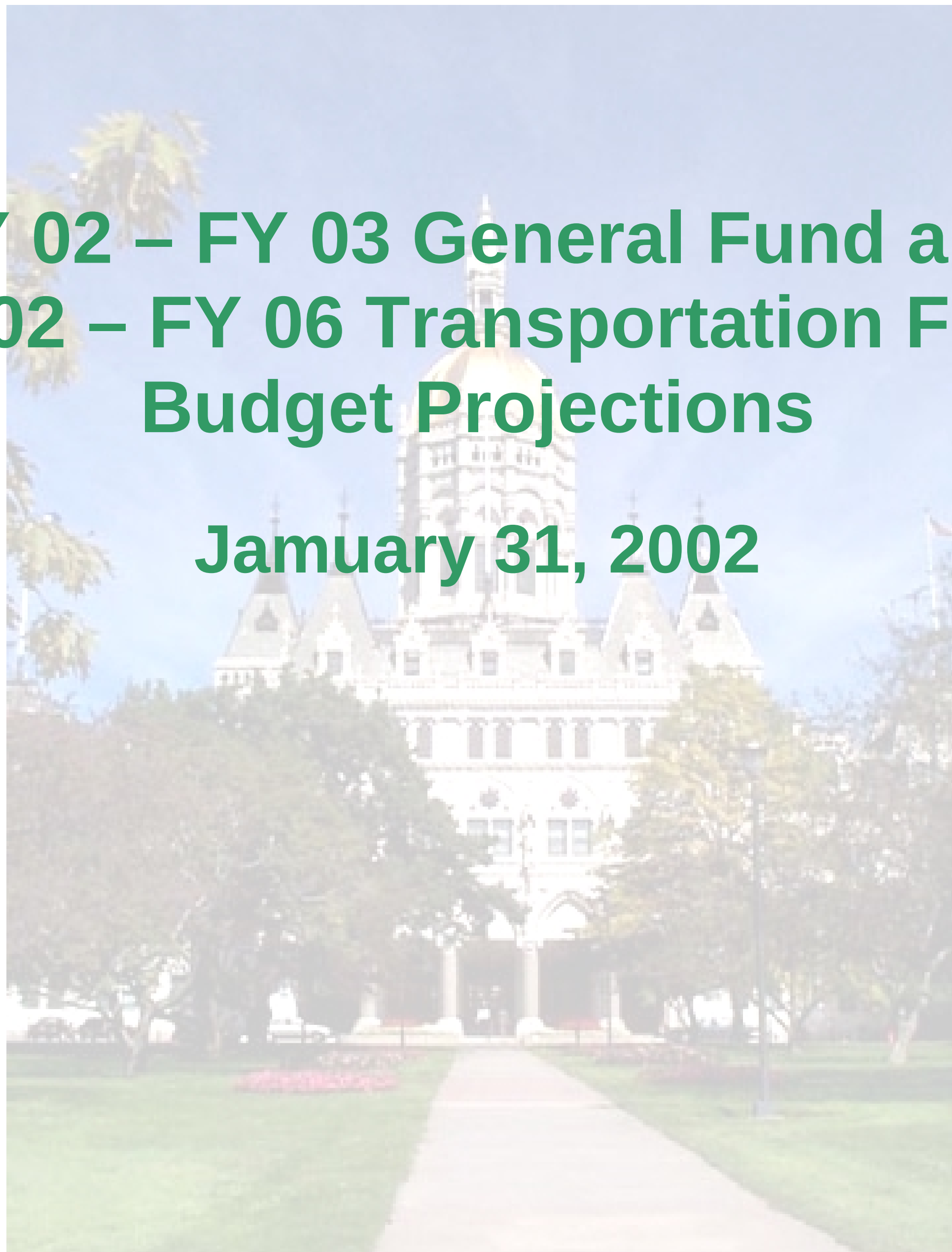
Connecticut General Assembly
OFFICE OF FISCAL ANALYSIS

FY 02 – FY 03 General Fund and FY 02 – FY 06 Transportation Fund Budget Projections

Jamuary 31, 2002



Report Highlights

- The **current FY 02 General Fund deficit** is projected at **$551.7 million** including savings measures implemented after passage of the original FY 02 budget. See **pages 3 – 22** for details.

- The **FY 03 General Fund deficit** is projected at **$710.1 million** including the potential continuation into FY 03 of the savings measures implemented after passage of the original FY 02 budget. See **pages 23 - 28** for details.

- **The FY 02 Transportation Fund operating surplus has increased to $28.7 million,** up $7.0 million from the $21.7 million originally budgeted. Projections indicate that the Transportation Fund **will begin to experience annual operating deficits in FY 04,** which **will lower the cumulative surplus of the fund to $97.2 million by the end of FY 06.** See **page 29 - 32** for details.

FY 02 - FY 03 General Fund and FY 02 - FY 06 Transportation Fund Budget Projections

(as of January 31, 2002)

I. General Fund

<u>FY 02</u>

Our projections for the fiscal year ending June 30, 2002 indicate a **potential deficit** of **$765 million** (which represents 6.4% of the original budget) **prior to savings measures** implemented after passage of the original FY 02 budget. This deficit is based on revised **estimated revenues** that **are $676.4 million below the budget act estimates** and **estimated expenditures** that **are $88.7 million higher than original net appropriations (partially offset by an original budgeted surplus of $.1 million).**

The $213.3 million in **savings measures** agreed to during the November 15, 2001 Special Session and resulting from governor's allotment reductions **reduce the current shortfall to $551.7 million.**

The **governor's subsequent December/January savings proposals** (which require legislative approval) amount to $172.7 million and if implemented **would further reduce the current shortfall to $379 million.**

<u>FY 03</u>

Our projections for the fiscal year ending June 30, 2003 indicate a **potential deficit** of **$794.4 million** (which represents 6.4% of the original budget) **prior to savings measures** implemented after passage of the original FY 02 budget. This deficit is based on revised **estimated revenues** that **are $682.6 million below the budget act estimates** and **estimated expenditures** that **are $112.4 million higher than original net appropriations (partially offset by an original budgeted surplus of $.6 million).**

The potential continuation into FY 03 of $84.3 million in **savings measures** agreed to during the November 15, 2001 Special Session and resulting from governor's allotment reductions **could reduce the shortfall to $710.1 million.**

The potential contribution of the **governor's subsequent December/January savings proposals** (which require legislative approval) amount to $15.4 million and if implemented **would further reduce the shortfall to $694.7 million.**

FY 02 General Fund Summary
as of January 31, 2002
(in millions)

	FY 02 Budget Plan	FY 02 Increases (Decreases)	FY 02 Revised Estimates
Revenues			
Taxes	$ 8,754.2	$ (679.0)	$ 8,075.2
Other Revenue	1,023.6	(13.4)	1,010.2
Other Sources	2,116.3	16.0	2,132.3
Total Revenue	**$ 11,894.1**	**$ (676.4)**	**$ 11,217.7**
Appropriations			
Original Appropriations - Gross	$ 11,997.8	$ 0.0	$ 11,997.8
Less:			
Estimated Budgeted Lapses	(103.8) [1]	0.0	(103.8)
Plus:			
Estimated Deficiency Appropriations	0.0	70.7	70.7
Estimated Adjudicated Claims	0.0	9.0	9.0
Estimated Refunds of Escheated Property	0.0	9.0	9.0
Total Appropriations / Estimated Expenditures	**$** 11,894.0	$ 88.7	$ 11,982.7
Shortfall Prior to Savings Measures	***$ 0.1***	***$ (765.1)***	***$ (765.0)***
Savings Measures Implemented After Passage of the Original FY 02 Budget:			
Operating Budget Reductions (SA 01-1, Nov. 15, 2001 Special Session)	$ 0.0	$ (35.3)	$ (35.3)
Surplus Approp. Reductions (SA 01-1, Nov. 15, 2001 Special Session)	0.0	(129.0)	(129.0)
Allotment Reductions (as implemented by the Governor on 9/28/01-$20.3m and 12/20/01-$12.7m)	0.0	(33.0)	(33.0)
Other Savings (including targetable lapses-$8.9m and carryforward reductions-$7.1m) [2]	0.0	(16.0)	(16.0)
Total Savings Measures Implemented After Passage of the Original FY 02 Budget:	**$** 0.0	$ (213.3)	$ (213.3)
Current Shortfall After Implemented Savings	***$ 0.1***	***$ (551.8)***	***$ (551.7) [3]***
Governor's December/January Proposals Requiring Legislative Approval [4]:			
Additional Surplus Appropriation Reductions	$ 0.0	$ (157.3)	$ (157.3)
Forced Lapses	0.0	(13.6)	(13.6)
Additional Carryforward Reductions	0.0	(1.8)	(1.8)
Total Governor's Dec. / Jan. Proposals Requiring Legislative Approval	**$** 0.0	$ (172.7)	$ (172.7)
Shortfall Assuming Gov.'s Dec. / Jan. Proposals	***$ 0.1***	***$ (379.1)***	***$ (379.0) [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] The administration and legislative leadership agreed in principle to $7.1 million in carryforward reductions during November budget negotiations and legislation is required to implement them.

[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.)

[4] In December, the governor also proposed transferring $41 million from monies received under the Tobacco Settlement Agreement to General Fund revenue. This suggestion was not included in the governor's revised mitigation plan proposed in January. Also, the governor has proposed in January to reduce surplus appropriations by an additional $157.3 million in lieu of the $41.4 million in surplus reductions that he proposed in December. It is uncertain whether the governor's forced lapses and additional carryforward reductions will be achieved and if so, whether they will become additional savings beyond the lapse already required by the budget plan.

FY 03 General Fund Summary
as of January 31, 2002
(in millions)

	FY 03					
		Budget Plan		Increases (Decreases)		Revised Estimates
Revenues						
Taxes	$	9,107.4	$	(666.8)	$	8,440.6
Other Revenue		1,044.0		(30.7)		1,013.3
Other Sources		2,280.6		14.9		2,295.5
Total Revenue	**$**	**12,432.0**	**$**	**(682.6)**	**$**	**11,749.4**
Appropriations						
Original Appropriations - Gross	$	12,538.2	$	0.0	$	12,538.2
Less:						
Estimated Budgeted Lapses		(106.8) [1]		0.0		(106.8)
Plus:						
Estimated Technical Adjustments (Net)		0.0		112.4 [2]		112.4
Total Appropriations / Estimated Expenditures	**$**	12,431.4	$	112.4	$	12,543.8
Shortfall Prior to Savings Measures	***$***	***0.6***	***$***	***(795.0)***	***$***	***(794.4)***
Potential Continuation into FY 03 of Savings Measures Implemented After Passage of the Original FY 02 Budget [3]:						
Operating Budget Reductions (SA 01-1, Nov. 15, 2001 Special Session)	$	0.0	$	(35.3)	$	(35.3)
Allotment Reductions (as implemented by the Governor on 9/28/01-$20.3m and 12/20/01-$12.7m)		0.0		(33.0)		(33.0)
Other Savings (including targetable lapses-$8.9m and carryforward reductions-$7.1m) [4]		0.0		(16.0)		(16.0)
Total Savings Measures Implemented After Passage of the Original FY 02 Budget:	**$**	0.0	$	(84.3)	$	(84.3)
Shortfall After Implemented Savings	***$***	***0.6***	***$***	***(710.7)***	***$***	***(710.1) [5]***
Potential Continuation into FY 03 of Savings from Governor's December/January Proposals Requiring Legislative Approval [6]:						
Forced Lapses	$	0.0	$	(13.6)	$	(13.6)
Additional Carryforward Reductions		0.0		(1.8)		(1.8)
Total Governor's Dec. / Jan. Proposals Requiring Legislative Approval	**$**	0.0	$	(15.4)	$	(15.4)
Shortfall Assuming Gov.'s Dec. / Jan. Proposals	***$***	***0.6***	***$***	***(695.3)***	***$***	***(694.7) [5]***

[1] Includes approximately $80.8 million in budgeted lapses and $26 million in general PS, OE and DoIT reductions (holdbacks) as adopted in the original budget plan.

[2] Technical Adjustments include necessary current services changes resulting from: (1) revised caseload or formula-driven estimates; (2) roll-out of FY 02 projected deficiencies as appropriate; and (3) continuation of funding for ongoing programs previously funded in FY 02 from FY 01 surplus.

[3] FY 02 surplus appropriation reductions of $129 million have been used to reduce the FY 02 deficit.

[4] The administration and legislative leadership agreed in principle to $7.1 million in carryforward reductions during November budget negotiations and legislation is required to implement them.

[5] 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.)

[6] In December, the governor also proposed transferring $41 million from monies received under the Tobacco Settlement Agreement to General Fund revenue. This suggestion was not included in the governor's revised mitigation plan proposed in January. Also, the governor has proposed in January to reduce surplus appropriations by an additional $157.3 million in lieu of the $41.4 million in surplus reductions that he proposed in December and this reduction would be used to reduce the FY 02 deficit. It is uncertain whether the governor's forced lapses and additional carryforward reductions will be achieved and if so, whether they will become additional savings beyond the lapse already required by the budget plan.

Economic Forecast

Connecticut like 44 other states is facing deteriorating economic conditions caused in part by the events of September 11 but more emphatically by the deteriorating labor market and the dramatic reversals in the stock market. The state surpluses of the past ten years were attributable to the converse: full employment and unprecedented stock market gains.

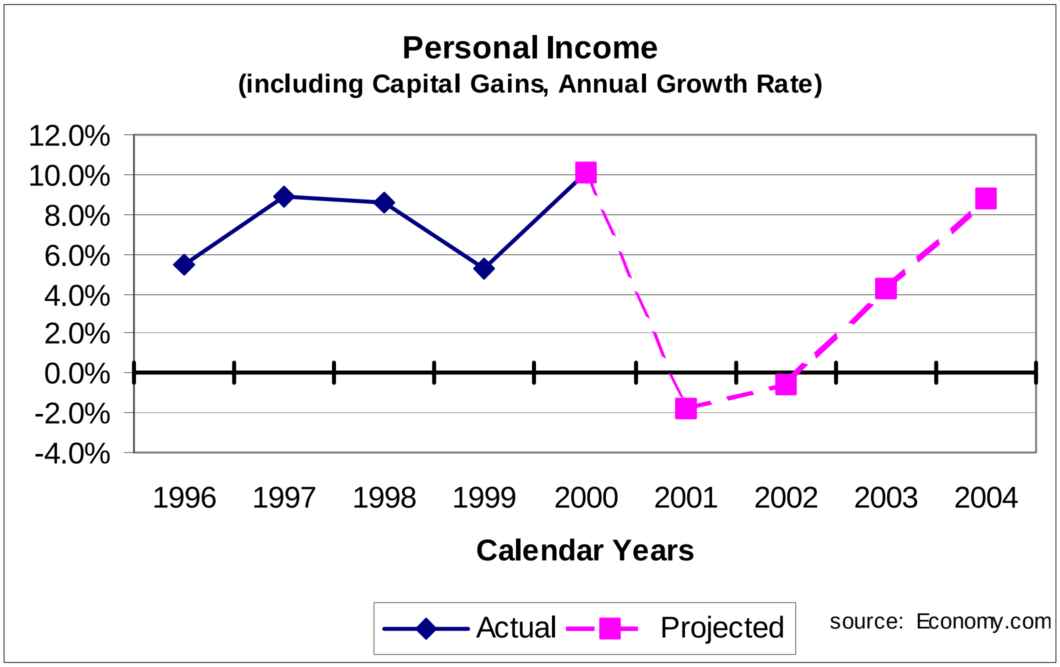
New Jersey, New York, Massachusetts and Connecticut share similar economic characteristics. We all have high per capita incomes, diverse economies, an educated workforce and a state economy dependent on exports, finance, research, venture capital, pharmaceuticals, high tech, defense spending and tourism. The current United States recession, which officially began in March 2001 (National Bureau of Economic Research), as well as weaknesses in Canada, Japan, Asia and Europe, affected all of these sectors.

