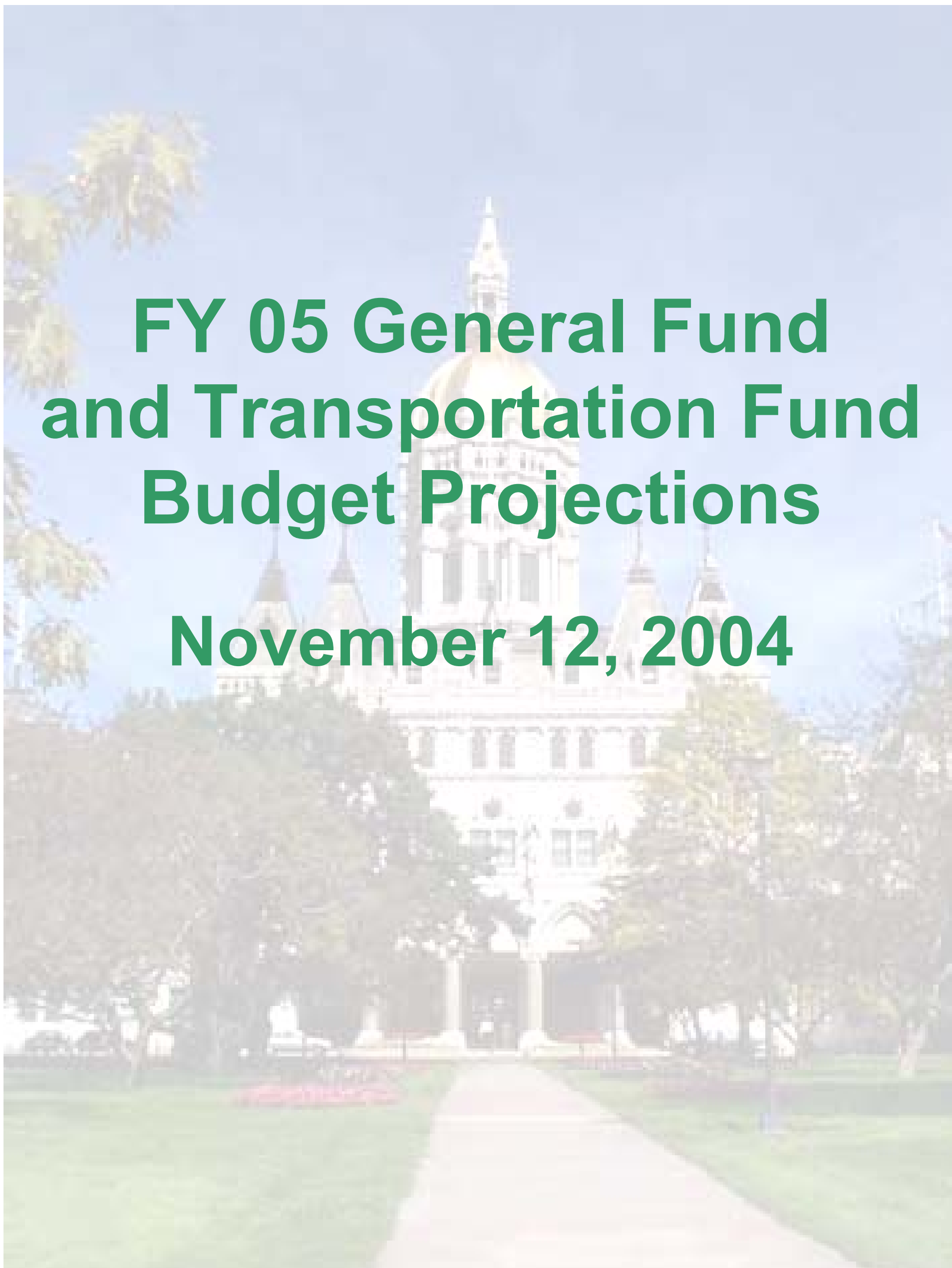
Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS



FY 05 General Fund and Transportation Fund Budget Projections

November 12, 2004

Report Highlights

- **FY 05 General Fund surplus** is projected at **$251 million.** See **pages 1 – 6** for details.

- **FY 05 Transportation Fund operating deficit** is projected at $7.7 million, which reduces the cumulative surplus from $132.1 (un-audited) to $124.4 million. See **pages 20—24** for details.

- **Out year projections indicate that the Transportation Fund will continue to experience operating deficits each year, which will completely eliminate the cumulative surplus in FY 09.** This is attributable to the combined effects of growth rates in expenditures accelerating faster than the anticipated growth in revenues.

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FY 05 General Fund and Transportation Fund Budget Projections

(as of November 12, 2004)

I. General Fund

Our projections for the fiscal year ending June 30, 2005 indicate a **potential surplus of $251 million** (which represents 1.9% of the budget). This surplus assumes that in addition to the originally budgeted surplus of $83.7 million, **estimated revenues will be $242 higher than budgeted** and **estimated expenditures will be $74.7 million higher than net appropriations.** While the projected General Fund surplus is $251 million, **this estimate may change if: 1) the level of currently estimated deficiencies grows; 2) if any arbitration awards or collective bargaining agreements are submitted and approved by the legislature or become effective in the absence of legislative rejection; or 3) if revenues are adversely affected by any deterioration in economic conditions.**

Revenues

The $242.0 million net increase in estimated FY 05 General Fund revenue collections is due to 5 main factors: (1) a $189.0 million increase in the Personal Income Tax, (2) a $12.2 million increase in the Real Estate Conveyance Tax, (3) a $39.9 million increase in the Oil Companies Tax, (4) a $38.0 million increase in Rentals, Fines, and Escheats, and (5) a $40.0 million decrease in Transfer to the Resources of the General Fund.

(1) **Personal Income Tax** collections are anticipated to be $189.0 million greater than originally projected due to the following factors:

a) ***Estimated Payments:*** Anticipated collections from estimated payments have been increased by $133 million. Revenue collections from third quarter payments (due September 15th) grew by approximately 22%, which exceeded original estimates by about $27 million. This continued the trend in strong collections observed in first and second quarter payments (due in April and June respectively.) Based on this pattern, the revised FY 05 forecast assumes a growth rate of 16.3% compared to 6.8% assumed in the Finance Committee revenue estimates.

b) ***Final Payments:*** The revenue from final payments, due April 2005, is anticipated to be $56 million greater than projected. An examination of historical collections indicates that estimated payments equal about 60% of total non-wage payments and final payments make up the remaining 40%. Therefore, since estimated payments are anticipated to be higher than initial forecasts, final payments have been increased to maintain the historic relationship.

(2) **Real Estate Conveyance Tax** collections are anticipated to be $12.2 million greater than projected. Year-to-date collections reflect a continued strength in the housing, which has been fueled by low mortgage interest rates and improving economic conditions.

(3) **Oil Companies Tax** collections are anticipated to be $39.9 million greater than projected. Year-to-date collections are up by approximately 35% or $12 million due to a 70% increase in crude oil prices since the beginning of 2004. The factors that contributed to the increase in crude oil prices, including (1) very strong demand in Asia, (2) continued concerns in Iraq and the Middle East, and (3) lingering supply concerns in Russia (Yukos company), Nigeria, and Norway, are expected to remain influential for the remainder of the fiscal year. Based on this information, the growth rate for the tax was increased to 26% compared to –4.5% assumed in the Finance Committee estimates.

(4) Revenue from **Rentals, Fines, and Escheats** has been increased by $38 million due to higher than anticipated proceeds from the sale of unclaimed public securities in the custody of the Office of the State Treasurer. The budget act assumed that $50 million would be generated from the liquidation of these securities, while the sale actually realized approximately $88 million.

(5) The amount **Transferred to the Resources of the General Fund** is anticipated to be $40 million lower than projected. The FY 05 revenue estimates adopted by the Finance Committee included $40 million from the sale of bonds securitizing future unclaimed property revenue. However, the revised estimates assume that the bond sale will not occur because OFA's most recent projections for the General Fund indicate that it will end the fiscal year with a surplus greater than $40 million.

Other modifications to various General Fund revenue sources are relatively minor and can be explained by adjustments resulting from actual FY 04 collections (rolled forward into FY 05) and year-to-date collections.

Expenditures

- **Deficiencies**

The $74.7 million increase in expenditures is largely attributable to projected deficiencies totaling $61.4 million. Of this amount, $53.5 million in net deficiencies are occurring within the Department of Children and Families ($13.8 million), the Department of Correction ($13.5 million), the Office of Policy and Management – Energy Contingency ($10 million), the Department of Social Services ($5.8 million), the Department of Mental Retardation ($5,200,000) and the Department of Mental Health and Addiction Services ($5,200,000). Please see the explanations for all FY 05 projected deficiencies which begin on **page 7.**

Also, projected payments for two non-budgeted accounts are factored in: Adjudicated Claims of $10 million and Refunds of Escheated Property at $12 million.

- **Budgeted Lapses**

Lapses anticipated in the budget total $109.9 million and our surplus projection assumes that these savings will be achieved and perhaps exceeded by $8.7 million. The $109.9 million budgeted savings includes: $78.6 million in unallocated budgeted lapses; $25 million in Personal Services (PS) and Other Expenses (OE) holdbacks; $2.5 million in fleet reductions; and $5 million from a spend management lapse. The Office of Policy and Management has reduced agency allotments to reflect the imposition of PS and OE holdbacks and the spend management lapse and has indicated that the fleet reduction savings will not be realized.

- **Major Unallocated Lapse**

A $34 million in Debt Service is the major significant lapse identified at this time. This figure is a combination of $34.1 million in savings and $0.1 million in increased expenditures. The projected savings are: (1) $19.0 million in savings due to changes in the issuance schedule and lower than anticipated interest rates, (2) $12.2 million in premiums received on General Obligation (GO) bonds issued in May 2004, (3) $0.2 million in savings from a October 2004 refunding of tax incremental financing (TIF) bonds, (3) $2.3 million in savings from arbitrage rebate payments, rebate fees and trustee fees, and (4) $0.4 million in savings from a variety of other sources. (Note that 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 $0.1 million is due to the addition of a line item for fees paid to the bank trustees that oversee bonds issued for the UConn 2000 infrastructure program. (The fees were previously paid out of lapsed debt service funds at the end of the fiscal year.)

- **State Employee Wage Increases**

A range of $5.5 million to $21.4 million may need to be added to the FY 05 budget depending upon whether a 1 year wage freeze is extended or not to 6 contracts which have expired as of 6/30/03 and 6/30/04 and remain unsettled. Please refer to the "Watch List" of Potential Additional FY 05 Deficiencies on **page 19** for additional information.

- **Budget Reserve (Rainy Day) Fund Status**

It is anticipated that the State Comptroller will close the books on FY 04 by December 31, 2004 and that the FY 04 surplus could approach $300 million. The amount of surplus realized would be deposited in the Budget Reserve (Rainy Day) Fund which currently contains a zero balance. The maximum allowable in the Budget Reserve Fund is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 05 totaling $13,226.3 million, the maximum allowable in the Budget Reserve Fund is $1,322.6 million or $1,022.6 more than potentially deposited assuming that a full $300 in FY 04 surplus is realized.

The $594.7 million balance that remained in the Budget Reserve Fund in FY 01 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) authorized the State Treasurer to issue 5-year, tax exempt, general obligation “Economic Recovery Notes” to finance the $96.6 million General Fund deficit in FY 03. The act provided that no principal would be paid during the fiscal year of issuance.

FY 05 General Fund Summary
as of November 12, 2004
(in millions)

	Budget Plan [1]	Increases (Decreases)	Projected
Revenues			
Taxes	$ 9,441.1	$ 252.9	$ 9,694.0
Other Revenue [2]	1,151.5	33.8	1,185.3
Other Sources	2,717.4	(44.7)	2,672.7
Total Revenue	**$ 13,310.0**	**$ 242.0**	**$ 13,552.0**
Appropriations			
Original Appropriations - Gross	$ 13,336.2	$ -	$ 13,336.2
Plus:			
Deficiency Requirements	-	61.4	61.4
Adjudicated Claims	-	10.0	10.0
Refunds of Escheated Property	-	12.0	12.0
Less:			
Lapses [3]	(109.9)	(8.7)	(118.6)
Total Expenditures [4]	**$ 13,226.3**	**$ 74.7**	**$ 13,301.0**
Surplus/(Deficit) from Operations for FY 05 [5]	**$ 83.7**	**$ 167.3**	**$ 251.0**

[1] The budget plan revenues for FY 05 are the estimates of the Finance, Revenue and Bonding Committee and were initially adopted on April 29, 2004, but were subsequently revised for FY 05 per Section 2-35 (CGS) by the committee on June 28, 2004.

[2] The budget plan's Other Revenue includes $40 million of one-time revenue to securitize unclaimed property per the budget act which may now be unnecessary given that the State Treasurer has liquidated $38 million more than the originally anticipated $50 million from unclaimed securities alone and a surplus is projected for FY 05.

[3] The breakdown for budgeted lapses is as follows:

unallocated budgeted lapses	$ (78.6)	$ (11.2)	$ (89.8)
general PS and OE reductions (holdbacks)	(25.0)	-	(25.0)
Fleet Reduction	(2.5)	2.5	-
Spend Management Lapse	(3.8)	-	(3.8)
Total - Lapses Originally Budgeted	$ (109.9)	$ (8.7)	$ (118.6)

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

[5] The projected surplus for FY 05 could be lower if any additional arbitration awards or collective bargaining agreements (for which funding has not been specifically provided in the budget) are approved by the legislature or become effective in the absence of legislative rejection. Of the 33 contracts, 16 (covering slightly more than half of state employees) are settled/funded and have agreed to a one year wage freeze and 17 have not yet agreed to a wage freeze in any one year.

Of the 17 contracts that have not agreed to a wage freeze in any one year, 6 have contract termination dates which could potentially require funding during the current biennium. FY 05 costs could range from $5.5 million to $21.4 million depending upon whether a 1 year wage freeze is extended or not to these 6 expired contracts. The remaining 11 contracts would not likely require funding until the next biennium (FY 06 and FY 07).

The extent to which agency budgets and the Reserve for Salary Adjustments account can absorb any of the increases which may occur during the current biennium 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 or arbitration awards submitted for approval prior the end of the current fiscal year and whether any include wage concessions similar to those contained within agreements already approved.

Note: It is anticipated that the State Comptroller will close the books on FY 04 by December 31, 2004 and that the FY 04 surplus could approach $300 million. The amount of surplus realized would be deposited in the Budget Reserve (Rainy Day) Fund which currently contains a zero balance. The maximum allowable in the Budget Reserve Fund is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 05 totaling $13,226.3 million, the maximum allowable in the Budget Reserve Fund is $1,322.6 million or $1,022.6 more than potentially deposited assuming that a full $300 million in FY 04 surplus is realized.

FY 05 General Fund Revenue
as of November 12, 2004
(in thousands)

	Budget Plan Growth Rate {1}	Budget Plan FY 05 Estimate	OFA Over(Under) Plan	OFA Estimates Growth Rate {1}	OFA Estimates FY 05 Estimate
Taxes					
Personal Income	5.2	$ 5,131,000	$ 189,000	7.7	$ 5,320,000
Sales and Use	5.1	3,320,300	(10,500)	5.1	3,309,800
Corporations	8.0	501,700	9,200	8.0	510,900
Public Service Corporations	-	189,400	7,600	4.0	197,000
Inheritance and Estate	3.0	166,100	-	3.0	166,100
Insurance Companies	3.0	234,800	5,200	3.0	240,000
Cigarettes	(1.5)	266,000	-	(4.3)	266,000
Real Estate Conveyance	(10.5)	145,800	12,200	(10.5)	158,000
Oil Companies	(4.5)	89,600	39,900	26.0	129,500
Alcoholic Beverages	-	43,500	200	-	43,700
Admissions, Dues and Cabaret	2.0	33,100	100	2.0	33,200
Miscellaneous	(5.7)	33,800	-	(5.7)	33,800
Total Taxes		**10,155,100**	**252,900**		**10,408,000**
Refunds of Taxes		(700,000)	-		(700,000)
R & D Credit Exchange		(14,000)	-		(14,000)
Taxes Less Refunds		**9,441,100**	**252,900**		**9,694,000**
Other Revenue					
Transfer Special Revenue		283,100	-		283,100
Indian Gaming Payments		430,000	(10,000)		420,000
Licenses, Permits and Fees		138,100	-		138,100
Sales of Commodities and Services		36,000	-		36,000
Rentals, Fines and Escheats		144,500	38,000		182,500
Investment Income		15,300	-		15,300
Miscellaneous		105,000	5,800		110,800
Refunds of Payments		(500)	-		(500)
Total Other Revenue		**1,151,500**	**33,800**		**1,185,300**
					-
Other Sources					-
Federal Grants		2,469,600	-		2,469,600
Transfer to the Resources of the General Fund		219,800	(40,000)		179,800
Transfer from Tobacco Settlement Fund		113,000	(4,700)		108,300
Transfer to Other Funds		(85,000)	-		(85,000)
Total Other Sources		**2,717,400**	**(44,700)**		**2,672,700**
Total Revenue		**$ 13,310,000**	**$ 242,000**		**$ 13,552,000**

{1} