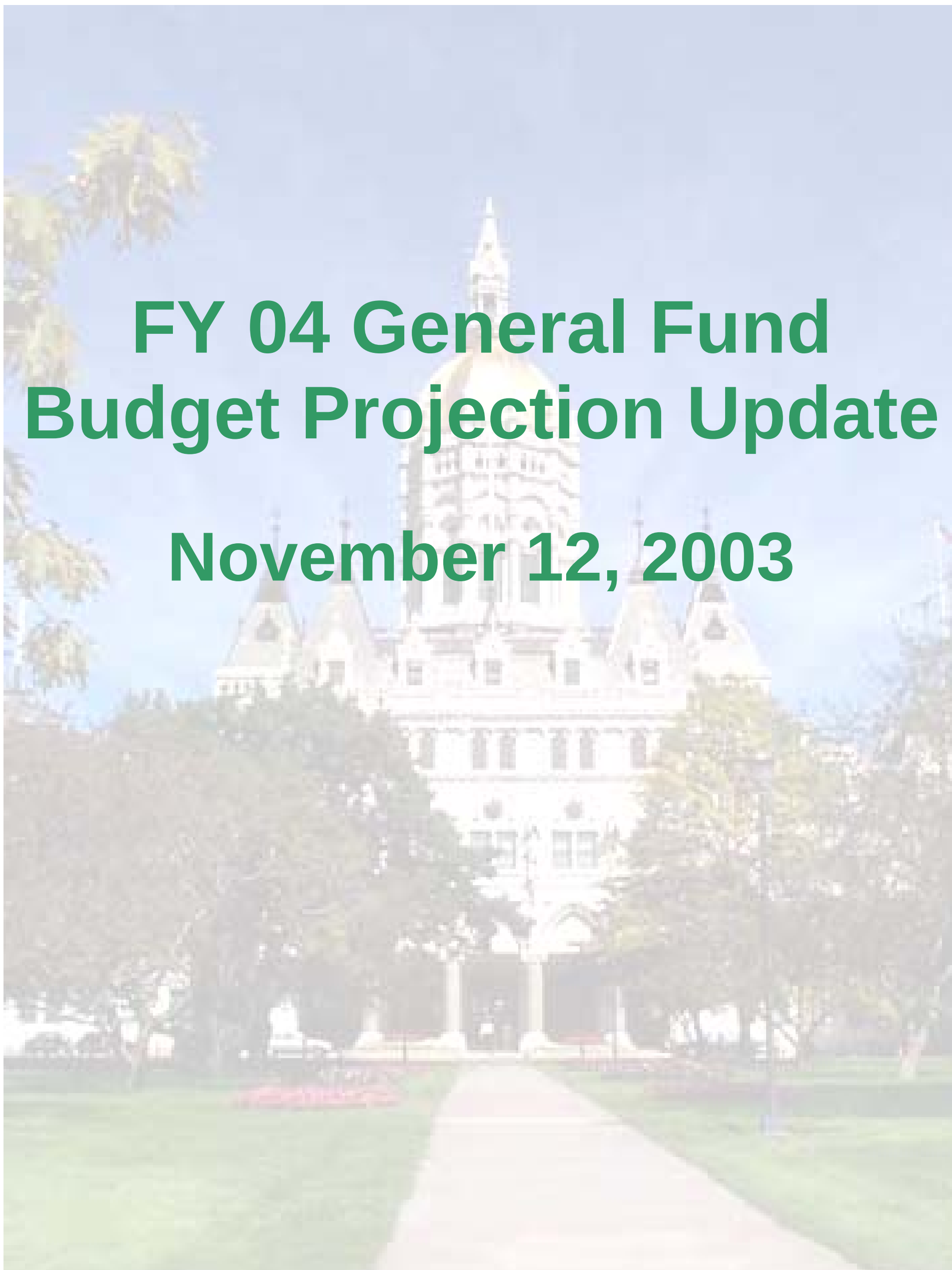
Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS



FY 04 General Fund Budget Projection Update

November 12, 2003

Report Highlights

- **FY 04 General Fund deficit** is projected at **$38.1 million.** **See pages 1 – 4** for details.

- **FY 04 Transportation Fund operating surplus** is projected at **$4 million (the same amount included in budget plan estimates),** which would increase the **cumulative surplus** from $132.9 million to **$136.9 million.** **See pages 12–16** for details.

- **Out year projections indicate that the Transportation Fund will begin to experience operating deficits of $6 million or less per year in FY 06 through FY 09, which will lower the cumulative surplus of the prior years to $124.4 million in FY 09.** This is attributable to the combined effects of (a) growth rates in expenditures accelerating faster than the anticipated growth in revenues, and (b) the loss of $25 million in annual transfers into the fund (PA 02-1). **See page 16 for details.**

FY 04 General Fund and Transportation Fund Budget Projections

(as of November 12, 2003)

I. General Fund

Our projections for the fiscal year ending June 30, 2004 indicate a **potential deficit of $38.1 million** (which represents 0.3% of the original budget). This deficit assumes that **the total amount of originally budgeted revenues will be realized as currently estimated** and **estimated expenditures will be $38.2 million higher than original net appropriations.** While the projected General Fund deficit is $38.1 million, **this estimate may change if: 1) the level of currently estimated deficiencies grows; 2) other potential problem areas currently on OFA's "watch list" become deficiencies; 3) savings originally anticipated in the budget from lapses or other programmatic initiatives do not materialize; or 4) if revenues are adversely affected by any deterioration in economic conditions.**

Revenues

The FY 04 General Fund revenue estimate after refunds and transfers is anticipated to be $12.45 billion. The estimate remains principally unchanged since the Finance, Revenue, and Bonding Committee adopted estimates on July 30, 2003 in support of the FY 2003-05 biennial budget. ***The latest FY 04 General Fund revenue estimates can be found on page 4.***

Revenue from the personal income and sales and use taxes, which make up roughly 60% of total General Fund revenue, is currently meeting projections through the first quarter of the fiscal year (August through October). Therefore, no adjustments have been made to these two revenue sources. Other revenue sources have been adjusted to reflect actual FY 03 collections as well as year-to-date collections.

While the current forecast is that FY 04 General Fund revenues will meet their original projections, there are some concerns (detailed below) that may result in considerable changes to our projections.

- **Economic Conditions**

  Currently, the economy can best be described as mixed. There are some signs that the economy is improving as evident by Gross Domestic Product (GDP) growing by 7.2% in the third quarter of 2003, but other indicators such as unemployment and consumer confidence remain weak.

  The revenue estimates assume the state's economy will begin to improve beginning in the second half of the FY 04, which will result in growth in withholding taxes of 3.5% and sales and use taxes of 4.5%. Therefore, if the state’s economy remains weak, it is unlikely that these growth rates will be achieved.

- **Corporate Tax Collections**

  Year-to-date corporate tax collections are lower than last years by approximately $30 million. This is a concern because the FY 04 estimate assumes that collections will be approximately $100 million more than what was realized in FY 03. At this time we have not made a downward adjustment to the FY 04 estimate because we are unsure if companies have made appropriate adjustments to their estimated payments to reflect recently enacted tax changes. If collections continue to lag expectations through the remainder of 2003, it is unlikely the original FY 04 estimate will be achieved.

Expenditures

The $38.2 million increase in expenditures is largely attributable to projected deficiencies totaling $20.2 million. Of this amount, $16.2 million in net deficiencies are occurring within the Department of Children and Families.

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

Lapses anticipated in the budget total $260.3 million and our deficit projection at this time assumes that these savings will be achieved. The $260.3 million budgeted savings includes: $77 million in unallocated budgeted lapses; $25 million in Personal Services (PS) and Other Expenses (OE) holdbacks; $153.3 million Early Retirement Incentive Plan (ERIP) savings; and $5 million in fleet reductions. The Office of Policy and Management has reduced agency allotments to reflect most of the imposition of PS and OE holdbacks, the ERIP savings and fleet reductions.

The Budget Reserve (Rainy Day) Fund currently contains no funding to cover any of the FY 04 deficit. The $594.7 million balance that remained in the Budget Reserve Fund million was used to partially cover the $817.1 million deficit in FY 02. The remaining FY 02 deficit balance of $222.4 million was carried forward into FY 03 and financed with the issuance of Economic Recovery Notes during the fiscal year. It should be noted that PA 03-2 (the deficit mitigation act) increased the maximum allowable in the Budget Reserve Fund from 7.5% to 10% of the amount of the net General Fund appropriations for the fiscal year in progress. PA 02-118 had previously increased the maximum from 5% to 7.5%.

PA 03-1 (September 8 Special Session) authorizes the State Treasurer to issue 5-year, tax exempt, general obligation “Economic Recovery Notes.” The principal amount is the total of (1) the FY 03 General Fund deficit (totaling $96.7 million), and (2) the amount certified by the Office of Policy and Management for retrospective reimbursements for the State's general assistance program for FY 04 (estimated to be between $25 million and $30 million). The interest cost to the General Fund for bonding $122.9 million (estimated principal plus issuance costs) is $12.9 million, assuming a 3.5% interest rate over a 5-year term of issuance with level principal payments. The act provides that no principal will be paid in fiscal year of issuance.

FY 04 General Fund Summary
as of November 12, 2003
(in millions)

	Budget Plan	Increases (Decreases)	Projected
Revenues			
Taxes	$ 8,624.0	$ 6.4	$ 8,630.4
Other Revenue	1,067.4	(7.5)	1,059.9
Other Sources	2,760.7	1.1	2,761.8
Total Revenue	**$ 12,452.1**	**$ -**	**$ 12,452.1**
Appropriations			
Original Appropriations - Gross	$ 12,712.3	$ -	$ 12,712.3
Plus:			
Deficiency Requirements	-	20.2	20.2
Adjudicated Claims	-	9.0	9.0
Refunds of Escheated Property	-	9.0	9.0
Less:			
Lapses [1]	(260.3)	-	(260.3)
Total Expenditures [2]	**$ 12,452.0**	**$ 38.2**	**$ 12,490.2**
Surplus/(Deficit) from Operations for FY 04	**$ 0.1**	**$ (38.2)**	**$ (38.1)**
Transfer from Budget Reserve (Rainy Day) Fund [3]			-
Remaining Projected Deficit [3]			**$ (38.1)**

[1] Lapses originally budgeted include:

unallocated budgeted lapses	$ (77.0)
general PS and OE reductions (holdbacks)	(25.0)
Early Retirement Incentive Plan (ERIP)	(153.3)
Fleet Reduction	(5.0)
Total - Lapses Originally Budgeted	$ (260.3)

[2] Excludes expenditures from prior year carryforwards and appropriations from projected surplus.

[3] The Budget Reserve (Rainy Day) Fund currently contains no funding to cover any of the projected FY 04 deficit. The $594.7 million balance that remained in the Budget Reserve Fund million was used to partially cover the $817.1 million deficit in FY 02. The remaining FY 02 deficit balance of $222.4 million was carried forward into FY 03 and financed with the issuance of Economic Recovery Notes during the fiscal year. It should be noted that PA 03-2, HB 6495 (the deficit mitigation act) increased the maximum allowable in the Budget Reserve Fund from 7.5% to 10% of the amount of the net General Fund appropriations for the fiscal year in progress. PA 02-118 had previously increased the maximum from 5% to 7.5%.

PA 03-1, SB 2051 (September 8 Special Session) authorizes the State Treasurer to issue 5-year, tax exempt, general obligation “Economic Recovery Notes.” The principal amount is the total of (1) the FY 03 General Fund deficit (totaling $96.7 million), and (2) the amount certified by the Office of Policy and Management for retrospective reimbursements for the State's general assistance program for FY 04 (estimated to be between $25 million and $30 million). The interest cost to the General Fund for bonding $122.9 million (estimated principal plus issuance costs) is $12.9 million, assuming a 3.5% interest rate over a 5-year term of issuance with level principal payments. The act provides that no principal will be paid in fiscal year of issuance.

FY 04 General Fund Revenue
as of November 12, 2003
($ in thousands)

	Budget Plan		OFA	OFA Estimates	
	Growth Rate [1]	FY 04 Estimate	Over(Under) Plan	Growth Rate [1]	FY 04 Estimate
Taxes					
Personal Income	1.2	$4,475,900	0	0.6	$4,475,900
Sales and Use	3.4	3,092,100	0	4.1	3,092,100
Corporations	7.0	607,500	0	8.7	607,500
Public Service Corporations	-	182,800	6,100	2.8	188,900
Inheritance and Estate	2.0	140,100	0	(5.0)	140,100
Insurance Companies	3.0	247,900	1,200	3.0	249,100
Cigarettes	(1.5)	300,800	(6,800)	(1.5)	294,000
Real Estate Conveyance	(2.0)	130,400	9,600	2.3	140,000
Oil Companies	7.6	97,500	(5,500)	3.1	92,000
Alcoholic Beverages	-	44,100	0	(1.1)	44,100
Admissions, Dues and Cabaret	2.0	30,600	1,700	2.0	32,300
Miscellaneous	(5.0)	32,300	100	(5.8)	32,400
Total Taxes		**9,382,000**	**6,400**		**9,388,400**
Refunds of Taxes		(744,000)	0		(744,000)
R & D Credit Exchange		(14,000)	0		(14,000)
Taxes Less Refunds		**8,624,000**	**6,400**		**8,630,400**
Other Revenue					
Transfer Special Revenue		269,600	0		269,600
Indian Gaming Payments		410,000	(7,500)		402,500
Licenses, Permits and Fees		149,500	0		149,500
Sales of Commodities and Services		31,000	0		31,000
Rentals, Fines and Escheats		77,300	0		77,300
Investment Income		12,500	0		12,500
Miscellaneous		118,000	0		118,000
Refunds of Payments		(500)	0		(500)
Total Other Revenue		**1,067,400**	**(7,500)**		**1,059,900**
Other Sources					
Federal Grants		2,527,000	0		2,527,000
Transfer to the Resources of the General Fund		207,700	0		207,700
Transfer from Tobacco Settlement Fund		111,000	1,100		112,100
Transfer to Other Funds		(85,000)	0		(85,000)
Total Other Sources		**2,760,700**	**1,100**		**2,761,800**
Total Revenue		**$12,452,100**	**0**		**$12,452,100**

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

Projected FY 04 General Fund Deficiencies
as of November 12, 2003

Department of Public Works

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$0	**$(2,900,000)**	**$592,055**	**$(2,307,945)**

The Department of Public Works has a projected net deficiency of $2.9 million, which represents 7% of its original FY 04 appropriation of $41.4 million. This assumes that a Personal Services holdback of $.1 million and an Other Expenses holdback of $.5 million are not released. If the holdbacks are released, an estimated remaining deficiency of $2.3 million would result.

The $2.9 million net deficiency results from: 1) $2.1 million in Other Expenses shortfalls including a projected $.9 million deficiency in funding available for the operation of the 61 Woodland Street building and $1.2 million in energy cost increases affecting agency utility accounts; 2) $.35 million related to the operation of the Fairfield Hills campus which has not yet been transferred to the town of Newtown as originally anticipated in the budget; and 3) $.45 million related to the need to provide a reimbursement for a lease payment on the Department of Information Technology (DoIT) building.

Department of Mental Health and Addiction Services

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Lapse
$0	**$(1,100,000)**	**$2,855,863**	**$1,755,863**

The Department of Mental Health and Addiction Services has a projected net deficiency of $1.1 million, which represents 0.3% of its original FY 04 appropriation of $439.9 million. This assumes that a Personal Services holdback of $2 million and an Other Expenses holdback of $.9 million are not released. If the holdbacks are released, an estimated remaining lapse of $1.8 million would result.

The $1.1 million net deficiency results from relatively minor shortfalls in several accounts throughout the agency.

Department of Children and Families

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$0	$(16,178,620)	$10,487,077	$(5,691,543)

The Department of Children and Families has a projected net deficiency of $16.2 million, which represents 2.7% of its original FY 04 appropriation of $591.3 million. This assumes that a $2.1 million lapse in the Board and Care for Children – Adoption account is made available via FAC transfer, but that a Personal Services holdback of $8.9 million and an Other Expenses holdback of $1.6 million are not released. If the holdbacks are released, an estimated remaining deficiency of $5.7 million would result.

Contributing to the $18.3 million gross deficiency (prior to the anticipated $2.1 million FAC transfer) are shortfalls of:

$4.8 million (2.4 % of the original budget) in Personal Services, primarily attributable to unexpected costs associated with the hiring of 110 durational and 65 permanent social work staff that were not reflected within PA 03-01 JSS (the budget act). This staffing expansion is in response to a finding of the DCF Court Monitor that the agency was non-compliant with agreed upon caseload standards for treatment workers. The federal court accepted this finding and endorsed the Court Monitor's recommended remedy, which calls for the incremental attainment of reduced caseloads, terminating in 100 % compliance with the maximum caseload standard of 20 by March 1, 2004. The 175 new positions include 145 Social Workers, 16 Social Work Supervisors and 14 Social Worker Case Aides.

$2.3 million (6.0 % of the original budget) in Other Expenses, primarily attributable to unexpected costs incurred to support the 175 additional positions, as discussed above, as well as higher than anticipated data processing charges.

$1.9 million (32.3 % of the original budget) in Workers' Compensation claims, based on current trends in expenditures.

$1.15 million (1.5 % of the original budget) in the Board and Care for Children - Foster account based on current caseload trends. Budgeted funds anticipated average monthly expenditures of $6.46 million. Current projections indicate that expenditures will average $6.55 million, due primarily to an unexpected increase (of approximately 85) in the number of children entering foster care.

$8.2 million (6.1 % of the original budget) in the Board and Care for Children – Residential account. Of this, $3.4 million is attributable to new residential development (primarily for female adjudicated delinquents) that was not reflected within PA 03-1 JSS. The remaining $4.8 million is due to an unanticipated increase (of approximately 75) in the number of children in residential placements.

Summary of General Fund Lapsing Appropriations for FY 04

		Amount (in millions)
Status of Budgeted Lapses:		
Unidentified Unallocated Lapses		$ 77.0
Other Reductions:		
Personal Services Reduction (holdback)	$ 14.0	
Other Expenses Reduction (holdback)	11.0	
Early Retirement Incentive Plan (ERIP)	153.3	
Fleet Reduction (holdback)	5.0	
Subtotal		183.3
Total Projected Lapses Anticipated in the Budget		***$ 260.3***

"Watch List" of
Potential Additional FY 04 Net Deficiencies [1]
as of November 12, 2003
(figures in $)

Agency / Account / Description	Potential Magnitude of FY 04 Net Deficiency Minimum	Maximum
General Fund:		
DMR - Workers' Comp (based on 1st quarter expenditures)	600,000	1,000,000
DMHAS - Professional Services deficiency due to hiring temporary nurses, offset by a potential Personal Services lapse due to a delay in hiring permanent nursing positions	750,000	1,500,000
DSS - realization of full savings from initiatives in various accounts is uncertain	-	50,000,000
State Employee Wage Increases - The amounts of $62.7 million in FY 04 and $126.1 million in FY 05 have been removed from agency budgets for wage increases for contracts unsettled as of FY 03 through FY 05. Two arbitration awards have already submitted to the legislature and two negotiated contracts will soon be submitted that contain wage increases for FY 04 and FY 05 and retroactive wage increases in some instances, funding for both of which is not currently budgeted.	uncertain	uncertain
Realization of Lapse and Holdback Savings anticipated in the Budget - The budget assumes that $260.3 million in lapse and holdback savings will be achieved. The ultimate savings will depend upon the level of holdbacks associated with Personal Services, Other Expenses and Early Retirement Incentive Plan (ERIP) that are achieved.	uncertain	uncertain
Transportation Fund:		
DOT - Snow & Ice Expenses - Depending on weather conditions, there is a potential for a deficiency of $1.1 million for an average winter to $2 million or more for a severe winter. A very mild winter could result in no deficiency.	1,100,000	2,000,000

[1] Some of these potential additional FY 04 deficiencies by higher than anticipated lapses that could occur in agency accounts, though none are projected at this point.

Note: Please refer to the following section within this report for further explanation of most of the above items.

Further Explanations for Items on "Watch List" of Potential Additional FY 04 Net Deficiencies as of November 12, 2003

Department of Mental Retardation

Based upon first quarter expenditures, Workers' Compensation costs may exceed the $13.4 million originally budgeted by approximately $.6 million to $1 million.

Department of Mental Health and Addiction Services

A deficiency of between $.75 million and $1.5 million may occur in the Professional Services account (originally budgeted at $4.8 million) due to the hiring of temporary nurses. This potential range of deficiency has been offset by a potential Personal Services lapse due to a delay in hiring permanent nursing positions.

Department of Social Services

At this time the Office of Fiscal Analysis is not projecting a deficiency for the Department of Social Services. In fact, over the first three months of actual expenditures, the department's major account, Medicaid, is experiencing a slight surplus when measured against projected spending for the same period. However, due to the late passage of the state's budget, many of the savings initiatives are programmed to have an effect on expenditures in the last nine months of the fiscal year. To the extent that these major savings initiatives are not fully achieved, a significant deficiency may result as the agency moves through the fiscal year.

First, DSS is expected to save $12.5 million in FY04 through the implementation of a preferred drug list under the Medicaid and ConnPACE programs. Those savings are projected to begin in November of the current year. As the department must implement various provisions of the legislation requiring them to create and administer a "preferred drug list" it is possible that the full FY04 savings will not be achieved. Similarly, budgeted ConnPACE savings of $800,000 were predicated on three-quarter year implementation of a new liquid asset test. The extent to which these full savings are achieved will vary depending upon the actual implementation date.

The FY04 budget also included savings of $15.9 million related to the restructuring of the HUSKY A and Medicaid fee-for-service medical programs. These savings are based upon the implementation of a $1.50 co-payment for pharmaceuticals and monthly premiums, as well restructuring the benefit package so that it is the same as the state employee Non-Gatekeeper Point of Enrollment plan. While the co-payments have been implemented, the restructuring of HUSKY A will require the Department to change its state Medicaid plan and seek a waiver from the federal government. The savings from the restructuring of HUSKY is budgeted for the second half of FY04. In addition, the savings are also attributed to the collection of premiums for certain HUSKY and Medicaid clients which may also require federal approval.

The budget also assumed a major restructuring of the State Administered General Assistance (SAGA) plan. Financial benefits under SAGA were reduced, and the medical benefits are changed from a fee-for-service system to a capped appropriated program to be run through the state's acute care hospitals and Federally Qualified Health Centers. Although this program is no longer funded as an entitlement, the complex nature of this restructuring could still lead to potential deficiencies.

Also pending before the federal government is a waiver application concerning a change in the transfer of assets under Medicaid. This initiative is expected to save Medicaid $9.3 million. The waiver was submitted in April 2002.

Another potential significant loss of savings could occur as a result of federal court action concerning the health care coverage for HUSKY adult clients. The legislature and Governor eliminated coverage for adults with incomes over 100% of the poverty level under the HUSKY A program. This change was made as part of the FY03 deficit mitigation package. However, due to a federal lawsuit, the state has been required to continue coverage for individuals already enrolled in the program. The FY04 budget contains $14 million in funding to continue benefits while the case is resolved. These funds are programmed into projected expenditures through November of the current fiscal year and will not be adequate for the full fiscal year. If the resolution of this case is delayed, or the court definitively finds that the state must continue benefits, additional appropriations will be required. To cover these adults for the remainder of the fiscal year will cost approximately $16 million.

Finally, application trends under the ConnPACE program also warrant further scrutiny. Since June 2003, the program experienced a net increase of 1,073 enrollees (September total: 51,978). If this trend holds, significant unanticipated costs may result.

In summary, while the Department of Social Services is not currently running a deficiency, there is the potential of a $50 million shortfall resulting from the non-implementation of budgeted savings that are expected to occur in the last nine months of the fiscal year. As with any agency this potential shortfall could be offset by lapses that may occur in a variety of accounts though none are projected at this point in the year.

