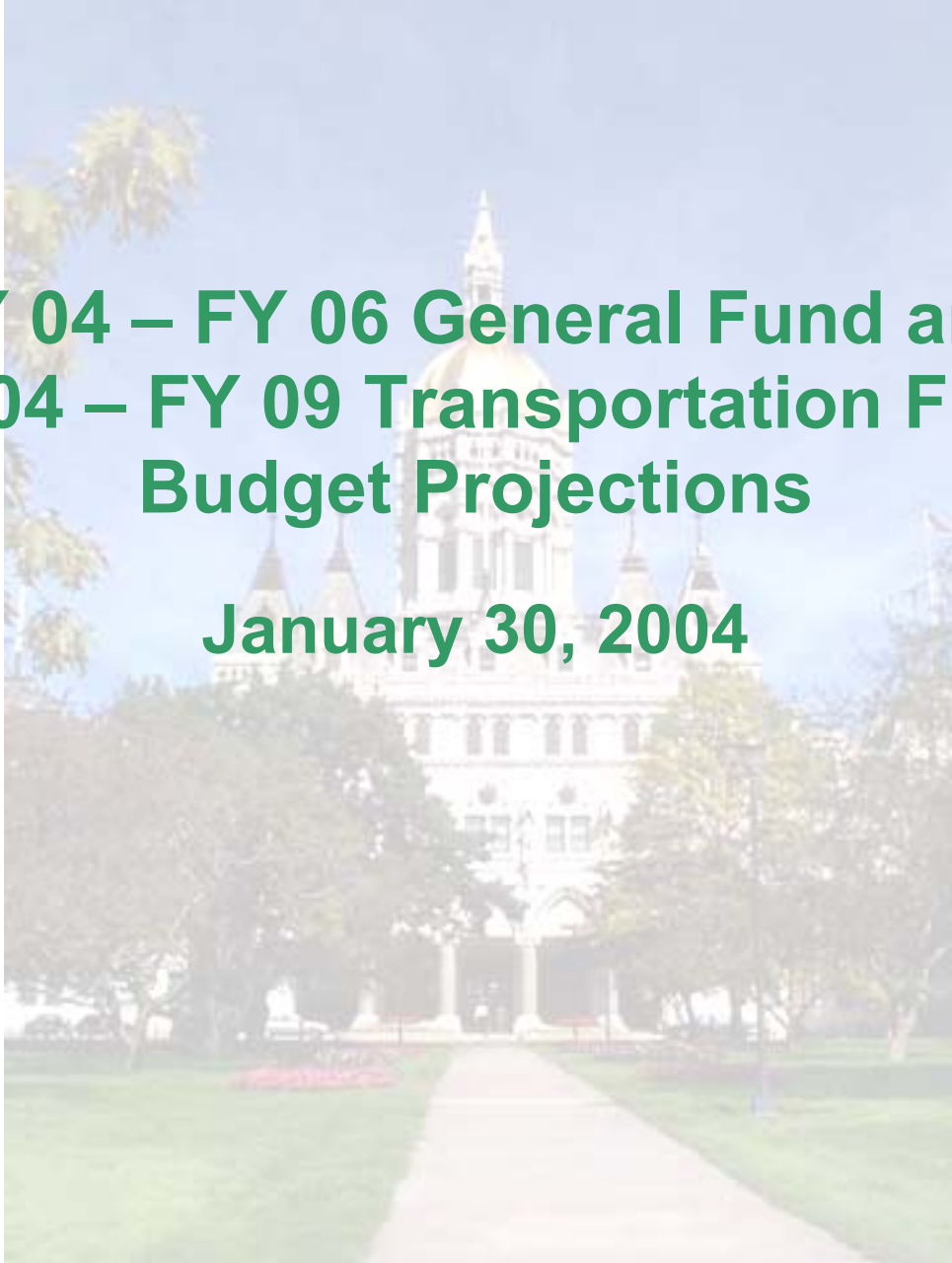
Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS



FY 04 – FY 06 General Fund and FY 04 – FY 09 Transportation Fund Budget Projections

January 30, 2004

Report Highlights

- **FY 04 General Fund deficit** is projected at **$65.6 million.** See **pages 1 – 7** for details.

- Out-year projections indicate **potential deficits for the General Fund of $72.6 million in FY 05 and $699.7 million in FY 06.** The magnitude of the FY 06 deficit is largely attributable to loss of one-time revenues utilized in FY 05, expenditure growth and implementation of Generally Accepted Accounting Principles (GAAP). See **pages 8-14** for details.

- **FY 04 Transportation Fund net 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 20–24** for details.

- **Out year projections indicate that the Transportation Fund will begin to experience net 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 $124.3 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 21** for details.

FY 04 through FY 06 Budget Projections
For the General Fund and Transportation Fund
(figures in $ millions)

	FY 04 Budget Plan	FY 04 Projected 1/30/04	FY 05 Budget Plan	FY 05 Projected 1/30/04	FY 06 Projected 1/30/04
General Fund					
Revenue	12,452.1	12,466.1	12,967.1	12,936.0	13,014.0
Expenditures	12,452.0	12,531.7	12,966.9	13,008.6	13,713.7
Surplus/(Deficit)	0.1	**(65.6)**	0.2	**(72.6)**	**(699.7)**
Transportation Fund					
Beginning TF Balance as of 7/1	132.9	132.9	136.9	136.9	138.3
Revenue [1]	901.5	925.1	923.1	950.5	967.7
Expenditures	897.5	897.5	921.7	921.7	945.4
Gross Surplus/(Deficit)	4.0	27.6	1.4	28.8	22.3
Less: Revenue Allocated to TSB	-	(23.6)	-	(27.4)	(25.7)
Net Surplus/(Deficit)	4.0	4.0	1.4	1.4	(3.4)
Cumulative Surplus	136.9	136.9	138.3	138.3	134.9

[1] Projected revenues include amounts allocated for purposes of the Transportation Strategy Board (TSB).

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General Fund and Transportation Fund Budget Projections

(as of January 30, 2004)

I. FY 04 General Fund

Our projections for the fiscal year ending June 30, 2004 indicate a **potential deficit of $65.6 million** (which represents 0.5% of the original budget). This deficit assumes that **the total amount of originally budgeted revenues will be $14 million above budget plan estimates** and **estimated expenditures will be $79.7 million higher than original net appropriations.** While the projected General Fund deficit is $65.6 million, **this estimate may change if: 1) if revenues are affected by any change in economic conditions; 2) the level of currently estimated deficiencies grows; 3) there is continued erosion in savings originally anticipated in the budget from lapses such as the Early Retirement Incentive Plan (ERIP); 4) the $12.1 million in savings from recisions implemented by the Governor is not realized beyond the $243.8 million in projected lapse savings; or 5) if any submitted arbitration awards and collective bargaining agreements are approved by the legislature or become effective in the absence of legislative rejection.**

Revenues

The $14.0 million net increase in estimated FY 04 General Fund revenue collections is the result of 3 main factors: (1) a $114.1 million increase in the Personal Income Tax, (2) a $9.8 million increase in the Real Estate Conveyance Tax, and (3) a $110.0 million decrease in the Corporation Business Tax.

(1) **Personal Income Tax** (PIT) collections are anticipated to be $114.1 million greater than projected due to higher collections of $124.1 million, which is partially offset by $10.0 million of higher-than-anticipated refunds. The improvement in collections is due to the following factors:

a) Withholding taxes: The growth rate for withholding was projected to be 1.8% after adjusting for tax changes enacted last year, while the actual year-to-date growth rate has been 3.1%. This accounts for a $19.5 million increase in the PIT estimate.

b) Estimated payments: Improving economic conditions coupled with strengthening U.S. stock markets, especially in the second half of the year, helped receipts from fourth quarter estimated tax payments (due by January 15th) exceed expectations. The growth rate for estimated payments was projected to be –8.0% after adjusting for tax changes enacted last year, while the actual year-to-date growth rate has been -2.6%. This accounts for a $24.8 million increase in the PIT estimate.

c) Final payments: Historically, higher than anticipated fourth quarter estimated payments have been a good leading indicator for higher final payments. Therefore, since fourth quarter estimated payments exceeded expectations, the estimate for final payments (due by April 2004) was also increased. This accounts for a $57.8 million increase in the PIT estimate.

d) Income tax audits and assessments: The PIT estimate was increased by $22.0 million based on a large one-time taxpayer settlement received in November 2003.

(2) **Real Estate Conveyance Tax** collections are anticipated to be $9.8 million greater than projected. The FY 04 estimate was based on the expectation that interest rates would rise and curb the number of real estate transactions. Although collection growth was 7.5% in FY 02 and 9.0% in FY 03, this level of activity was not considered to be sustainable and the growth rate for FY 04 was projected to be -8.8%. However, mortgage interest rates have remained near their historical lows through the first half of the fiscal year, which has continued to stimulate sales of new and existing homes.

(3) **Corporation Business Tax** collections are anticipated to be $110 million lower than projected due to a $130.0 million decrease in collections, which is partially offset by a $20 million decrease in refunds. While the specific reasons for this decrease are unknown, the following two factors may be contributing to sluggish collections:

a) ***Income*** - Corporate income remained generally sluggish through 2003. Companies that experienced a profit probably used their net operating loss carryovers to offset a substantial portion of their liability;

b) ***Overpayment of Prior Year Tax Liability*** – Taxpayers may have overpaid their 2002 tax liability in FY 03 because: (1) they took into account tax changes that restricted the use of tax credits and imposed a corporate tax surcharge, and (2) 2002 income results were less than anticipated. These companies may now be applying these overpayments to their 2003 tax liability. Therefore, a significant portion of a taxpayer's 2003 liability may have already been paid through the application of prior year overpayments.

(4) **Other Miscellaneous** – The remaining modifications to various revenue sources are relatively minor and can be explained by adjustments resulting from actual FY 03 collections (rolled forward into FY 04) and year-to-date collections.

Expenditures

- **Deficiencies**

  The $79.7 million increase in expenditures is largely attributable to projected deficiencies totaling $57.3 million. Of this amount, a net deficiency of $22.5 million is occurring within the Department of Children and Families and a net deficiency of $20.2 million is occurring within the Department of Social Services. Please see **page 8** for explanations of all potential FY 04 deficiencies.

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

- **Budgeted Lapses**

  Lapses anticipated in the budget total $260.3 million of which the Early Retirement Incentive Plan (ERIP) savings amounts $153.3 million. Recent data indicates that the ERIP savings will not be fully realized due to higher refills and as a result, we have lowered the projected ERIP savings by $16.5 million from $153.3 million to $136.8 million.

Budgeted Lapses
(figures in $ million)

	Budget Plan	Increases/(Decreases)	Currently Projected
Unallocated	(77.0)	0.0	(77.0)
PS & OE Holdbacks	(25.0)	0.0	(25.0)
ERIP Savings	(153.3)	16.5	(136.8)
Fleet Reduction	(5.0)	0.0	(5.0)
Totals	(260.3)	16.5	(243.8)

- **Major Unallocated Lapses**

  So far, we have identified $48.9 million of the $77 million unallocated lapse anticipated in the original budget. One account and two agencies comprise $44.1 million of $48.9 million in identified lapses, the reasons for which are described below.

Unallocated Lapses
(figures in $ millions)

Debt Service	23.8
Department of Correction	14.6
Judicial Department	5.7
Total – Significant Identified Lapsing Appropriations	44.1
Other Identified Lapses (less than $2 million each)	4.8
Unidentified Lapses	28.1
Total – Unallocated Lapses	77.0

Debt Service - The estimated lapse of $23.8 million in the General Fund debt service account is a combination of $25.3 million in savings and $1.5 million in increased expenditures. The savings are: (1) $18.7 million in savings due to changes in the issuance schedule and lower than anticipated interest rates, and (2) $6.6 million in premiums received on General Obligation (GO) bonds issued between August 2002 and November 2003. (Bond purchasers pay a premium to receive a higher interest rate than the one at which the bonds would otherwise have sold.)

The increase of $1.5 million is due to interest payments on Economic Recovery Notes (ERNs), which were authorized by PA 03-1 of the September 8 Special Session. The act permits the state treasurer to issue five-year, tax-exempt, general obligation ERNs with a principal amount that is the total of: (1) the FY 2002-03 General Fund deficit ($96.7 million), (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 $27.1 million), and (3) associated debt issuance costs (approximately $1.2 million.) The act stipulates that no principal will be paid in the fiscal year of issuance. (The ERN estimate assumes that $125.0 million will be issued in February 2004 at a fixed interest rate of 3.75%.)

Department of Correction - It is anticipated that the Department of Correction (DOC) will lapse $14.6 million in out-of-state bed funding. Last year, the department was authorized to send 2,000 additional inmates to prison outside the state. There are currently 500 CT inmates being housed in a correctional facility in Greensville, Virginia. At this point, no agreement has been reached to transfer any additional inmates. Consequently, only a portion of the $35 million that was appropriated to DOC for the transfer of inmates out of state will be expended by the end of the fiscal year. The $14.6 million anticipated lapse figure is net of $3 million which is expected to be transferred to cover a deficiency in the Inmate Medical Services account.

Judicial Department - The Judicial Department's projected FY 04 lapse of $5.7 million in Personal Services is due to a delay in the refilling of positions. It should be noted that the Department could incur additional FY 04 Personal Services costs resulting from collective bargaining agreements reached in the current year. The estimated, FY 04 cost of these contracts is approximately $11 million. The extent to which funds from the statewide Reserve for Salary Adjustment (RSA) account would be used to cover these additional, potential costs is unknown.

- **Governor's Recisions**

The Governor announced $12.5 million in recisions on December 30, 2003. This amount was subsequently adjusted downward by $350,000 to reflect elimination of the recision to the Housing/Homeless Services account within the Department of Social Services. The projected FY 04 deficit could be higher if the $12.1 million in savings from recisions implemented by the Governor is not realized beyond the $243.8 million in projected lapse savings.

- **State Employee Wage Increases**

The projected deficit for FY 04 could be higher if any submitted arbitration awards and collective bargaining agreements are approved by the legislature or become effective in the absence of legislative rejection. Of the 31 contracts, 14 are settled and have received wage increases, 8 have agreed to a wage freeze during FY 04 and 9 are unsettled and have not received 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 already submitted to the legislature provide increases from FY 02 through FY 05 and from FY 03 through FY 06 respectively. The two collective bargaining contracts (one already submitted; one soon to be submitted) 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.

- **Prior Year Deficits and Budget Reserve (Rainy Day) Fund Status**

  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 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, 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), (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 $27.1 million), and (3) associated debt issuance costs (approximately $1.2 million). The interest cost to the General Fund for bonding $125 million is $14.1 million, assuming a 3.75% interest rate over a 5-year term of issuance with level principal payments. The act provides that no principal will be paid in the fiscal year of issuance.

FY 04 General Fund Summary
as of January 30, 2004
(in millions)

	Budget Plan	Increases (Decreases)	Projected
Revenues			
Taxes	$ 8,624.0	$ 18.5	$ 8,642.5
Other Revenue	1,067.4	(7.5)	1,059.9
Other Sources	2,760.7	3.0	2,763.7
Total Revenue	**$ 12,452.1**	**$ 14.0**	**$ 12,466.1**
Appropriations			
Original Appropriations - Gross	$ 12,712.3	$ -	$ 12,712.3
Plus:			
Deficiency Requirements	-	57.3	57.3
Adjudicated Claims	-	9.0	9.0
Refunds of Escheated Property	-	9.0	9.0
Less:			
Lapses [1]	(260.3)	16.5	(243.8)
Governor's Recisions (12/30/03) [2]	-	(12.1)	(12.1)
Total Expenditures [3]	**$ 12,452.0**	**$ 79.7**	**$ 12,531.7**
Surplus/(Deficit) from Operations for FY 04	**$ 0.1**	**$ (65.7)**	**$ (65.6)**
Transfer from Budget Reserve (Rainy Day) Fund [4]			-
Remaining Projected Deficit for FY 04 [4]			**$ (65.6)**
[1] The breakdown for budgeted lapses is as follows:			
unallocated budgeted lapses	$ (77.0)	$ -	$ (77.0)
general PS and OE reductions (holdbacks)	(25.0)	-	(25.0)
Early Retirement Incentive Plan (ERIP)	(153.3)	16.5	(136.8)
Fleet Reduction	(5.0)	-	(5.0)
Total - Lapses Originally Budgeted	$ (260.3)	$ 16.5	$ (243.8)

[2] The projected deficit for FY 04 could be higher if the $12.1 million in recisions is not realized beyond the $243.8 million in projected lapse savings.

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

[4] 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 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), (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 $27.1 million) and (3) associated debt issuance costs (approximately $1.2 million). The interest cost to the General Fund for bonding $125 million is $14.1 million, assuming a 3.75% 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.

The projected deficit for FY 04 could be higher if any submitted arbitration awards and collective bargaining agreements are approved by the legislature or become effective in the absence of legislative rejection. Of the 31 contracts, 14 are settled and have received wage increases, 8 have agreed to a wage freeze during FY 04 and 9 are unsettled and have not received 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 already submitted to the legislature provide increases from FY 02 through FY 05 and from FY 03 through FY 06 respectively. The two collective bargaining contracts (one already submitted; one soon to be submitted) 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.

FY 04
General Fund Revenue Estimates
($ - Thousands)
January 30, 2004

	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	$124,100	3.6	$4,600,000
Sales and Use	3.4	3,092,100	-	4.1	3,092,100
Corporations	7.0	607,500	(130,000)	(16.9)	477,500
Public Service Corporations	-	182,800	6,100	2.8	188,900
Inheritance and Estate	2.0	140,100	-	(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	-	(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**	**500**		**9,382,500**
Refunds of Taxes		(744,000)	18,000		(726,000)
R & D Credit Exchange		(14,000)	-		(14,000)
Taxes Less Refunds		**8,624,000**	**18,500**		**8,642,500**
Other Revenue					
Transfer Special Revenue		269,600	-		269,600
Indian Gaming Payments		410,000	(7,500)		402,500
Licenses, Permits and Fees		149,500	-		149,500
Sales of Commodities and Services		31,000	-		31,000
Rentals, Fines and Escheats		77,300	-		77,300
Investment Income		12,500	-		12,500
Miscellaneous		118,000	-		118,000
Refunds of Payments		(500)	-		(500)
Total Other Revenue		**1,067,400**	**(7,500)**		**1,059,900**
Other Sources					
Federal Grants		2,527,000	-		2,527,000
Transfer to the Resources of the General Fund		207,700	-		207,700
Transfer from Tobacco Settlement Fund		111,000	3,000		114,000
Transfer to Other Funds		(85,000)	-		(85,000)
Total Other Sources		**2,760,700**	**3,000**		**2,763,700**
Total Revenue		**$12,452,100**	**$14,000**		**$12,466,100**

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

Potential FY 04 Deficiencies

Ethics Commission

OPM *Net Deficiency*	OFA *Net Deficiency*	Less: Available Funds	OFA Remaining Deficiency
$(154,000)	$(154,000)	$3,181	$(150,819)

The Ethics Commission has a projected net deficiency of $154,000, which represents 22.3% of its original FY 04 appropriation of $690,397 million. This assumes that an Other Expenses holdback of $3,181 is not released. If the holdback is released, an estimated remaining deficiency of $150,819 million would result.

The $154,000 net deficiency results from the restoration of 2 positions eliminated in the adopted budget.

Freedom of Information Commission

OPM *Net Deficiency*	OFA *Net Deficiency*	Less: Available Funds	OFA Remaining Deficiency
$(120,000)	$(120,000)	$3,735	$(116,265)

The Freedom of Information Commission has a projected net deficiency of $120,000, which represents 10.1% of its original FY 04 appropriation of $1.2 million. This assumes that an Other Expenses holdback of $3,735 is not released. If the holdback is released, an estimated remaining deficiency of $116,265 million would result.

The $120,000 net deficiency results from the restoration of 2 positions eliminated in the adopted budget.

Office of the State Comptroller

OPM *Net Deficiency*	OFA *Net Deficiency*	Less: Available Funds	OFA Remaining Deficiency
$(1,000,000)	$(1,000,000)	$643,436	$(356,564)

The Office of the State Comptroller has a projected net deficiency of $1.0 million, which represents 5.5% of its original FY 04 appropriation of $18.3 million. This assumes that a Personal Services holdback of $128,861, an Other Expenses holdback of $89,294 and Early Retirement Incentive Plan (ERIP) savings of $425,281 are not released. If the holdbacks are released, an estimated remaining deficiency of $356,564 million would result.

The $1.0 million net deficiency results from the cost of an annual maintenance contract for the PeopleSoft software associated with the Core-CT system . This post-implementation cost of Core-CT, which is to be paid from the Other Expenses account, had not been budgeted in the agency.

Department of Administrative Services

OPM *Net Deficiency* $(1,600,000)	OFA *Net Deficiency* $(1,600,000)	Less: Available Funds $3,009,300	OFA Remaining Lapse $1,409,300

The Department of Administrative Services has a projected net deficiency of $1.6 million, which represents 6% of its original FY 04 appropriation of $26.6 million. This assumes that a Personal Services holdback of $.1 million, an Other Expenses holdback of $.1 million, Early Retirement Incentive Plan (ERIP) savings of $2.1 million are not released. Additionally, recisions totaling $.7 million were imposed in January. If the holdbacks and recisions are released, an estimated remaining lapse of $1.4 million would result.

The $1.6 million net deficiency results from DAS entering into a seven month, $2.1 million spend management contract with Silver Oak Solutions. DAS will expend $500,000 in current appropriations toward the consulting contract, resulting in an additional requirement of $1.6 million. The spend management program's objective is to create cost savings in procurement spending. Silver Oak Solutions applies a strategic sourcing project approach to create savings and meet purchasing needs across multiple statewide entities.

Department of Public Works

OPM *Net Deficiency* $(3,000,000)	OFA *Net Deficiency* $(2,665,000)	Less: Available Funds $1,239,105	OFA Remaining Deficiency $(1,425,895)

The Department of Public Works has a projected net deficiency of $2.7 million, which represents 6.4% of its original FY 04 appropriation of $41.4 million. This assumes that a Personal Services holdback of $.1 million, an Other Expenses holdback of $.5 million and Early Retirement Incentive Plan (ERIP) savings of $.6 million are not released. If the holdbacks are released, an estimated remaining deficiency of $1.4 million would result.

The $2.7 million net deficiency results from deficiencies of $3.6 million and anticipated savings of $0.95 million. The deficiencies are: 1) $3 million in Other Expenses shortfalls including a projected $.9 million deficiency in funding available for the operation of the 61 Woodland Street building, $.6 million in current year energy cost increases affecting agency utility accounts and a $1.5 million carry forward of utility expenses and snow removal costs from FY 03; 2) $.5 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) $.115 million related to the need to provide a reimbursement for a lease payment on the Department of Information Technology (DoIT) building. The agency anticipates offsetting part of this deficiency with $.95 million in Personal Services account savings due to the Early Retirement Incentive Program and positions that are not being refilled. The agency expects to transfer these funds to the deficient accounts via the FAC process.

Department of Mental Retardation

OPM *Net Deficiency* $(2,500,000)	OFA *Net Deficiency* $(1,700,000)	Less: Available Funds $21,750,155	OFA Remaining Lapse $20,050,155

The Department of Mental Retardation has a projected deficiency of $1.7 million, which represents .23% of its original FY 04 appropriation of $737.8 million. This assumes that a Personal Services holdback of $2.3 million, an Other Expenses holdback of $.7 million and Early Retirement Incentive Plan (ERIP) savings of $18.3 million are not released. Additionally, a recision of $.4 million was imposed in January. If the holdbacks and recisions are released, an estimated remaining lapse of $20 million would result.

The $1.7 million deficiency results from a shortfall in the Workers' Compensation and Early Intervention accounts. The $.5 million (3.7% of the original budget) in Workers' Compensation Claims is based on current trends in expenditures and prior year account activity.

The $1.2 million in the Early Intervention account (5.2% of the original budget of $22.9 million) is based on the Birth-to-Three System's enrollment, lower than anticipated insurance receipts and a delay in implementing the parent fee changes. PA 03-1 JSS (the budget act) included initiatives intended to result in savings in the Birth-to-Three program. Although savings have resulted from some of the program changes, it is anticipated that the lower level of funding provided for the program may not fully meet the demand. FY 04 insurance receipts are lagging behind FY 03 in addition to not meeting the increased targeted level (one of the budget initiatives). There has also been a delay in implementing the change in the parent fee (and corresponding revenue). Both insurance receipts and parent fees reduce expenditures by crediting the revenue to the Birth-to-Three system. The projected shortfall may be reduced if enrollment stays at December's level of 4,615 children through the end of the fiscal year or if there is an increase in revenue due to insurance receipts or parent fee collection.

Department of Mental Health and Addiction Services

OPM *Net Deficiency* $(4,500,000)	OFA *Net Deficiency* $(7,400,000)	Less: Available Funds $21,987,561	OFA Remaining Lapse $14,587,561

The Department of Mental Health and Addiction Services has a projected net deficiency of $7.4 million, which represents 1.7% of its original FY 04 appropriation of $439.9 million. This assumes that a Personal Services holdback of $2 million, an Other Expenses holdback of $.9 million, Early Retirement Incentive Plan (ERIP) savings of $17 million and a fleet reduction of $.25 million are not released. Additionally, a recision of $1.9 million was imposed in January. If the holdbacks and recisions are released, an estimated remaining lapse of $14.6 million would result.

The $7.4 million deficiency results primarily from shortfalls in four accounts. First, a $2.9 million deficiency is projected for the Professional Services account due to an increased reliance on temporary agency nurses at Connecticut Valley Hospital. Temporary nurses have been used due to a difficulty in filling full time nursing positions. An additional $2.8 million deficiency is projected in the Managed Service System due to an enhanced effort to ease gridlock inpatient, utilization and general hospital treatment. A deficiency of $980,000 is projected in the Behavioral Health Medications account due primarily to increased drug costs. And finally a $800,000 deficiency is projected in the Other Expenses account due to repair costs and maintenance supplies at Cedarcrest hospital.

Department of Social Services

OPM ***Net Deficiency*** **$(30,330,000)**	**OFA** ***Net Deficiency*** **$(20,185,000)**	**Less: Available Funds $18,150,000**	**OFA Remaining Deficiency $(2,035,000)**

The Department of Social Services has a projected net deficiency of $20.2 million, which represents 0.5% of its original FY 04 appropriation of $3,766.7 million. This assumes that a Personal Services holdback of $.86 million, an Other Expenses holdback of $2.78 million, Early Retirement Incentive Plan (ERIP) savings of $11.3 million and a fleet reduction of $.17 million are not released. Additionally, a recision of $2.99 million was imposed in January. If the holdbacks and recisions are released, an estimated remaining deficiency of $2 million would result.

The $20.2 million net deficiency results primarily from shortfalls in six accounts. However, these shortfalls are offset by projected surpluses in four other accounts.

The Office of Fiscal Analysis is projecting a deficiency for the **Medicaid** program of approximately $35 million. This deficiency is due in large part to budgeted savings initiatives that will not be fully achieved due to the late passage of the budget as well as the complex nature of implementation.

First, DSS is expected to save $12.5 million in FY 04 through the implementation of a preferred drug list under the Medicaid and ConnPACE programs. Those savings were projected to begin in November of the current fiscal 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 FY 04 savings will not be achieved.

The FY 04 budget also included savings 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 FY 04. In addition, the savings are also attributed to the

collection of premiums for certain HUSKY and Medicaid clients which may also require federal approval.

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 FY 03 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 FY 04 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 require an additional $16 million.

The **ConnPACE** program is experiencing higher than anticipated caseloads. From June to November 2003, enrollment increased by 1,261 persons (to 52,166), and is expected to grow by another 700 persons by year end. The department has also experienced delays in implementing budgeted pharmaceutical cost containment measures. These are contributing factors to an anticipated shortfall of approximately $6.1 million.

A $4 million shortfall is projected in the **Temporary Family Assistance** (TFA) account, primarily due to a slower than budgeted decline in the caseload over the first six months of FY 04. Deficiencies of $2.2 million in the HUSKY program and $1 million in the Connecticut Home Care program are due in large part to higher medical costs as well as higher than anticipated caseloads.

The **State Administered General Assistance** (SAGA) program has a current estimated deficiency of $6.2 million. The budget assumed a major restructuring of this program. 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. Due to the late passage of the budget, and the complex nature of the implementation of the required changes, a deficiency is projected.

These shortfalls are offset by significant lapses in the Supplemental Assistance accounts (**Aid to the Disabled, Aid to the Blind, Old Age Assistance**) and Child Care Subsidies. A net lapse of $5.7 million is projected for Supplemental Assistance, primarily due to continued decreases in caseloads. A lapse of $27.9 million (31% of the original appropriation) is projected for the Child Care Subsidies account. Over the past fiscal years, legislation has been passed that lowered the income eligibility levels for Transitional Child Care portion of the program and closed enrollment in the Child Care Certificate portion of the program. The impact on enrollment from these two changes has been much more significant than originally projected, which has resulted in the current anticipated savings. Since July 2002, enrolment in the Child Care Subsidies program has declined from 16,918 to 8,859, as of December, 2003.

Department of Correction

OPM *Net Deficiency* $(3,000,000)	OFA *Net Deficiency* $(0)	Less: Available Funds $0	OFA Remaining Lapse $0

The Office of Policy and Management anticipates that the Department of Correction will experience a $3 million deficiency. Although OFA agrees that a $3 million deficiency will likely occur in the Inmate Medical Services account, our office anticipates that this deficiency will be covered by significant lapses occurring in other agency accounts (largely in Out-of-State Beds).

The $3 million deficiency in the Inmate Medical Services account is due to a combination of mental health consolidation initiatives related to compliance with consent decrees, increased mental health evaluations, and other adjustments related to the delivery of health services.

Department of Children and Families

OPM *Net Deficiency* $(20,000,000)	OFA *Net Deficiency* $(22,514,697)	Less: Available Funds $10,477,279	OFA Remaining Deficiency $(12,037,418)

The Department of Children and Families has a projected net deficiency of $22.5 million, which represents 3.8% of its original FY 04 appropriation of $591.3 million. This assumes that a $2.6 million lapse in the Board and Care for Children – Adoption account and a $0.5 million lapse in No-Nexus Special Education are made available via FAC transfer, but that a Personal Services holdback of $1.8 million, an Other Expenses holdback of $1.1 million, Early Retirement Incentive Plan (ERIP) savings of $7.1 million and a fleet reduction of $.5 million are not released. If the holdbacks are released, an estimated remaining deficiency of $12.0 million would result.

Contributing to the $25.6 million gross deficiency (prior to the anticipated $3.1 million FAC transfer) are shortfalls of:

> $4.9 million (2.3% 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 U.S. District Court issued an order on July 29, 2003, endorsing this recommendation. The 175 new positions include 145 Social Workers, 16 Social Work Supervisors and 14 Social Worker Case Aides.

$1.2 million (3.2% of the original budget) in Other Expenses, primarily attributable to unexpected costs incurred to support the 175 additional positions, as discussed above.

$2.25 million (38.6% of the original budget) in Workers' Compensation Claims, based on current trends in expenditures.

$4.4 million (5.7% 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 $6.82 million.

$12.9 million (9.6% of the original budget) is projected for the Board and Care for Children – Residential account. Contributing to this shortfall is $4.8 million attributable to new residential development (primarily for female adjudicated delinquents) that was not reflected within PA 03-1 JSS; $1.8 million in mandated rate increases for in-state residential treatment providers; and $6.3 million resulting from a 6.8% increase in residential placements since the beginning of FY 04.

II. Preliminary FY 05 and FY 06 General Fund Budget Projections

Our analysis indicates a potential General Fund deficit of $72.6 million in FY 05 based on our projection of revisions necessary to the budget passed during the 2003 Session. (It should be noted, however, that projected appropriations requirements for all funds are lower than the amount allowed by the spending cap by $77.5 million in FY 05 and would be higher by $159.1 million in FY 06.) The deficit is due to lower revenue collections of $31.1 million and higher spending requirements of $41.7 million. The lower revenue collections are based revisions made to FY 04 projected revenue collections and modifications made to FY 05 growth rate assumptions. The higher spending results from current year deficiency appropriation needs brought forward into FY 05 along with other anticipated requirements. These revisions projected out, along with the loss of one-time revenues utilized during the 2003-2005 biennium, result in a shortfall projection of $699.7 for FY 06. The projections in this report are based on present law, existing policy commitments, estimated caseload and workload requirements. The projected balances for the General Fund at the end of FY 05 and FY 06 are indicated on **page 18**.

FY 05 Revenues

The $31.1 million net decrease in estimated FY 05 General Fund revenue collections is the result of: (1) revisions made to FY 04 projected revenue collections and (2) modifications made to FY 05 growth rate assumptions, which are summarized below:

a) **Personal Income Tax** – The revised FY 05 revenue estimate reflects a modest decline in the growth rate for non-wage income. The original FY 05 estimate assumed that non-wage income (capital gains realizations, partnership distributions, interest income) would grow at 11% while the revised estimate assumes that this income will growth at 9%.

   The adjustment was made because capital gains realizations are not expected to be as robust in 2004 as originally anticipated. Economy.com originally forecasted that 2003 capital gains would decline by 34% in 2003 but their recently revised forecast indicates that capital gains will grow by 8.1%. This new scenario for better-than-anticipated capital gain realizations in 2003 led to the downward adjustment in the capital gains growth rate in 2004.

b) **Corporation Tax** – The revised FY 05 revenue figure reflects an increase in the growth rate from 5.0% to 10.0%. The estimate assumes that a portion of the adjustment made for FY 04 will not continue into FY 05.

c) **Real Estate Conveyance Tax** – The FY 05 original estimate assumed that collections would decline by 4.0% while the revised estimate assumes that revenues will decline by 10.6%. The revised estimate reflects the expectation that the FY 04 base is not sustainable because: (1) demand has largely been fulfilled over the past three years, and (2) mortgage interest rates will rise.

FY 05 Expenditures

The FY 05 revised General Fund expenditure projection of $13,008.6 million represents a $41.7 million or 0.3% increase (net of increases and decreases) over the original General Fund appropriation of $12,966.9 million. The increase results from projected current year deficiency appropriation needs brought forward into the new fiscal year along with other anticipated requirements.

The revised FY 05 figures in this report are based on our preliminary analysis of expenditure needs, which will be further reviewed after the governor presents his budget recommendations, along with cost savings options.

FY 06 Revenues

The largest factor affecting the revenue estimate for FY 06 is the loss of one-time revenues utilized during the 2003-2005 biennium. One-time revenues utilized in FY 05 are shown in the table below.

One-Time Revenues in FY 05
(figures in $ millions)

One-Time Revenue Source	Amount
Securitize Tobacco Revenues	300.0
Increase Transfers from Other Funds including Quasi-Public Agencies	54.5
Reduce/Eliminate Transfers to Other Funds including Tobacco and Health Trust Fund and Bio-Medical Research Fund	19.0
Other	17.0
Total One-Time Revenues in FY 05	**390.5**

FY 06 Expenditures

The FY 06 General Fund expenditure projection of $13,713.7 million represents a $705.1 million or 5.4% increase over FY 05. This projection has been developed by applying inflationary guidelines and other specific growth factors to the FY 05 revised expenditure level. The guidelines utilized reflect 4.5% in each year for state employee salary increases (which includes 3% for cost of living adjustments and 1.5% for Annual Increments) and 2% in each year for other accounts; however, each major appropriated account has been examined individually and adjusted as necessary to reflect amounts anticipated to be required based on present law and caseload projections.

Several accounts with major out-year increases include: Medicaid ($144.4 million); Teachers' Retirement Contributions ($108.7 million, which allows 100% funding of normal cost plus 40-year amortization of unfunded liabilities in accordance with current law); and Debt Service ($60.5 million).

Under current law, implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 2005. Our projections include the impact of the conversion to GAAP in FY 06, which adds approximately $33 million to the budget on a net expenditure basis in that year and annualizes to approximately $96 million including amortization of the GAAP deficit in each of the following 15 fiscal years.

The FY 06 figures are based on using FY 05 as the baseline for revenue and expenditure projections and assume modest growth in the state and national economy. These estimates show the direction of revenues and spending if current laws and policies remain unchanged. They are not forecasts of what will actually occur, since policymakers will likely seek to alter current priorities.

Preliminary FY 05 and FY 06 General Fund
Revenue and Expenditure Projections [1]
as of January 30, 2004
(figures in $ millions)

	Appropriated FY 05	Current Services Adjustments	Projected FY 05	Projected FY 06 [2]
Revenues	12,967.1	(31.1)	12,936.0	13,014.0
Expenditures	12,966.9	(41.7)	13,008.6	13,713.7
Potential Surplus / (Gap)	0.2	(72.8)	(72.6)	(699.7)

[1] It should be noted that the revised FY 05 figures in this report are based on our preliminary analysis of expenditure needs which will be further reviewed during the coming Session along with savings options. The FY 06 figures are based on using FY 05 as the baseline for revenue and expenditure projections and assume modest growth in the state and national economy. These estimates show the direction of revenues and spending if current laws and policies remain unchanged. They are not forecasts of what will actually occur, since policymakers will likely seek to alter current priorities.

[2] Our projections include the impact of the conversion to Generally Accepted Accounting Principles (GAAP) in FY 06, which could add approximately $33 million to the budget on a net expenditure basis in that year and annualize to approximately $96 million including amortization of the GAAP deficit in each of the following fifteen fiscal years.

FY 05
General Fund Revenue Estimates
($ - Thousands)
January 30, 2004

	Budget Plan		OFA	OFA Estimates	
	Growth Rate [1]	FY 05 Estimate	Over(Under) Plan	Growth Rate [1]	FY 05 Estimate
Taxes					
Personal Income	6.7	$4,795,700	$84,300	5.7	$4,880,000
Sales and Use	5.1	3,271,100	-	5.1	3,271,100
Corporations	5.0	601,700	(112,600)	10.0	489,100
Public Service Corporations	-	183,300	6,100	-	189,400
Inheritance and Estate	3.0	161,600	-	3.0	161,600
Insurance Companies	3.0	255,300	1,300	3.0	256,600
Cigarettes	(1.5)	296,300	(6,700)	(1.5)	289,600
Real Estate Conveyance	(4.0)	125,400	-	(10.6)	125,400
Oil Companies	(8.3)	84,200	(5,100)	(8.3)	79,100
Alcoholic Beverages	-	44,100	-	-	44,100
Admissions, Dues and Cabaret	2.0	32,200	1,700	2.0	33,900
Miscellaneous	(5.7)	33,900	(100)	(5.7)	33,800
Total Taxes		**9,884,800**	**(31,100)**		**9,853,700**
Refunds of Taxes		(759,000)	-		(759,000)
R & D Credit Exchange		(14,000)	-		(14,000)
Taxes Less Refunds		**9,111,800**	**(31,100)**		**9,080,700**
Other Revenue					
Transfer Special Revenue		274,100	-		274,100
Indian Gaming Payments		430,000	-		430,000
Licenses, Permits and Fees		138,100	-		138,100
Sales of Commodities and Services		34,000	-		34,000
Rentals, Fines and Escheats		77,300	-		77,300
Investment Income		20,000	-		20,000
Miscellaneous		119,000	-		119,000
Refunds of Payments		(500)	-		(500)
Total Other Revenue		**1,092,000**	**-**		**1,092,000**
					-
Other Sources					-
Federal Grants		2,382,800	-		2,382,800
Transfer to the Resources of the General Fund		354,500	-		354,500
Transfer from Tobacco Settlement Fund		111,000	-		111,000
Transfer to Other Funds		(85,000)	-		(85,000)
Total Other Sources		**2,763,300**	**-**		**2,763,300**
Total Revenue		**$12,967,100**	**($31,100)**		**$12,936,000**

