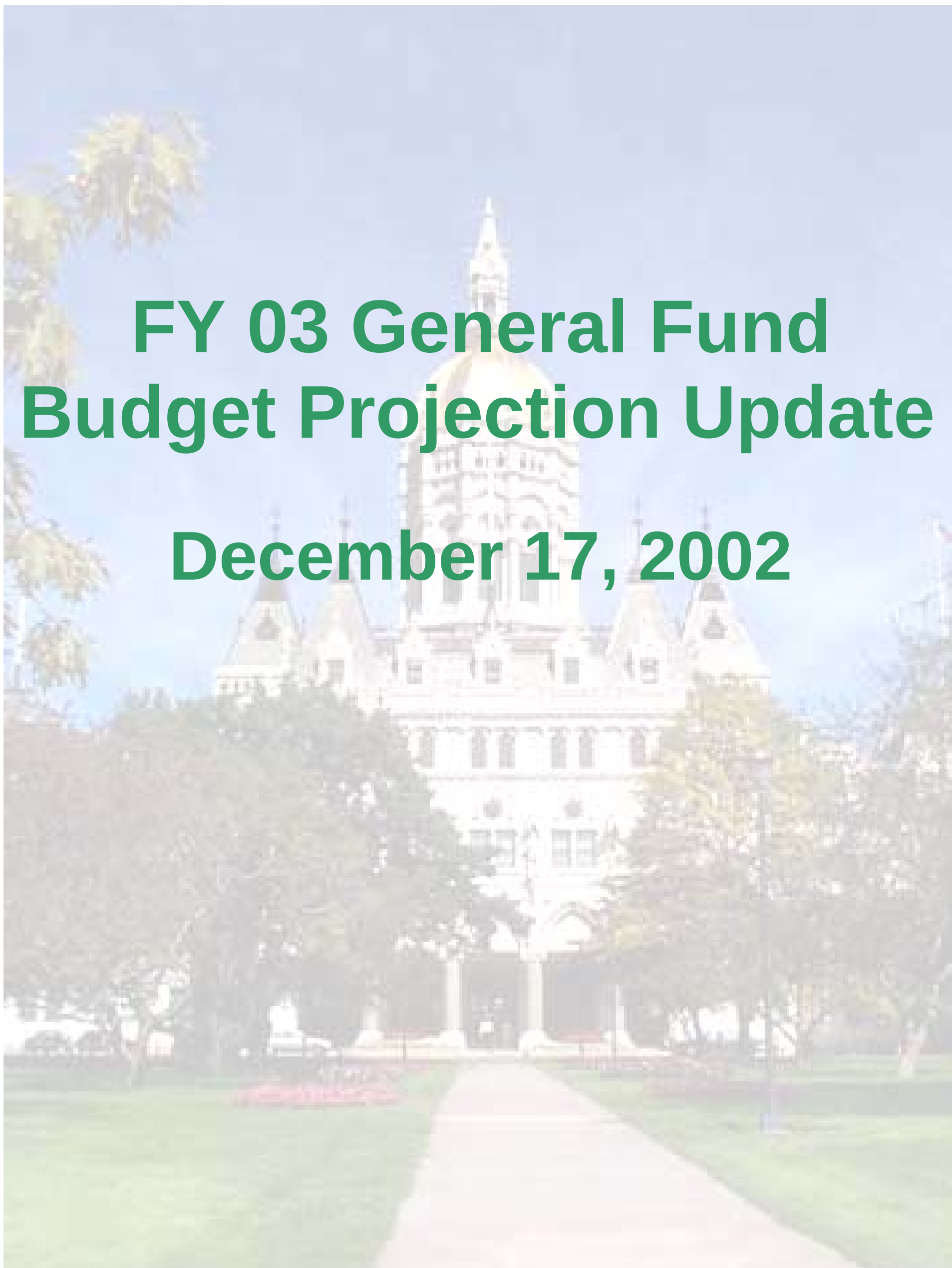
Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS



FY 03 General Fund Budget Projection Update

December 17, 2002

Report Highlight

- **FY 03 General Fund deficit** is estimated at **$581.3 million, which is $85.8 million higher than our November 12th projection.** This estimate **could be lower if the $94 million in unspecified additional savings anticipated in the revised FY 03 budget** (and reflected as a lapse increase) **is achieved. So far, attempts to achieve this savings through negotiations between the administration and the unions have not been successful.**

Summary of Changes to November 12, 2002 Deficit Projection
(as of 12/17/02)

Projected Deficit as of 11/12/02			**$ (495.5)**
Expenditure Increases			
Lack of savings from union concession negotiations	$ (94.0)		
Increased deficiency requirements	(12.4)		
Miscellaneous expenditure increase	(6.7)		
Total - Expenditure Increases		**$ (113.1)**	
Expenditure Decreases			
Recisions implemented by Governor	27.9		
Layoff savings	8.4		
Total - Expenditure Decreases		**36.3**	
Net Expenditure Increase			**(76.8)**
Revenue Increases			
Tax Amesty	$ 85.0		
Corporation Business Tax	44.1		
Real Estate Conveyance	4.3		
Miscellaneous revenue increase	6.7		
Total - Revenue Increases		**$ 140.1**	
Revenue Decreases			
Personal Income Tax	(70.0)		
Sales and Use Tax	(66.1)		
Miscellaneous revenue decrease	(13.0)		
Total - Revenue Decreases		**(149.1)**	
Net Revenue Decrease			**(9.0)**
Projected Deficit as of 12/17/02			**$ (581.3)**

FY 03 General Fund
Budget Projection Update

(as of December 17, 2002)

I. General Fund

Our projections for the fiscal year ending June 30, 2003 indicate a **potential deficit of $581.3 million**, which represents 4.8% of the original budget. **This estimate has increased by $85.8 million since our November 12th projection.** Major changes from our November estimate are indicated below.

While the projected General Fund deficit is $581.3 million, **this estimate may change if: 1) there is further deterioration in economic conditions; 2) the $94 million in unspecified additional savings anticipated in the revised FY 03 budget (and reflected as a lapse increase) is achieved; or 3) the $27.9 million in savings from recisions implemented by the governor is not realized beyond the $251.9 million budgeted lapse savings.**

Revenues

Although the FY 03 budget anticipated $24 million (before administrative expenses) in revenue from the Tax Amnesty program, approximately $109 million was realized. Despite this increase, our revenue projection for the current year has actually decreased by $9 million since our November 12th statement. The overall decrease is primarily due to decreases in the personal income tax and sales and use taxes which are partially offset by an increase in corporation business tax.

Tax Amnesty Program			
	Original	Actual	
Tax Type	Estimates	Collections	Difference
Personal Income Tax	$10 million	$20 million	$10 million
Sales & Use Tax	8 million	60 million	52 million
Corporation Tax	6 million	16 million	10 million
All Other Taxes	-	13 million	13 million
Total	**$24 million**	**$109 million**	**$85 million**

Year-to-date income tax collections on wages (withholding taxes) have declined by approximately 1% compared to collections during the same period last year. As a result of disappointing collections through the first four months of the fiscal year, we have revised our growth rate for the remaining eight months down from 2.5% to less than 1%.

Year-to-date sales and use tax collections are slightly lower than collections for the same period last year after factoring out revenue generated from the Tax Amnesty program. As a result of sluggish collections through the first four months of the fiscal year, we have revised our growth rates for the remaining eight months down from 3.2% to 1.0% for the second quarter of the fiscal year, 1.5% for the third quarter, and 2.0% for the four quarter. Our estimates reflect the anticipation that sales, especially by businesses, will gradually pick up towards the latter half of the fiscal year as the economy starts to improve.

Year-to-date corporation business tax collections are better than forecasted by $55 million. This is the result of: 1) $10 million more than originally forecasted from the Tax Amnesty program, 2) $28 million received as a result of a settlement of tax dispute, and 3) $17 million as a result of better than anticipated 3rd quarter estimated payments (first quarter of the fiscal year). Our revised estimate also includes increases to the remaining three estimated payments as a result of year-to-date activity.

The $6.7 million adjustment made to Transfers to Other Funds reflects a reduction in the amount of funds that will be distributed to towns from the Mashantucket Pequot and Mohegan Fund. Transfers from the General Fund support the Mashantucket Pequot and Mohegan Fund and therefore any reduction to the amount distributed to the towns is assumed to result in a reduction transferred from the General Fund. The Governor reduced the Mashantucket Pequot and Mohegan grant to towns under the authority given to him by §52 of Public Act 02-1 (May 9th Special Session).

Expenditures

Expenditures are $188.2 million higher than original net appropriations. This figure consists of: 1) $105.8 million in estimated deficiencies; 2) $94 million in unrealized savings from concessions that so far have not been successfully negotiated between the administration and the unions; 3) $6.7 million from the governor's Mashantucket Pequot and Mohegan Fund grant recision that is reflected as a General Fund revenue increase in lieu of a budgeted General Fund expenditure savings; 4) projected payments for two non-budgeted accounts involving Adjudicated Claims ($9 million) and Refunds of Escheated Property ($9 million); 5) a partially offsetting $27.9 million from recisions implemented by the governor; and 6) a partially offsetting $8.4 million in potential savings from layoffs.

The $174.4 million unallocated lapse anticipated in the budget includes an unspecified increase of $94 million above the lapse included in the original FY 03 budget. The projected $581.3 million deficit for FY 03 could be lower if the $94 million in unspecified additional savings anticipated in the revised FY 03 budget (and reflected as a lapse increase) is achieved. So far, attempts to achieve this savings through negotiations between the administration and the unions have not been successful.

Since our November 12th statement, the governor has implemented recisions totaling $27.9 million. (The governor has also implemented $42.5 million in various holdbacks and the $35 million in extraordinary recision authority, both of which were anticipated in the original budget.) The $27.9 million in recisions will help mitigate the FY 03 deficit situation, provided that the savings realized are in addition to the $251.9 million in total lapse savings anticipated in the original budget.

Comptroller's Memorandum No. 2002-41 indicates that laid off employees continue to be covered by state sponsored health insurance for 6 months. However, Office of Labor Relations Notice No. 2002-29 indicates that only approximately $1 million is available in state funds in the Placement and Training Fund to pay for this. Our $8.4 million in General Fund savings from layoffs assumes that the state would not be liable for this coverage after the $1 million within the Placement and Training is depleted.

Estimated deficiencies have increased by $12.4 million since November 12th largely due to higher workers' compensation costs in several agencies. The following table compares our estimated deficiencies as of November 12th with our current projections.

FY 03 Deficiency Estimates (figures in millions)			
Agency/Account	**As of 11/12/02**	**Update**	**As of 12/17/02**
Insurance & Risk Mgmt. Brd.	$1.20	$0.00	$1.20
DMR	0.00	2.68	2.68
DMHAS	2.12	0.00	2.12
DSS	69.70	1.20	70.90
DOC	0.00	3.30	3.30
DCF	6.50	2.20	8.70
DAS-Workers' Comp.	3.50	3.00	6.50
St. Empl. Health Cost	1.70	0.00	1.70
Retired St. Empl. Health Cost	8.70	0.00	8.70
Totals	**$93.42**	**$12.38**	**$105.80**

Identified lapses currently total $25.3 million out of the $174.4 million anticipated in the budget. The largest identified lapse is in debt service and totals a net $16.6 million (see explanation below).

It should be noted that the $174.4 million lapse anticipated in the budget is in addition to the $77.5 million in budgeted savings from holdbacks related to Personal Services, Other Expenses, the hard (hiring) freeze, the managerial and confidential wage freeze and the extraordinary governor's recision authority. The budget anticipates that a total savings of $251.9 million will be realized from lapses, holdbacks and the governor's extraordinary recision authority. The governor has implemented the holdbacks and $35 million in extraordinary recisions of which $28.3 million is in the General Fund and $6.7 million is in the Mashantucket Pequot and Mohegan Fund. The $6.7 million recision lowers the transfer of funding that otherwise would have been required from the General Fund and this is reflected in our Other Sources revenue estimate.

Explanation for Significant Debt Service Lapse - The estimated lapse of $16.9 million in the General Fund debt service account is a combination of $21.8 million in savings and $4.9 million in increased expenditures. The savings are: (1) $16.1 million in premiums[1] received on General Obligation (GO) bonds issued between June and December 2002, (2) $4.7 million in savings from refunding issues in June and August 2002, and (3) a $1 million decrease in estimated arbitrage rebate expenses for FY 03.

The increase of $4.9 million is due to changes made by acts passed after the budget was adopted: (1) PA 02-5 of the May 9 Special Session increased bonding for school construction grants-in-aid by an additional $50 million, which will require approximately $1.4 million in debt service payments, and (2) SA 02-1 of the May 9 Special Session authorized the issuance of Economic Recovery Notes (ERNs), which will require approximately $3.5 million in interest payments in FY 03. (The ERN estimate is based on the issuance of $219.2 million in notes issued on December 1, 2002 at an average interest rate of 1.9%. The act provides that no principal will be paid in the fiscal year of issuance.)

The General Fund ended FY 02 with an operating deficit of $817.1 million, which was partially covered by transferring the full $594.7 million balance from the Budget Reserve (Rainy Day) Fund. The remaining $222.4 million was financed through an Economic Recovery Debt Retirement Fund established by SA 02-1 (May 9 Special Session). The notes were issued December 1, 2002 for a 5 year period ending in FY 08. The amount of principal issued was $219.2 million, with the remaining $3.2 million coming from a premium[1]. In addition to the $219.2 million principal payment, interest costs will be $12.5 million, for a total payment of $231.7 million. The debt service payment in FY 03 is $3.5 million.

In the event that the projected FY 03 shortfall is not addressed until the end of the fiscal year, it is likely that there will be insufficient cash flow from revenue collections to cover the current budget's expenditures. This will require the Office of the State Treasurer to do short-term borrowing to meet the state's cash needs, which would reduce the projected lapse by $1.6 million, to $15.3 million.

[1] Bond purchasers pay a premium to receive a higher interest rate than the one at which the bonds would otherwise have sold.

FY 03 General Fund Summary
as of December 17, 2002
(in millions)

	FY 03 Estimate 11/12/02	Update	FY 03 Estimate 12/17/02
Revenues			
Taxes	$ 8,051.4	$ (15.7)	$ 8,035.7
Other Revenue	1,043.9	-	1,043.9
Other Sources	2,612.4	6.7	2,619.1
Total Revenue	**$ 11,707.7**	**$ (9.0)**	**$ 11,698.7**
Appropriations			
Original Appropriations - Gross	$ 12,343.7	$ -	$ 12,343.7
Less:			
Estimated Budgeted Lapses [1]	(251.9)	100.7	(151.2)
Recisions (as implemented by the Governor on 11/26/02) [2]	-	(27.9)	(27.9)
Layoffs (as implemented by the Governor on 12/6/02) [3]	-	(8.4)	(8.4)
Plus:			
Estimated Deficiency Appropriations	93.4	12.4	105.8
Estimated Adjudicated Claims	9.0	-	9.0
Estimated Refunds of Escheated Property	9.0	-	9.0
Total Estimated Expenditures	**$ 12,203.2**	**$ 76.8**	**$ 12,280.0**
Projected Surplus / (Deficit) from Operations [4]	**$ (495.5)**	**$ (85.8)**	**$ (581.3)**

[1] Estimated Budgeted Lapses include:

($174.4)	unallocated budgeted lapses
(24.5)	general PS and OE reductions (holdbacks)
(7.0)	hard (hiring) freeze (holdback)
(11.0)	managerial & confidential wage freeze (holdback)
(35.0)	extraordinary governor's recision authority
($251.9)	

The $174.4 million unallocated lapse anticipated in the budget includes an unspecified increase of $94 million above the lapse included in the original FY 03 budget. The projected $581.3 million deficit for FY 03 could be lower if the $94 million in unspecified additional savings anticipated in the revised FY 03 budget (and reflected as a lapse increase) is achieved. So far, attempts to achieve this savings through negotiations between the administration and the unions have not been successful. The governor has implemented the holdbacks and $35 million in extraordinary recisions of which $28.3 million is in the General Fund and $6.7 million is in the Mashantucket Pequot and Mohegan Fund. The $6.7 million recision lowers the transfer of funding that otherwise would have been required from the General Fund and this is reflected in our Other Sources revenue estimate.

[2] The projected $581.3 million deficit for FY 03 could be higher if the $27.9 million in recisions is not realized beyond the $251.9 million budgeted lapse savings.

[3] Comptroller's Memorandum No. 2002-41 indicates that laid off employees continue to be covered by state sponsored health insurance for 6 months. However, Office of Labor Relations Notice No. 2002-29 indicates that only approximately $1 million is available in state funds in the Placement and Training Fund to pay for this. Our $8.4 million in General Fund savings from layoffs assumes that the state would not be liable for this coverage after the $1 million within the Placement and Training is depleted.

[4] The transfer of $594.7 million (to partially cover the FY 02 deficit in accordance with Sec. 4-30a, CGS) reduced the Budget Reserve (Rainy Day) Fund to zero.

FY 03 General Fund Revenue
as of December 17, 2002
(in thousands)

	Growth Rate % [1]	Actual FY 02	Growth Rate % [1]	11/12/2002 OFA Estimate FY 03	Growth Rate % [1]	12/17/2002 OFA Estimate FY 03	Diff. Between 11/12 & 12/17 Estimates
Taxes							
Personal Income	(10.2)	$4,265,900	(2.5)	$4,160,000	(4.2)	$4,100,000	($60,000)
Sales and Use	0.1	2,997,700	2.9	3,104,100	0.5	3,090,000	(14,100)
Corporations	(23.2)	381,000	8.0	455,900	12.3	510,000	54,100
Inheritance and Estate	(33.8)	153,100	9.2	160,000	9.2	160,000	0
Public Service Corporations	(7.7)	166,600	4.0	173,500	4.0	173,500	0
Insurance Companies	8.6	217,400	3.3	224,500	3.3	224,500	0
Cigarettes	2.7	160,900	0.0	238,900	0.0	238,900	0
Oil Companies	(28.4)	24,300	21.3	83,600	21.3	83,600	0
Real Estate Conveyance	7.5	120,700	0.0	120,700	3.5	125,000	4,300
Alcoholic Beverages	1.4	41,700	2.4	42,700	2.4	42,700	0
Miscellaneous	(25.2)	26,300	0.0	28,100	0.0	28,100	0
Admissions, Dues and Cabaret	8.8	26,900	3.7	27,900	3.7	27,900	0
Total Taxes		**$8,582,500**		**$8,819,900**		**$8,804,200**	**($15,700)**
Refunds of Taxes		($829,600)		($754,500)		($754,500)	$0
R & D Credit Exchange		(21,900)		(14,000)		(14,000)	0
Net General Fund Taxes		**$7,731,000**		**$8,051,400**		**$8,035,700**	**($15,700)**
Other Revenue							
Transfer Special Revenue		$277,600		$269,500		$269,500	$0
Indian Gaming Payments		369,000		399,000		399,000	0
Licenses, Permits and Fees		137,500		132,400		132,400	0
Sales of Commodities and Services		30,500		28,000		28,000	0
Rentals, Fines and Escheats		47,600		84,300		84,300	0
Investment Income		23,800		15,000		15,000	0
Miscellaneous		114,300		116,200		116,200	0
Total Other Revenue		**$1,000,300**		**$1,044,400**		**$1,044,400**	**$0**
Refunds of Payments		(400)		(500)		(500)	0
Net Other Revenue		**$999,900**		**$1,043,900**		**$1,043,900**	**$0**
Other Sources							
Federal Grants		$2,142,300		$2,314,700		$2,314,700	$0
Transfer from Tob. Settlement Fund		120,000		133,000		133,000	0
Transfer to the Resources of General Fund		0		286,000		286,000	0
Transfer to Other Funds		(147,700)		(121,300)		(114,600)	6,700
Total Other Sources		**$2,114,600**		**$2,612,400**		**$2,619,100**	**$6,700**
Total Revenue		**$10,845,500**		**$11,707,700**		**$11,698,700**	**($9,000)**