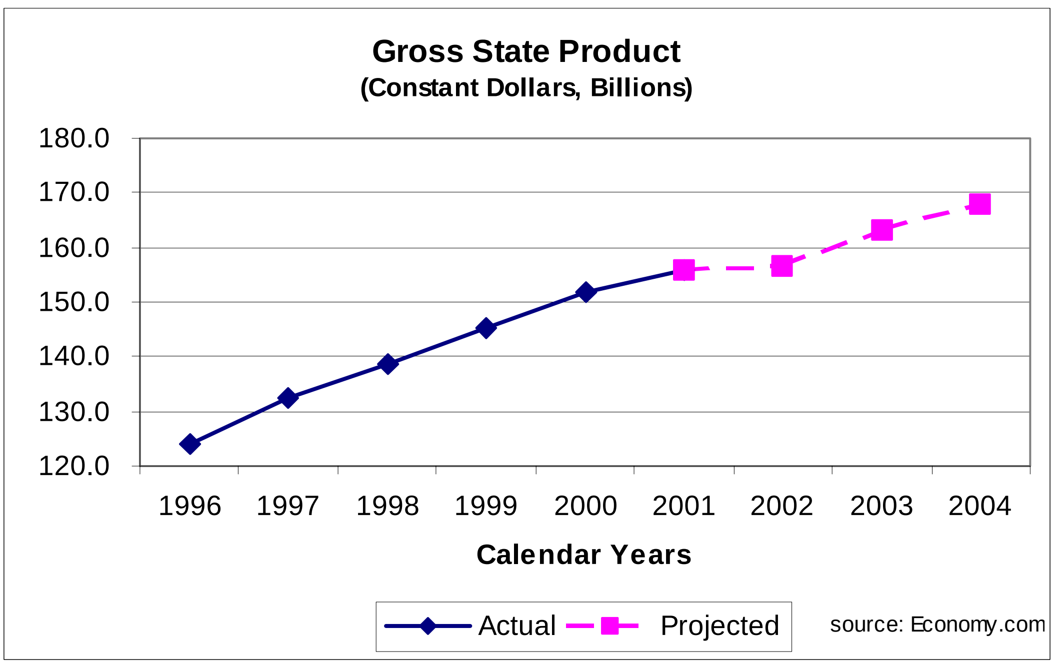
OFA contracts with Economy.com for forecasting of future economic growth for the state. Their January 25, 2002 report reflects the following:

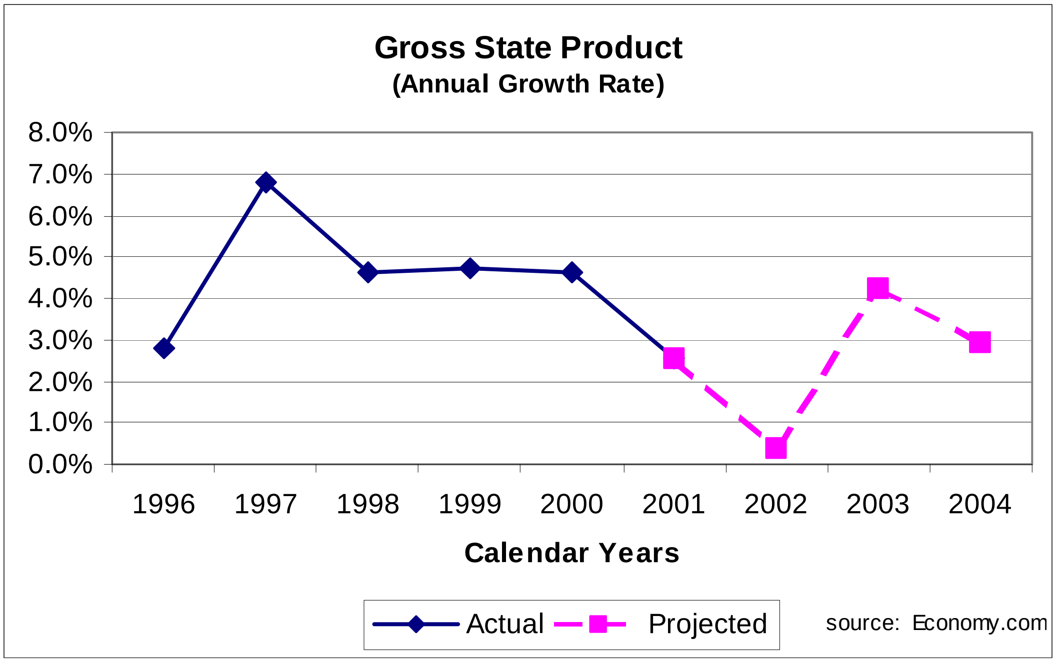
- Economic activity in CT has now decelerated for six consecutive quarters.
- Growth in total employment has now contracted for five consecutive months, accelerating each month.
- Jobs in finance, insurance and real estate remain steady, but all other private industries are experiencing losses.
- CT's high per capita income has supported consumer demand, but current purchasing patterns have begun to weaken which may signal the beginning of a fall in household demand.
- The construction industry began shedding jobs in August of 2001.
- CT's unemployment rate is 3.2%, but additional losses have been suffered in total employment because of an out-migration of the labor force. People are leaving the state to seek jobs elsewhere. Economy.com ranks CT as 50th among the states for employment growth over the next four years.

According to Economy.com, CT is now deeply entrenched in recession, but will begin to emerge in the second half of 2002 with recovering financial markets and investment in information technology.

Most illustrative of past growth and future growth for the state can been seen in estimates of personal income growth as shown in the chart below.


Personal Income
(including Capital Gains, Annual Growth Rate)
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%
1996
1997
1998
1999
2000
2001
2002
2003
2004
Calendar Years
Actual
Projected
source: Economy.com


Gross State Product
(Constant Dollars, Billions)
180.0
170.0
160.0
150.0
140.0
130.0
120.0
1996
1997
1998
1999
2000
2001
2002
2003
2004
Calendar Years
Actual
Projected
source: Economy.com



A cautionary note: Even if growth begins during the summer of 02, a robust economy will only *begin* to emerge. Full effects of the turnaround may not be realized until 2004 with healthy state revenues from taxes expected for state FY 05.

Economic forecasting is based on the unexpected not occurring …… *ceteris paribus*, other things being equal…. The concerns that could alter the forecast include escalating oil prices, disruption of oil supply, major restatement of corporate earnings (the Enron effect), or a further weakening of export markets.

There are many economists, practitioners, businessmen, bankers and others making predictions about the timing and nature of the turn in the business cycle. All are agreed on one fact: the business cycle is just that….a cycle, and recovery will occur whether the recovery begins in July of 2002 or in January of 2003. Whether it is rapid (V-shaped) or gradual (U-shaped) is still to be experienced.

FY 02 Revenues

Total net General Fund revenue is projected to be down $676.4 million compared to budget plan estimates. See revenue schedule on page 11. The reduction in estimated General Fund revenue is based on disappointing collections through the end of January due to a recessionary economy and the effect on consumer and business confidence following the September 11 terrorist attacks. The reductions are mainly in the income tax, sales tax, corporations and inheritance and estate tax as follows:

	Income Tax		Sales Tax		Corporation Tax		Inheritance Tax	
	Revenue (000,000)	Growth %	Revenue (000,000)	Growth %	Revenue (000,000)	Growth %	Revenue (000,000)	Growth %
Budget	$4,841.4	2.4	$3,193.7	5.5	$501.2	3.0	$210.0	(8.4)
10/26/01 Update	4,726.0	(0.4)	3,099.3	3.0	491.2	1.0	160.0	(30.4)
1/31/02 Update	4,485.0	(5.5)	3,060.0	1.7	430.0	(10.0)	150.0	(34.7)
Diff. Budget & 1/31/02	$(356.4)		$(133.7)		$(71.2)		$(60.0)	

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. The economy entered a recessionary period in March of 2001 and the prospects of a significant pickup in the second half of the fiscal year are remote. 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 stimulus.

The largest single adjustment to the revenue estimates is the personal income tax. Income tax revenue is derived from three main sources: 1) wage and salary income, 2) capital gains from stock market activity and 3) other income such as interest, dividends, proprietor's income (e.g. partnership distributions), property income (e.g. rentals) and certain transfer payments. The tax on wage and salary income is witheld and remitted by employers. The tax on capital gain and other non-wage income is remitted by individuals through estimated and final payments.

The following table shows the adjustments in the estimates of these income tax sources.

	Wage & Salary		Estimated Payments		Finals	
	Revenue (000,000)	Growth %	Revenue (000,000)	Growth %	Revenue (000,000)	Growth %
Budget Act	$3,130.0	6.2	932.5	(4.1)	689.1	(4.0)
OFA 10/26/01	2,997.5	1.8	950.5	(3.4)	688.3	(4.4)
1/31/02 Update	2,929.4	(0.5)	871.2	(11.4)	594.7	(17.4)

The collections from wage and salary withholding for the August through January period are down $28.3 million from the same period a year ago. The adjustment to the wage and salary component reflects the recessionary economy (loss of jobs, reduction in overtime, and the decline in bonuses and profit sharing payments).

Revenue from estimated payments through January 2002 are down $113.4 million from same period a year ago. The adjustment to capital gains reflects an even greater decline than originally forecast in capital gains realizations as the recession, terrorist attacks, and bankruptcies took their toll on the stock market. These same factors also had a depressing effect on most other sources of income such as dividends and partnership income.

The fourth quarter estimated payments received through January is a leading indicator of the level of final payments due in April. The relationship of estimated payment revenue to revenue from final payments has ranged from 60% to 74% over the last 7 years with 67% being the average. We have used the average to project final payment revenue which resulted in a downward revision of $94.4 million in revenue from final payments.

The sales tax adjustment reflects the recessionary economy; not as much as one would expect in consumer spending which has held up pretty well in the face of job losses and eroding consumer confidence, but in business purchases which represent around 40% of sales tax revenue. The strain on profit levels forced companies to reduce purchases of goods and services and many companies froze their capital spending decisions after the terrorist attacks. After adjusting for tax changes the change in revenue from July through December is marginally positive versus same period a year ago.

Most directly affected by the recession is the corporation tax as corporate profits have plummeted at a double digit rate, as sales slowed faster than companies could adjust their cost structure.

The reduction in inheritance and estate tax revenue is due in part to lower stock prices (typically large estates consist of 70 to 80% stocks and bonds and other intangibles) and in part to a larger than anticipated effect of eliminating the tax on transfers to immediate family members (Class A).

Downward adjustments to Public Service Companies and Oil Companies tax reflect that: 1) energy prices (oil, natural gas, gasoline) are forecasted to be substantially lower (7% for petroleum based products and 29% for natural gas, 2) demand has been lower due to the recession, 3) weather conditions are milder compared to last winter, and 4) inventories of key heating fuels, especially natural gas, are noticeably above year-ago levels.

The interest income estimate has been revised downward to reflect reduced tax revenue (less positive cash flow) and a lower rate of return on the Short Term Investment Fund (2% this year verses 6% last year).

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

FY 02 General Fund Revenue
as of January 31, 2002
(in thousands)

	Budget Plan		OFA Estimate		OFA
	Growth Rate % [1]	FY 02 Estimate	Growth Rate % [1]	FY 02 Estimate	Over/(Under) Budget Plan
Taxes					
Personal Income	2.4	$4,841,400	(5.5)	$4,485,000	$(356,400)
Sales and Use	5.5	3,193,700	1.7	3,060,000	(133,700)
Corporations	3.0	501,200	(10.0)	430,000	(71,200)
Inheritance and Estate	(9.4)	210,000	(34.7)	150,000	(60,000)
Public Service Corporations	6.7	189,700	0.0	180,400	(9,300)
Insurance Companies	2.1	192,000	2.6	192,000	0
Cigarettes	(2.5)	117,000	(0.4)	119,000	2,000
Oil Companies	(0.8)	61,800	(10.0)	46,400	(15,400)
Real Estate Conveyance	(2.0)	110,000	(2.0)	110,000	0
Alcoholic Beverages	0.0	41,000	(0.2)	41,000	0
Miscellaneous	3.0	36,100	3.0	36,100	0
Admissions, Dues and Cabaret	2.0	25,300	2.6	25,300	0
Total Taxes		**$9,519,200**		**$8,875,200**	**$(644,000)**
Refunds of Taxes		$(751,000)		$(780,000)	$(29,000)
R & D Credit Exchange		(14,000)		(20,000)	(6,000)
Net General Fund Taxes		**$8,754,200**		**$8,075,200**	**$(679,000)**
Other Revenue					
Transfer Special Revenue		$265,200		$278,000	$12,800
Indian Gaming Payments		360,000		376,000	16,000
Licenses, Permits and Fees		128,200		128,200	0
Sales of Commodities and Services		28,800		28,800	0
Rentals, Fines and Escheats		51,200		51,200	0
Investment Income		62,700		34,000	(28,700)
Miscellaneous		128,000		114,500	(13,500)
Total Other Revenue		**$1,024,100**		**$1,010,700**	**$(13,400)**
Refunds of Payments		$(500)		$(500)	$0
Net Other Revenue		**$1,023,600**		**$1,010,200**	**$(13,400)**
Other Sources					
Federal Grants		$2,144,300		$2,160,000	$15,700
Transfer from Tob. Settlement Fund		120,000		120,000	0
Transfer to Other Funds		(148,000)		(147,700)	300
Total - Other Sources		**$2,116,300**		**$2,132,300**	**$16,000**
Total Revenue		**$11,894,100**		**$11,217,700**	**$(676,400)**

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

FY 02 Expenditures

The $88.7 million increase in expenditures is largely attributable to the effect of projected deficiencies totaling $70.7 million. The increase in net deficiencies is largely due to the Department of Social Services ($29.4 million).

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

The most significant lapse of $19.5 million has been identified in Debt Service. This lapse is largely due to lower than budgeted interest rates for General Obligation bonds issued in the Fall of 2001, bond premiums and refunding savings.

Shortfall estimates could be greater to the degree that certain account balances, that would otherwise lapse, are authorized to be carried forward into FY 03.

Savings measures implemented after passage of the original FY 02 budget include:

Operating Budget Reductions (SA 01-1, Nov. 15, 2001 Special Session)	$(35.3)
Surplus Appropriation Reductions (SA 01-1, Nov. 15, 2001 Special Session)	(129.0)
Allotment Reductions Implemented by the Governor ($20.3 million in September and $12.7 million in December)	(33.0)
Other Savings ($8.9 million in targetable lapses and $7.1 million in carryforward reductions)	(16.0)
Total Savings Implemented after Passage of the Original FY 02 Budget	$(213.3)

Savings associated with the governor's December/January proposals, which would require legislative approval include:

Additional Surplus Appropriation Reductions	$(157.3)
Forced Lapse	(13.6)
Additional Carryforward Reductions	(1.8)
Total Savings from Governor's Dec. / Jan. Proposals	$(172.7)

FY 02 Projected General Fund Deficiencies

State Insurance and Risk Management Board

OPM *Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(1,100,000)	**$(1,400,000)**	**$297,045**	**$(1,102,955)**

The State Insurance and Risk Management Board has a projected gross deficiency of $1.4 million, which represents approximately 16% of the original FY 02 appropriation. This assumes that an Other Expenses holdback of $297,045 will not be released. If the holdback were released, a $1,102,955 deficiency would result.

The deficiency is due to a 69% increase in the premium on the state's property coverage policy from $1,327,000 to $2,247,000. The previous policy expired on November 1, 2001. It is traditionally paid in one lump sum prior to the effective date of the policy. In addition, an increase in the state's master liability policy, which was up for renewal in December, has occurred. The primary factors involved in the increase are the general increase in the state's property values and a tightening insurance market following the September 11th terror attacks.

Department of Information Technology

OPM *Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(1,900,000)	**$(1,900,000)**	**$163,969**	**$(1,736,031)**

A deficiency appropriation of $1.9 million is requested for the implementation of the Health Insurance Portability and Accountability Act (HIPAA) requirements. This federally-mandated program requires significant changes in the electronic storage of medical records. The Department of Information Technology will coordinate the this project, which primarily impacts the Department of Social Services, but also affects many other state health and human services agencies. Originally, $2,352,213 was provided in FY 02 from FY 01 surplus funds, but this amount was reduced to $1.5 million in the November 2001 Special Session. If Personal Services and Other Expenses holdbacks were released, the deficiency appropriation would be reduced to approximately $1.7 million.

Department of Public Safety

OPM *Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(1,281,222)	$(1,600,000)	$1,700,000	$100,000

Military Department

OPM *Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(800,000)	$(500,000)	$121,852	($378,148)

The Office of Policy and Management estimates that both the Department of Public Safety (DPS) and the Military Department (MD) will have deficiencies of approximately $1.3 million and $800,000 million respectively. 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.

In addition, DPS has a projected deficiency in the Workers Compensation account ($800,000). All General Fund Workers' Compensation accounts have deficiencies, primarily due to the delay in the transfer of 660 Workers' Comp cases to a private insurance company.

Department of Environmental Protection

OPM *Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(800,000)	$(800,000)	$400,000	$(400,000)

The Department of Environmental Protection (DEP) will have a projected gross deficiency of approximately $800,000. These costs are due to the additional activity incurred by the DEP as a result of the Anthrax scares and the increased need for emergency responses and increased environmental conservation costs. This deficiency assumes that a Personal Services holdback of $258,760 and an Other Expense holdback of $147,743 are not released. If the holdbacks were released, an estimated net deficit of $400,000 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. There have been approximately 620 emergency calls to DEP related to bio-terrorism. This activity results in increased costs for overtime, contractors, decontamination, chemical suits, etc.

The $300,000 deficiency in Other Expenses for the state parks is due to increased costs for supplies, materials, and non-discretionary fixed costs. Funding through the GF and the special non-appropriated Conservation Fund have remained virtually stagnant for these items, as costs have risen. In the past, funding needs could be shifted to the non-appropriated fund to compensate for needed funds to administer the conservation programs. The Conservation Fund is anticipated to run a deficiency by FY 03.

Department of Public Health

OPM *Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(500,000)	$(250,000)	$2,849,837	$2,599,837

The Department of Public Health is anticipated to incur a gross deficiency of approximately $250,000 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 $1.3 million in allotment reductions and targeted lapses under various accounts are not released. The agency is also anticipated to lapse $1.1 million in other accounts. If the holdbacks, allotment reductions and lapse are released and/or made available via FAC transfer, an estimated surplus of approximately $2.6 million would result.

Department of Mental Retardation

OPM *Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(859,419)	$(3,360,000)	$5,386,636	$2,026,636

The Department of Mental Retardation has a projected gross deficiency of $3.36 million, which represents .48% of the original FY 02 appropriation. This assumes that Personal Services and Other Expenses holdbacks totaling $3,012,538 and $1,224,098 in allotment reductions to three accounts are not released. It is anticipated that the department will lapse $1.15 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 surplus of $2 million would result.

This gross deficiency is due to higher than anticipated costs in the Early Intervention and Workers' Compensation accounts. 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.

The Workers' Compensation account is anticipating a $860,000 deficiency due to a delay in the transfer of old claims.

Department of Mental Health and Addiction Services

OPM Deficiency	*OFA Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(3,100,000)	$(2,790,000)	$10,200,000	$7,410,000

The Department of Mental Health and Addiction Services has a projected gross deficiency of $2.8 million, which represents .55% 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 $7.4 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 $7.5 million would result.

This gross deficiency is primarily due to higher than anticipated costs in the Other Expenses and Workers' Compensation accounts. The Other Expenses deficiency of $1.69 million represents 5.9% of the original appropriation. This is primarily due to inflationary increases in medications, food and software licensing, higher energy costs, corrective action for Whiting Forensic Institute required by HCFA, and clean up costs due to a fire at the Connecticut Mental Health Center. The $900,000 deficiency in the Workers' Compensation is due to a delay in the transfer of old claims.

Department of Social Services

OPM *Deficiency*	OFA *Net Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(35,000,000)	$(29,420,000)	$12,760,000	$(16,660,000)

The Department of Social Services has a projected net deficiency of $29.4 million, which represents .84% 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 $9.85 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 deficiency of $16.6 million would result.

This gross deficiency is primarily due to increased costs in Medicaid and Temporary Family Assistance.

Medicaid

Medicaid expenditures are estimated to be $31.6 million greater than appropriated for FY 02 based upon 6 months of actual and 6 months of projected data. This represents 1.4 percent of the $2.5 billion account for long-term care and health services.

While almost all areas of Medicaid health services are currently exceeding appropriation levels, three areas of spending represent two-thirds of the projected deficiency in the account for FY 02. Those areas and the projected amount over budget are as follows: 1) pharmacy - $5.73 million; 2) home health care - $8.57 million; and 3) managed care (HUSKY) - $6.65 million. Expenditures in Medicaid long term care are slightly below the appropriated level and are offsetting a portion of the overall deficiency.

Pharmacy costs continue to rise and the cost savings initiatives continue to be difficult to administer. However, the current deficiency is relatively small in comparison to the projected level of expenditures at $259 million. The deficiency represents 2 percent of the account. Pharmacy expenditures have been growing in the range of 14 to 16 percent over the last several years.

The next major item of overspending is in the area of home health care. There are three components to the Connecticut Home care program two funded by Medicaid and one entirely state funded. Deficiencies are occurring in both state and Medicaid funding streams. Two components are funded by Medicaid: a community based waiver program with expanded eligibility criteria and home health care normally provided under the program. The third component is the state-funded home care program that has even more generous eligibility and service criteria than the Medicaid program. Under the Medicaid program a deficiency of $8.57 million is projected out of an expenditure of $216 million. There is also a deficiency in the state funded portion of the program or $3.6 million. Given the total size of the program -- $17.6 million – this projected deficiency represents a 20 percent increase in FY 02 appropriation. The Home Care Program currently provides services to 11,500 residents, 8,290 under Medicaid and 3,220 under the funded portion of the program.

This past fiscal year the state funded portion of the program expanded income eligibility to allow individuals with incomes exceeding 300 percent of SSI to be eligible for the services. In six months the program has grown to 68 clients and appears to be consuming more resources than was expected. In addition, the overall state-funded program is on a projected growth rate of 8 percent for FY 02 which is higher than the original budgeted projections. While on the Medicaid side the client growth has been within budgeted projections, but the cost of services provided has exceeded expectations.

Finally, there is a projected deficiency in the Managed Care (HUSKY A) program. Enrollment in HUSKY A has been robust for the first six months of the current fiscal year. As of July 1, 2001, there were 239,829 clients in the HUSKY A insurance program. Enrollment grew nearly 21,000 clients (9 percent) in the first six months of the fiscal year, far exceeding forecasted projections. It is expected that this increase will not continue in the second half of FY 02. If it does the deficiency in this account will probably get even larger. Most of the increase has been the result of the expansion of HUSKY A to adults with children with incomes between 100 percent and 150 percent of the federal poverty limit. This substantial increase has been due to aggressive outreach efforts on the part of the Department of Social Services and increases in the state's unemployment rate.

Temporary Family Assistance

OFA is currently projecting a deficiency for the Temporary Family Assistance (TFA) account of $13.4 million in FY 02. This deficiency is primarily due to two factors. First, the base caseload has begun to rise for the first time since 1995. The budget projection assumed that this caseload would stabilize. Given the current slow 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.

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 as families exceeding the limit have been leaving the program at a gradual pace over the first half of the fiscal year.

Department of Education

OPM *Deficiency*	OFA *Net Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(6,500,000)	**$(6,000,000)**	**$6,300,000**	**$300,000**

The State Department of Education has a projected net deficiency of $6.0 million, which represents approximately 0.3% of the original FY 02 appropriation. The gross deficiency is due to greater than anticipated growth in the special education grant , Excess Costs - Student Based. This deficiency assumes that $1.4 million in Personal Services and Other Expenses holdbacks and $900,000 in allotment reductions are not released. The department is also expected to lapse $4 million in the Educational Equalization (ECS) grant beyond the $1.5 million needed to cover other relatively minor agency deficiencies. Prior year adjustments for the ECS grant itself and for special education aid amount to approximately $5.5 million. Other offsetting funds come from the Non-public School transportation grant and the Charter Schools grant.

Adjustments to the FY 03 budget of approximately $7.5 million or more will be necessary to ensure that the Excess Cost - Student Based grant does not require a deficiency appropriation next year. Additionally an upward adjustment of the Adult Education grant may be necessary.

Department of Correction

OPM *Deficiency*	**OFA *Gross Deficiency***	**Less: Available Funds**	**OFA Net (Deficiency)/ Surplus**
$(5,913,189)	**$(5,700,000)**	**$6,200,000**	**$500,000**

The Department of Correction (DOC) has a projected gross deficiency of $5.7 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 $868,000 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 had 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 the current deficiency in the Workers Compensation account ($3 million) is partially related to the delay in the sale of certain claims through a statewide initiative. All General Fund Workers' Compensation accounts have deficiencies, primarily due to this delay.

Department of Children and Families

OPM *Deficiency*	OFA *Net Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(580,978)	$(950,000)	$13,450,797	$12,500,797

The Department of Children and Families has a projected net deficiency of $950,000, which represents .17% of its original FY 02 appropriation. This shortfall is anticipated under the Workers' Compensation Claims account due to a delay in the transfer of old claims to a private insurance company. This assumes that Personal Services and Other Expenses holdbacks totaling $3,467,493 and $2,283,304 in allotment reductions and targeted lapses under various accounts are not released. Additionally, it is anticipated that the department will lapse $7.7 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 surplus of $12.5 million would result.

It should be noted that while the Office of Policy and Management has projected a Workers' Compensation shortfall of approximately $980,000 for this agency, it is the intent of the Governor's that the agency transfer the remaining $400,000 in needed funds from within its existing resources to cover the anticipated deficit.

Department of Administrative Services (DAS) – Workers' Compensation Claims

OPM *Deficiency*	OFA *Gross Deficiency*	Less: Available Funds	OFA Net (Deficiency)/ Surplus
$(2,046,170)	$(2,045,841)	$1,126,559	$(919,282)

OFA estimates a gross deficiency in the DAS - WC Claims account of $2.05 million, an increase of 19.2% over the original FY 02 appropriation. This is due to the delay in the transfer of 660 state employees' Workers' Compensation cases to a private insurance company. This transfer was made at the end of November, but the budget was based on a July 1st date. The gross deficiency can be offset by $1.13 million in FY 01 surplus funds that were not expended on the transfer.

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
$(74,380,978)	$(70,715,841)*	$60,956,695**	$(9,759,146)

*OFA gross deficiencies actually total $97.9 million, though it is anticipated that approximately $27.2 million in lapses within various accounts will be available to be transferred within agencies to cover the relatively minor deficiencies.

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

Summary of General Fund Lapsing Appropriations and Other Reductions for FY 02

			Amount (in millions)	
Status of Budgeted Lapses:				
Office of Workforce Competitiveness - Workforce Development Boards	$	1.9		
Department of Labor - Workforce Investment Act		7.8		
Department of Labor - Jobs First Employment Services		1.5		
Department of Education - Education Equalization Grants		4.0		
Department of Higher Education - Loan Reimbusement/Scholarship Pilot		1.0		
Department of Higher Education - Connecticut Futures Fund		1.5		
Department of Correction - Personal Services		1.5		
Department of Children and Families - Personal Services		3.7		
Dept. of Children and Families - Board and Care for Children - Residential		4.8		
Debt Service		19.5		
Workers' Compensation Claims - DAS		1.1		
Social Security		1.0		
Retired State Employee Health Benefits		3.6		
Total - Significant Identified Lapsing Appropriations	$	52.9		
Other Identified Lapses (less than $1 million each)		7.1		
Unidentified Lapses		17.8		
Subtotal			$ 77.8	
General Personal Services and Other Expenses Reductions:				
Personal Services Holdbacks	$	13.5		
Other Expenses Holdbacks		11.0		
DoIT Lapse		1.5		
Subtotal			26.0	
Total Projected Lapses Anticipated in the Budget				***$ 103.8***
Savings Measures Implemented After Passage of the Original FY 02 Budget:				
Operating Budget Appropriation Reductions (SA 01-1, Nov. 15, 2001 Sp. Session)			$ 35.3	
Surplus Appropriation Reductions (SA 01-1, Nov. 15, 2001 Sp. Session)			129.0	
Governor's Allotment Reductions				
November	$	20.3		
December		12.7		
Subtotal			33.0	
Other Savings				
Targetable Lapses	$	8.9		
Carryforward Reductions		7.1		
Subtotal			16.0	
Total - Savings Measures Implemented After Passage of the Original FY 02 Budget				***$ 213.3***
Total Projected Lapses / Reductions Currently Implemented				***$ 317.1***
Governor's December/January Proposals Requiring Legislative Approval [1]:				
Additional Surplus Appropriation Reductions			$ 157.3	
Forced Lapses			13.6	
Additional Carryforward Reductions			1.8	
Total Governor's Dec. / Jan. Proposals Requiring Legislative Approval				***$ 172.7***
Total Potential Lapses / Reductions Assuming Gov.'s Dec. / Jan. Proposals				***$ 489.8***

[1] In December, the governor also proposed transferring $41 million from monies received under the Tobacco Settlement Agreement to General Fund revenue. This suggestion was not included in the governor's revised mitigation plan proposed in January. Also, the governor has proposed in January to reduce surplus appropriations by an additional $157.3 million in lieu of the $41.4 million in surplus reductions that he proposed in December. It is uncertain whether the governor's forced lapses and additional carryforward reductions will be achieved and if so, whether they will become additional savings beyond the lapse already required by the budget plan.

FY 03 Revenues

It is unclear which scenario best fits the economy's outlook for FY 03 since there is really no precedent for the present situation.

A scenario for the economy in FY 03 is a gradual upturn starting at the beginning of the fiscal year as job losses stop, the effects of the federal monetary stimulus support consumer spending and corporations bring their costs in line with their sales. This scenario results in modest growth in key revenue sources, wage and salary income tax, sales tax and corporation tax. The scenario assumes that the level of capital gains realizations will still be depressed and that the growth in other income will recover somewhat.

FY 02 & FY 03 Revised General Fund Revenue
as of January 31, 2002
(in thousands)

	OFA Estimate Growth Rate % [1]	OFA Estimate FY 02 Estimate	OFA Estimate Growth Rate % [1]	OFA Estimate FY 03 Estimate
Taxes				
Personal Income	(5.5)	$ 4,485,000	5.4	$ 4,709,900
Sales and Use	1.7	3,060,000	4.0	3,161,000
Corporations	(10.0)	430,000	8.0	474,700
Inheritance and Estate	(34.7)	150,000	0.0	142,300
Public Service Corporations	0.0	180,400	4.0	187,800
Insurance Companies	2.6	192,000	3.3	198,300
Cigarettes	(0.4)	119,000	(1.0)	117,800
Oil Companies	(10.0)	46,400	0.0	45,600
Real Estate Conveyance	(2.0)	110,000	1.0	111,100
Alcoholic Beverages	(0.2)	41,000	0.0	41,000
Miscellaneous	3.0	36,100	0.0	35,300
Admissions, Dues and Cabaret	2.6	25,300	2.0	25,800
Total Taxes		**$ 8,875,200**		**$ 9,250,600**
Refunds of Taxes		$ (780,000)		(790,000)
R & D Credit Exchange		(20,000)		(20,000)
Net General Fund Taxes		**$ 8,075,200**		**$ 8,440,600**
Other Revenue				
Transfer Special Revenue		$ 278,000		$ 270,500
Indian Gaming Payments		376,000		390,000
Licenses, Permits and Fees		128,200		124,200
Sales of Commodities and Services		28,800		30,000
Rentals, Fines and Escheats		51,200		52,400
Investment Income		34,000		24,000
Miscellaneous		114,500		122,700
Total Other Revenue		**$ 1,010,700**		**$ 1,013,800**
Refunds of Payments		$ (500)		(500)
Net Other Revenue		**$ 1,010,200**		**$ 1,013,300**
Other Sources				
Federal Grants		$ 2,160,000		$ 2,281,500
Transfer from Tob. Settlement Fund		120,000		121,000
Transfer to Other Funds		(147,700)		(107,000)
Total - Other Sources		**$ 2,132,300**		**$ 2,295,500**
Total Revenue		**$ 11,217,700**		**$ 11,749,400**

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

FY 03 Revised & Budget Plan General Fund Estimates
as of January 31, 2002
(in thousands)

		FY 03				
		OFA Revised		Budget Plan		Difference
Taxes						
Personal Income	$	4,709,900	$	5,109,900	$	(400,000)
Sales and Use		3,161,000		3,317,600		(156,600)
Corporations		474,700		531,500		(56,800)
Inheritance and Estate		142,300		166,000		(23,700)
Public Service Corporations		187,800		199,800		(12,000)
Insurance Companies		198,300		198,300		0
Cigarettes		117,800		114,100		3,700
Oil Companies		45,600		61,000		(15,400)
Real Estate Conveyance		111,100		111,100		0
Alcoholic Beverages		41,000		41,000		0
Miscellaneous		35,300		35,300		0
Admissions, Dues and Cabaret		25,800		25,800		0
Total Taxes	**$**	**9,250,600**	**$**	**9,911,400**	**$**	**(660,800)**
Refunds of Taxes	$	(790,000)	$	(790,000)	$	0
R & D Credit Exchange		(20,000)		(14,000)		(6,000)
Net General Fund Taxes	**$**	**8,440,600**	**$**	**9,107,400**	**$**	**(666,800)**
Other Revenue						
Transfer Special Revenue	$	270,500	$	270,500	$	0
Indian Gaming Payments		390,000		370,000		20,000
Licenses, Permits and Fees		124,200		124,200		0
Sales of Commodities and Services		30,000		30,000		0
Rentals, Fines and Escheats		52,400		52,400		0
Investment Income		24,000		61,200		(37,200)
Miscellaneous		122,700		136,200		(13,500)
Total Other Revenue	**$**	**1,013,800**	**$**	**1,044,500**	**$**	**(30,700)**
Refunds of Payments	$	(500)	$	(500)	$	0
Net Other Revenue	**$**	**1,013,300**	**$**	**1,044,000**	**$**	**(30,700)**
Other Sources						
Federal Grants	$	2,281,500	$	2,266,600	$	14,900
Transfer from Tob. Settlement Fund		121,000		121,000		0
Transfer to Other Funds		(107,000)		(107,000)		0
Total - Other Sources	**$**	**2,295,500**	**$**	**2,280,600**	**$**	**14,900**
Total Revenue	**$**	**11,749,400**	**$**	**12,432,000**	**$**	**(682,600)**

FY 03 Expenditures

The net $112.4 million in estimated technical adjustments include necessary current services changes resulting from: (1) revised caseload or formula-driven estimates; (2) roll-out of FY 02 projected deficiencies as appropriate; and (3) continuation of funding for ongoing programs previously funded in FY 02 from FY 01 surplus. The major technical adjustments are listed and explained beginning on page 27. We have not included funding for estimated Adjudicated Claims or Refunds of Escheated Property for FY 03 at this time.

The additional technical adjustment funding requirement could be partially offset by the potential continuation into FY 03 of: (1) $84.3 million in savings measures implemented after passage of the FY 02 budget; and (2) $15.4 million in savings from the governor's December/January proposals requiring legislative approval.

Technical Budget Adjustments
Required for FY 03

		Appropriation FY 03	Plus or Minus Technical Budget Adjs. Required for FY 03	OFA Revised Approp. FY 03
1220	**State Insurance and Risk Management Board**		- -	
002	Other Expenses	8,922,742	1,000,000	9,922,742

Comment: An approximate, additional $1 million increase in the premium on the state's property coverage policy is anticipated in FY 03 based on a general increase in the state's property values and a tightening insurance market following the September 11th terror attacks in FY 02.

		Appropriation FY 03	Plus or Minus Technical Budget Adjs. Required for FY 03	OFA Revised Approp. FY 03
1310	**Office of Policy and Management**	-		
704	Distressed Municipalities	6,500,000	3,000,000	9,500,000
706	Property Tax Relief Elderly Freeze Program	1,830,000	1,000,000	2,830,000
	Agency Total - General Fund	**8,330,000**	**4,000,000**	**12,330,000**

Comment: The $3.0 million in the Distressed Municipalites account reflects newly projected obligations based on revised information from the New London and Groton assessors . Additionally, $1 million is needed to fully fund the Elderly Freeze Property Tax Relief program as the rate of attrition anticipated in the biennial budget is below actual levels.

		Appropriation FY 03	Plus or Minus Technical Budget Adjs. Required for FY 03	OFA Revised Approp. FY 03
4100	**Department of Mental Retardation**			
028	Early Intervention	19,280,429	5,062,905	24,343,334
620	Community Residential Services	240,757,409	2,809,354	243,566,763
	Agency Total - General Fund	**260,037,838**	**7,872,259**	**267,910,097**

Comment: The $5 million in FY 03 in the Early Intervention account reflects an increase in the number of direct service units as a result of increased number of children in the Birth-to-Three program (an entitlement program). The $2.8 million in the Community Residential account reflects community placements for Southbury Training School residents.

		Appropriation FY 03	Plus or Minus Technical Budget Adjs. Required for FY 03	OFA Revised Approp. FY 03
4400	**Department of Mental Health and Addiction Services**			
001	Personal Services	161,704,075	6,124,309	167,828,384
002	Other Expenses	25,972,636	2,527,663	28,500,299
042	Special Populations	20,828,518	3,897,314	24,725,832
044	TBI Community Services	3,985,675	1,836,777	5,822,452
	Agency Total - General Fund	**212,490,904**	**14,386,063**	**226,876,967**

Comment: The Personal Services increase and the Special Populations increase reflect contractual salary increase and conditions that were not known at the time of the adoption of the budget. The $1.8 million in TBI Community Services annualizes the costs necessary to meet commitments incurred with the placement of clients in the community. The Other Expenses increase is largely due to software licensing costs and structural deficits due to past deficiencies.

		Appropriation FY 03	Plus or Minus Technical Budget Adjs. Required for FY 03	OFA Revised Approp. FY 03
3100	**Department of Environmental Protection**			
	Mosquito Control	0	1,100,000	1,100,000
3601	**Agricultural Experiment Station**			
	Mosquito Control	0	300,000	300,000
	Agencies' Total - General Fund	**0**	**1,400,000**	**1,400,000**

Comment: The $1.4 million to be expended in FY 02 will also need to be provided in FY 03 in order to pay for the costs associated with continuing the mosquito control program.

		Appropriation FY 03	Plus or Minus Technical Budget Adjs. Required for FY 03	OFA Revised Approp. FY 03
6100	**Department of Social Services**			
002	Other Expenses	46,397,215	2,284,153	48,681,368
038	Information Technology Services	50,070,978	5,027,087	55,098,065
602	Medicaid	2,593,271,493	58,045,914	2,651,317,407

		Appropriation FY 03	Plus or Minus Technical Budget Adjs. Required for FY 03	OFA Revised Approp. FY 03
607	Old Age Assistance	31,779,221	-3,248,699	28,530,522
609	Aid to the Disabled	59,323,266	-4,557,449	54,765,817
611	Temporary Assistance to Families - TANF	122,540,334	17,413,970	139,954,304
615	Connecticut Pharmaceutical Assistance Contract to the Elderly	74,468,137	-14,086,015	60,382,122
618	Connecticut Home Care Program	25,380,000	6,923,375	32,303,375
641	Child Care Services-TANF/CCDBG	115,474,708	7,129,972	122,604,680
669	State Administered General Assistance	101,442,033	6,109,263	107,551,296
	Agency Total - General Fund	**3,220,147,385**	**81,041,571**	**3,301,188,956**

Comment: The increased costs in the Other Expenses and Information Technology Services accounts are largely due to increased information technology costs as well as structural deficiencies. The changes included in the other accounts listed, all entitlement programs, reflect updated cost and caseload estimates that take into account current year deficiencies and surpluses.

7001 <u>Department of Education</u>

710	Adult Education	18,600,000	1,400,000	20,000,000
723	Priority School Districts	81,622,258	1,620,251	83,242,509
733	Excess Cost - Student Based	69,000,000	7,500,000	76,500,000
751	Early Reading Success	2,236,461	-1,530,000	706,461
	Agency Total - General Fund	**171,458,719**	**8,990,251**	**180,448,970**

Comment: The adjustments in the Priority School District and Early Reading Success grants reflect a strictly technical change that provides aid within the grants originally intended in the Appropriations Act for the 2001-2003 biennium. The adjustment of $7.5 million in the Special Eduation grant is necessary as growth in that account was originally assumed at 3% when current growth is running near 11%. The adjustment of $1.4 million in the Adult Education grant reflects the greater than anticipated growth in this account particularly in urban school districts.

7104 <u>State Library</u>

	Digital Library	0	1,400,000	1,400,000

Comment: During the November Special Session, the $1.9 million appropriation from FY 01 surplus was reduced by $500,000. The resulting $1.4 million to be expended in FY 02 will also need to be provided in FY 03 in order to pay for the costs of subscriptions associated with the digital library system.

9120 <u>Debt Service - State Treasurer</u>

601	Debt Service	989,554,225	-17,735,285	971,818,940
603	UConn 2000 - Debt Service	68,107,093	-1,172,556	66,934,537
	Agency Total - General Fund	**1,057,661,318**	**-18,907,841**	**1,038,753,477**

Comment: The decrease of $18.9 million is the net result of several factors that occurred in FY 02. Three factors decreased FY 03 debt service (lower than budgeted interest rates for General Obligation bonds issued in Fall 2001, bond premiums and refunding savings) and two factors increased FY 03 debt service (an interest rate swap and conversion of a tax exempt issue to a taxable issue.)

9201 <u>Reserve for Salary Adjustments</u>

006	Reserve for Salary Adjustments	34,046,700	7,000,000	41,046,700

Comment: The additional approximate requirement in FY 03 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 for FY 02 and FY 03.

Total - Above Agencies	**4,973,095,606**	**108,182,303**	**5,081,277,909**
Total - All Other Agencies / Accounts	**7,565,135,358**	**4,185,744**	**7,569,321,102**
GRAND TOTAL (Gross)	**12,538,230,964**	**112,368,047**	**12,650,599,011**

II. Transportation Fund

Our projections for the fiscal year ending June 30, 2002 (FY 02) indicate that the **potential surplus from operations, based on increased revenues, has increased to $28.7 million, up $7.0 million** from the $21.7 million originally budgeted. The cumulative surplus as of June 30, 2002 is projected to increase to $164.4 million.

FY 02 Revenue

FY 02 Transportation Fund revenue is estimated at $873.0 million, which is an increase of $10.6 million over budget plan estimates. Increases in the Motor Fuels Tax ($7.7 million), Interest Income ($3.0 million), and Sales Tax collected by the Department of Motor Vehicles ($2.0 million) are partially offset by an increase in refunds ($2.1 million). (Refer to the FY 02 Transportation Fund Revenues table on page 31.)

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 actual revenue. The interest income estimate has been revised upward, despite the lower rate of return on the Short Term Investment Fund, to reflect a more positive cash flow (larger cumulative balance) in the Transportation Fund.

FY 02 Expenditures

FY 02 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 caused by the new collective bargaining contract for the maintainer's unit. This is offset by a $1.0 million allotment reduction in the Department of Transportation. (Refer to the FY 02 Transportation Fund Summary table on page 30.)

Projections through FY 06

Based on the Appropriations budget and current revenue estimates, long-term projections indicate that the Transportation Fund will begin experiencing annual operating deficits in FY 04, which will lower the cumulative fund surplus to $97.2 million by the end of FY 06. Revenues are projected to increase only 1% per year over this period, while expenditures are projected to grow at an annual rate of 3.3%. These expenditures do not include (1) $35 million per year for Town Aid Road Grants, funded through the General Fund, and (2) additional monies to fund the Transportation Strategy Board and its recommendations. (Refer to the Transportation Fund Projections: FY 02 - FY 06 table on page 32).

FY 02 Transportation Fund Summary
as of January 31, 2002
(In millions)

	FY 02 Budget Plan	Increases (Decreases)	Revised Estimates
Revenues			
Taxes	$ 514.4	$ 7.6	$ 522.0
Other Revenue	348.0	3.0	351.0
Total Estimated Revenues	$ 862.4	$ 10.6	$ 873.0
Appropriations			
Original Appropriations – Gross	$ 855.7	$ 0.0	$ 855.7
Plus: Estimated Deficiency Appropriations [1]	0.0	4.6	4.6
Less: Estimated Budgeted Lapses [2]	(15.0)	(1.0)	(16.0)
Total Estimated Expenditures	$ 840.7	$ 3.6	$ 844.3
Estimated Surplus from Operations for FY 02	**$ 21.7**	**$ 7.0**	**$ 28.7**
Plus: Cumulative Surplus as of June 30, 2001	**$ 135.7**	**$ 0.0**	**$ 135.7**
Projected Fund Balance as of June 30, 2002	**$ 157.4**	**$ 7.0**	**$ 164.4**

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

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

FY 02 Transportation Fund Revenues
as of January 31, 2002
(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
Licenses, Permits, and Fees	123.0	0	123.0
Interest Income	37.0	3.0	40.0
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**	**$3.0**	**$351.0**
Total Revenue	**$862.4**	**$10.6**	**$873.0**

Transportation Fund Projections: FY 02 - FY 06
as of January 31, 2002
(In millions)

	FY 02	FY 03	FY 04	FY 05	FY 06
Beginning Fund Balance as of July 1st	**$135.7**	**$164.4**	**$177.6**	**$170.5**	**$147.5**
FY Revenues	873.0	892.1	903.5	909.7	910.6
FY Expenditures [1]	844.3	878.9	910.6	932.7	960.9
FY Operating Surplus/(Deficit)	**$28.7**	**$13.2**	**$(7.1)**	**$(23.0)**	**$(50.3)**
Ending Fund Balance as of June 30th	**$164.4**	**$177.6**	**$170.5**	**$147.5**	**$97.2**

[1] Expenditures do not include (1) $35 million per year for Town Aid Road Grants, funded through the General Fund, and (2) additional monies to fund the Transportation Strategy Board and its recommendations.