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

III. Transportation Fund

The FY 04 Transportation Fund net operating surplus is projected to be $4 million (the same amount included in the adopted estimates), which would increase the cumulative surplus from $132.9 million to $136.9 million. Year-to-date revenue collections are on target with budget plan estimates.

Our projections indicate that potential surpluses from operations for FY 04 and FY 05 will be lower (compared with prior years) because: (1) expenditures are anticipated to grow faster than revenues, and (2) statutory transfers into the Fund have been reduced, although this will be partially offset by higher revenues from fee increases.

Transportation Fund Operating Balances (also see table on page 24)

FY 03

The Transportation Fund ended FY 03 with an annual net 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 million from the Transportation Fund to the General Fund. In addition, PA 02-1 and PA 03-2 suspended the transfer of $46 million in Oil Companies Tax revenue from the General Fund to the Transportation Fund for FY 03, although this was partially offset by $19.4 million in higher-than-anticipated lapse. (Note that $10.5 million will be transferred in FY 04, $13 million will be transferred in FY 05 and $21 million will be transferred in FY 06 and subsequent years.)

The FY 03 deficit reduced the prior year cumulative fund balance of $189.7 million to $132.9 million as of June 30, 2003.

FY 04 and FY 05

The net operating surplus for FY 04 is projected to be $4 million (the same amount included in the adopted estimates), which would increase the cumulative fund balance from $132.9 million to $136.9 million. The FY 05 cumulative fund balance is projected at $1.4 million (which is also the same as the adopted estimates).

The projected operating surpluses for the 2003-2005 biennium are significantly lower than in prior years due to the reduction in the transfer of Oil Companies Tax from the General Fund in FY 04 and FY 05 from the $46 million level.

FY 06 and Out years

Estimates for FY 06 through FY 09 indicate that there will be net operating deficits between $2 and $6 million, which will reduce the cumulative fund balance to $124.3 million in FY 09. This is mainly attributable to the lower level of Oil Companies Tax transfers from the General Fund ($21 million versus $46 million.)

Expenditures

The Town Road Aid Grant is funded in FY 04 and FY 05 from the Transportation Fund at $12.5 million in each year. The FY 06 through FY 09 estimates include funding for this grant-in-aid at this same level.

Depending on severity of winter weather conditions, there is a potential deficiency of between $1.1 million to $2 million for snow removal costs.

FY 04 Transportation Fund Summary
as of January 30, 2004
(in millions)

	Budget Plan	Increase (Decrease)	Revised Estimates
Revenues			
Taxes	$535.4	0.0	$535.4
Other Revenue (incl. Refunds of Payments)	366.1	23.6	389.7 *
Total Revenue	$901.5	23.6	$925.1
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
Gross Surplus/(Deficit) from Operations for FY 04	**$4.0**	**23.6**	**27.6**
Less: Allocated Revenue to TSB		-23.6	-23.6 *
Net 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**

Footnotes

* Revision includes allocated revenue for purposes of the Transportation Strategy Board (TSB).

FY 04 Transportation Fund Revenues
as of January 30, 2004
(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	23.6	$232.2 *
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**	**23.6**	**$392.5**
Less Refunds of Payments	-2.8	0.0	-2.8
TOTAL REVENUE	**$901.5**	**23.6**	**$925.1**

Footnotes

* Revision includes allocated revenue for purposes of the Transportation Strategy Board (TSB).

Transportation Fund Projections FY 03 - FY 09
as of January 30, 2004
(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**	**$130.3**
FY Revenues*	827.1	925.1	950.5	967.7	980.1	996.1	1,008.1
FY Expenditures	883.9	897.5	921.7	945.4	961.7	977.6	993.4
Gross FY Operating Surplus/(Deficit)	**($56.8)**	**$27.6**	**$28.8**	**$22.3**	**$18.4**	**$18.5**	**$14.7**
Allocated Revenue to Transportation Strategy Board (TSB)		**($23.6)**	**($27.4)**	**($25.7)**	**($20.7)**	**($20.7)**	**($20.7)**
Net FY Operating Surplus/(Deficit)**	**($56.8)**	**$4.0**	**$1.4**	**($3.4)**	**($2.3)**	**($2.2)**	**($6.0)**
Ending Available TF Balance as of June 30th**	**$132.9**	**$136.9**	**$138.3**	**$134.9**	**$132.6**	**$130.3**	**$124.3**
Debt Service Ratio ***	**2.0**	**2.2**	**2.2**	**2.2**	**2.2**	**2.3**	**2.3**

*Includes $52 million transferred to General Fund in FY 03 by PA 03-2 and revenue from certain DMV fee increases allocated to the Transportation Strategy Board.

**Net of appropriated revenue to TSB.

***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.