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

FY 03 Projected General Fund Deficiencies

State Insurance & Risk Management Board

OPM Deficiency	*OFA Net Deficiency*	**Less: Available Holdbacks**	**OFA Net Balance**
$(1,200,000)	**$(1,200,000)**	**$300,000**	**$(900,000)**

The State Insurance & Risk Management Board has a projected deficiency of $1.2 million, which represents 12.3% of the FY 03 appropriation. This assumes that the following holdback is not released: Other Expenses ($.3 million). If the holdback is released, an estimated net negative balance of $.9 million would result.

This net deficiency is due to higher premiums for property and casualty coverage beyond budgeted levels.

Department of Mental Retardation

OPM Deficiency	*OFA Net Deficiency*	**Less: Available Holdbacks**	**OFA Net Balance**
$(2,600,000)	**$(2,680,000)**	**$4,100,000**	**$1,420,000**

The Department of Mental Retardation has a projected net deficiency of $2.68 million, which represents .37% of the FY 03 appropriation. This assumes that $2.92 million in potential lapsing funds are made available via FAC transfer and the following holdbacks are not released: Personal Services ($2,121,186), Other Expenses ($742,945), hard (hiring) freeze ($490,537) and managerial wage freeze ($761,656). If the holdbacks are released, an estimated net positive balance of $1.4 million would result.

This deficiency is the result of a projected shortfall in two accounts; Workers' Compensation Claims ($2.6 million) and Early Intervention ($3 million). FY 02 expenditures for the workers' compensations costs were $11.1 million (which required an FAC transfer of $1.6 million). The FY 03 appropriation for this account is $10.2 million. The early intervention projected shortfall is due to a 12% growth rate in service units and supplemental costs in the Birth-to-Three Program (an entitlement program for infants and toddlers with developmental delays). In September of this year (FY 03) the system served 13% more children than in September of 2001 (FY 02).

Department of Mental Health and Addiction Services

OPM Deficiency	*OFA Net Deficiency*	Less: Available Holdbacks	OFA Net Balance
$(2,600,000)	**$(2,120,000)**	**$4,500,000**	**$2,380,000**

The Department of Mental Health and Addiction Services has a projected net deficiency of $2.12 million, which represents .5% of the FY 03 appropriation. This assumes that $130,000 in potential lapsing funds are made available via FAC transfer and the following holdbacks are not released: Personal Services ($1,744,822), Other Expenses ($906,641), hard (hiring) freeze ($510,958) and managerial wage freeze ($1,341,334). If the holdbacks are released, an estimated net positive balance of $2.38 million would result.

This net deficiency is primarily due to personal services ($850,000), workers' compensation ($837,000), other expenses ($119,000) and professional services ($331,000). The personal and professional services deficiencies are primarily due to continued difficulties in filling nursing and pharmacy positions at Connecticut Valley Hospital. The workers' compensation deficiency is due to the continued settlement of old claims. The other expenses deficiency is largely due to laundry replacement and higher heating oil cost at Cedarcrest Hospital.

Department of Social Services

OPM *Deficiency*	OFA *Net* *Deficiency*	Less: Available Holdbacks	OFA Net Balance
$(94,100,000)	**$(70,900,000)**	**$5,100,000**	**$(65,800,000)**

The Department of Social Services has a projected net deficiency of $70.9 million, which represents 1.9% of the FY 03 appropriation. This assumes that $15.4 million in potential lapsing funds are made available via FAC transfer. Significant potential lapses are anticipated in the following accounts: Supplemental Assistance ($1.75 million); Temporary Family Assistance ($5.3 million); Personal Services ($3.4 million); and HUSKY ($2 million). The projected net deficiency assumes that the following holdbacks are not released: Personal Services ($909,836), Other Expenses ($2,871,625), hard (hiring) freeze ($850,728) and managerial wage freeze ($495,138). If the holdbacks are released, an estimated net negative balance of $65.8 million would result.

This gross deficiency is primarily due to increased costs in Medicaid, ConnPACE and State-Administered General Assistance.

Medicaid

Medicaid expenditures are estimated to be $68.5 million greater than appropriated for FY 03 based upon 3 months of actual and 9 months of projected data. This represents a 2.6% shortfall in the $2.6 billion account for long-term care and health services.

While almost all areas of Medicaid health services are currently exceeding appropriation levels, nearly one-third of the $68.5 million -- $22.8 million -- is projected to occur in long-term care. Other areas of projected deficiencies are found in pharmacy, transportation, home health care, and managed care (HUSKY). Pharmacy costs continue to rise and the cost savings initiatives continue to be difficult to implement and administer. However, the current deficiency is relatively small in comparison to the projected level of expenditures of $318.6 million for prescription drugs, $13 million in excess of the appropriated level. The deficiency represents 4% of the estimated expenditures.

The projected deficiency in the Managed Care (HUSKY A) program is preliminarily based upon robust enrollment for the past fiscal year. If enrollment levels off, the deficiency may be less than is currently projected. However, with higher rates of unemployment, HUSKY enrollment could also increase beyond expectations. Finally, no long-term trend data is yet available for FY 03 to indicate if nursing home bed days, a major factor in long-term costs, are exceeding expectations.

CONNPACE

A $4.9 million deficit is projected under the Connecticut Pharmaceutical Assistance Contract to the Elderly and the Disabled (ConnPACE) Program. This shortfall is due to anticipated delays in implementation of budgeted pharmacy savings initiatives, and price and utilization trends in excess of original projections. An estimated $68.9 million will be expended. Current available funds equal $63.9 million.

State-Administered General Assistance

The State Administered General Assistance program currently has a projected deficiency of $11.2 million, which represents 10.6% of the original appropriation. This deficiency is largely due to continued increased medical costs under the program, particularly in the areas of hospital services (both inpatient and outpatient) and pharmaceutical benefits. Both the cost of services as well as the number of services rendered have increased more than anticipated in these service areas.

Department of Correction

OPM Deficiency	***OFA Net Deficiency***	**Less: Available Holdbacks**	**OFA Net Balance**
$(3,300,000)	**$(3,300,000)**	**$7,700,000**	**$4,400,000**

The Department of Correction has a projected net deficiency of $3.3 million, which represents less than 1% of the FY 03 total agency appropriation. This assumes that the following holdbacks are not released: Personal Services ($4.8 million), Other Expenses ($2.1 million), and $800,000 in hard (hiring) freeze and managerial wage freeze. If the holdbacks were released, an estimated net positive balance of $4.4 million would result. In addition, it should be noted that the department on average lapses between .5% and 1% of its Personal Services appropriation ($349 million).

All of the net deficiency is due to workers' compensation ($3.3 million) as is the case with many large agencies in the state.

Department of Children and Families

OPM *Deficiency*	OFA Net *Deficiency*	Less: Available Holdbacks	OFA Net Balance
$(11,000,000)	($8,700,000)	$4,100,000	($4,600,000)

The Department of Children and Families has a projected net deficiency of $8.7 million, which represents 1.5% of its original FY 03 appropriation. This assumes that $5.1 million in potential lapsing funds are made available via FAC transfer and the following holdbacks are not released: Personal Services ($1.6 million), Other Expenses ($1.1 million), hard (hiring) freeze ($0.4 million) and managerial wage freeze ($1.0 million). If the holdbacks are released, an estimated net negative balance of $4.6 million would result.

Contributing to the shortfall is a projected $3.7 million deficit under the Personal Services account due to the hiring of 73 positions that were not authorized within PA 02-1 MSS. Of these, 28 have been hired in anticipation of moving female clients from Long Lane School to a new cottage at Connecticut Children's Place. The remaining 45 positions are to facilitate compliance with the Exit Plan for the Juan F. Consent Decree. A shortfall of $1.9 million is projected under the Other Expenses account for costs incurred to support these staff as well as comply with other Consent Decree mandates. Other line items having shortfalls based on revised cost and caseload projections include the Workers' Compensation Claims ($2.7 million), No Nexus Special Education ($1.5 million) and Board and Care for Children – Adoption ($4.0 million) accounts.

It is anticipated that these shortfalls will be partially offset by transfers of $5.1 million in lapsing funds from other agency accounts. Of this, $3.6 million is anticipated under the Board and Care for Children – Foster account and $0.6 million is anticipated under the Board and Care for Children – Residential account due to lower than anticipated caseloads. Additional lapsing funds of $0.9 million are anticipated under various line items due to anticipated delays in new program implementation.

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

OPM *Deficiency*	OFA *Net* *Deficiency*	Less: Available Holdbacks	OFA Net Balance
$(6,500,000)	$(6,500,000)	$0	$(6,500,000)

The DAS - WC Claims account has a projected deficiency of $6.5 million, which is 52% above the FY 03 appropriation of $12.5 million. This account pays for the workers' compensation costs for employees in 74 State agencies. The deficiency is primarily the result of significant increases in medical costs and claims causing medical payments. Medical claim costs for the first five months of FY 03 are up 55% over the same period last year.

State Employees Health Service Cost

OPM *Deficiency*	OFA *Net Deficiency*	Less: Available Holdbacks	OFA Net Balance
$(1,700,000)	$(1,700,000)	$0	$(1,700,000)

The State Employees Health Service Cost account has a projected deficiency of $1.7 million, which represents .6% of the FY 03 appropriation. This deficiency is due to the fact that premium rates were finalized at a level that is higher than the preliminary budgeted premium rate.

Retired State Employees Health Service Cost

OPM *Deficiency*	OFA *Net Deficiency*	Less: Available Holdbacks	OFA Net Balance
$(8,700,000)	$(8,700,000)	$0	$(8,700,000)

The Retired State Employees Health Service Cost account has a projected deficiency of $8.7 million, which represents 3.7% of the FY 03 appropriation. This deficiency is due to the fact that premium rates were finalized at a level that is higher than the preliminary budgeted premium rate.

Total Projected General Fund Deficiencies:

OPM *Deficiencies*	OFA Net *Deficiencies*	Less: Available Holdbacks	OFA Net Balance
$(131,700,000)*	$(105,800,000)**	$25,800,000***	$(80,000,000)

*OPM deficiency amounts reflect projections made on November 20, 2002.

*OFA gross deficiencies actually total $126.4 million, though it is anticipated that approximately $20.6 million in lapses within various accounts will be available to be transferred within agencies to partially offset the amount of deficiency appropriations required.

***Includes: Holdbacks related to PS, OE, the hard (hiring) freeze and the managerial wage freeze.

Summary of General Fund Lapsing Appropriations for FY 03

		Amount (in millions)
Status of Budgeted Lapses:		
Legislative Management	$ 2.2	
Debt Service	16.9	
Total - Significant Identified Lapsing Appropriations	$ 19.1	
Other Identified Lapses (less than $1 million each)	6.2	
Unidentified Lapses	149.1	
Subtotal		$ 174.4
Other Reductions:		
Personal Services Reduction (holdback)	$ 13.5	
Other Expenses Reduction (holdback)	11.0	
Hard (Hiring) Freeze (holdback)	7.0	
Managerial Wage Freeze (holdback)	11.0	
Extraordinary Governor's Recision Authority	35.0	
Subtotal		77.5
Total Projected Lapses Anticipated in the Budget		***$ 251.9***