State Employee Wage Increases

The amounts of $62.7 million in FY 04 and $126.1 million in FY 05 have been removed from agency budgets for wage increases for contracts unsettled as of FY 03 through FY 05. Of the 31 contracts, 14 are settled and have received wage increases, 9 are unsettled and have not received wage increases and 8 have agreed to a wage freeze during FY 04. The number of state employees with unsettled contracts plus those affected by the wage freeze during FY 04 represent approximately one-half of all state employees.

Two arbitration awards already submitted to the legislature provide increases from FY 02 through FY 05 and from FY 03 through FY 06 respectively. The two soon to be submitted collective bargaining contracts cover FY 03 through FY 06, but provide for a General Wage and Annual Increment freeze in FY 03 and wage increases in the remaining years.

The extent to which agency budgets and the Reserve for Salary Adjustments account can absorb any of the increases occurring during the 2003-2005 biennium in addition to any retroactive costs for prior fiscal years is uncertain at this time. Some level of additional appropriation may be likely and will ultimately depend as well upon the number of unsettled contracts and arbitration awards submitted for approval during the current biennium.

Realization of Lapse and Holdback Savings anticipated in the Budget

The budget anticipates the following sums to remain unexpended, either through normal spending patterns (most agencies do not spend their full appropriation), or through “mandated” savings. The Office of Policy and Management has largely prorated the General Personal Services (PS), Other Expenses (OE), Early Retirement Incentive Plan (ERIP) and Fleet reductions among most agencies and has shown these amounts as targets to be achieved by the agencies as they plan their quarterly spending for FY 04.

Lapses originally budgeted include:

unallocated budgeted lapses	$	(77.0)
general PS and OE reductions (holdbacks)		(25.0)
Early Retirement Incentive Plan (ERIP)		(153.3)
Fleet Reduction		(5.0)
Total - Lapses Originally Budgeted	$	(260.3)

Budgeted holdbacks (i.e., the general PS and OE reductions, ERIP and the fleet reduction) total $183.3 million. So far, OPM has held back $167 million or $16.3 million less than the amount anticipated in the General Fund budget. It is not known at this time if these remaining savings will be achieved and whether any of the intended holdbacks will be released later in the fiscal year in order to cover deficiency needs. Also, ERIP savings will ultimately depend upon the timing, number and salary levels of state employees hired to replace retired (as well as any laid off) employees.

II. Transportation Fund

The FY 04 Transportation Fund operating surplus is projected at $4 million (the same amount included in budget plan estimates), which would increase the cumulative surplus from $132.9 million to $136.9 million.

Our projections for FY 04 and FY 05 indicate diminishing potential surpluses from operations (compared with prior years) based on growth rates in expenditures accelerating faster than the anticipated growth in revenues and the impact that reductions in statutory transfers have on the ending balance of the fund, partially offset by increased revenues from fee increases.

Transportation Fund Operating Balances (also see table on page 16)

FY 03

The Transportation Fund ended FY 03 with an annual operating deficit of $56.8 million. This is largely attributable to the impact of PA 03-2, HB 6495 (the deficit mitigation act), which transferred $52 from the resources of the Transportation Fund to the General Fund and suspended the transfer of $20 million to the Transportation Fund from the General Fund's oil companies tax.

This in conjunction with $25 million less in oil company revenue being transferred to the Transportation Fund (partially offset by $19.4 million in lapse that were higher than primarily anticipated along with other relative minor adjustments) resulted in an operating deficit for FY 03 of $56.8 million. PA 02-1 reduced the amount of annual transfers from the General Fund's Oil Companies Tax from $46 million to $21 million.

This deficit reduces the $189.7 million fund balance at the end of the previous fiscal year to a cumulative surplus of $132.9 million as of June 30, 2003.

FY 04 and FY 05

The FY 04 Transportation Fund operating surplus is projected at $4 million (the same amount included in budget plan estimates), which would increase the cumulative surplus from $132.9 million to $136.9 million. The FY 05 Transportation operating surplus is projected at $1.4 million (which is also the same as budget plan estimates).

The operating surpluses for the current 2003-2005 biennium are significantly lower than normal due to the effects of the combined on-going reductions of $25 million annually (PA 02-1) and the one-time reductions of $10.5 million for FY 04 and $8.0 million for FY 05 (PA 03-1 JSS) from transfers from the General Fund's Oil Companies Tax to the Transportation Fund.

FY 06 and Out years

Out year estimates indicate that the Transportation Fund will begin to experience operating deficits of $6 million or less per year in FY 06 through FY 09, which will lower the cumulative surplus of the prior years to $124.4 million in FY 09. This is attributable mainly to the on-going annual loss of $25 million in transfers (PA 02-1) from the General Fund's Oil Companies Tax coupled with the expectation that growth in expenditures will exceed growth in revenues.

Expenditures

Town Road Aid Grant is funded from the Transportation Fund in FY 04 and FY 05 at $12.5 million per fiscal year. This same level of funding for the Town Road Aid Grant is included in Transportation Fund estimates for FY 06 through FY 09.

FY 04 Transportation Fund Summary
as of November 12, 2003
(in millions)

	Budget Plan	Increase (Decrease)	Revised Estimates
Revenues			
Taxes	$535.4	0.0	$535.4
Other Revenue (incl. Refunds of Payments)	366.1	0.0	366.1
Total Revenue	$901.5	0.0	$901.5
Appropriations			
Appropriations - Gross	$919.6	0.0	$919.6
Less: Lapse	-22.1	0.0	-22.1
Total Expenditures	$897.5	0.0	$897.5
Surplus/(Deficit) from Operations for FY 04	**4.0**	**0.0**	**4.0**
Plus: Cumulative Surplus as of June 30, 2003	**$132.9**	0.0	**$132.9**
Projected Fund Balance as of June 30, 2004	**$136.9**	**0.0**	**$136.9**

FY 04 Transportation Fund Revenues
as of November 12, 2003
(in millions)

	Budget Plan	Increase (Decrease)	Revised Estimates
TAXES			
Motor Fuels Tax	$466.1	0.0	$466.1
Petroleum Products Tax	10.5	0.0	10.5
Sales Tax - DMV	67.0	0.0	67.0
Refund of Taxes	-8.2	0.0	-8.2
Total - Taxes less Refunds	**$535.4**	**0.0**	**$535.4**
OTHER SOURCES			
Motor Vehicle Receipts	$208.6	0.0	$208.6
License, Permits and Fees	144.8	0.0	144.8
Interest Income	27.0	0.0	27.0
Federal Grants (FTA)	3.3	0.0	3.3
Transfers to Other Funds	-18.5	0.0	-18.5
Release from Debt Service Reserves	3.7	0.0	3.7
Total - Other Sources	**$368.9**	**0.0**	**$368.9**
Less Refunds of Payments	-2.8	0.0	-2.8
TOTAL REVENUE	**$901.5**	**0.0**	**$901.5**

Transportation Fund Projections FY 03 - FY 09
as of November 12, 2003
(in millions)

Transportation Fund	FY 03 Actuals	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Beginning TF Balance as of July 1st	**$189.7**	**$132.9**	**$136.9**	**$138.3**	**$134.9**	**$132.6**	**$130.4**
FY Revenues*	827.1	901.5	923.1	942.0	959.4	975.4	987.4
FY Expenditures	883.9	897.5	921.7	945.4	961.7	977.6	993.4
FY Operating Surplus/(Deficit)	**($56.8)**	**$4.0**	**$1.4**	**($3.4)**	**($2.3)**	**($2.2)**	**($6.0)**
Ending TF Balance as of June 30th	**$132.9**	**$136.9**	**$138.3**	**$134.9**	**$132.6**	**$130.4**	**$124.4**
Debt Service Ratio**	**2.0**	**2.1**	**2.2**	**2.2**	**2.2**	**2.2**	**2.2**

*Includes $52 million transferred to General Fund in FY 03 by PA 03-2.
**Pledged revenues for reserves required under the Indentures in an amount at least two (2) times the aggregate Principal and Interest Requirements on all outstanding Bonds and Notes.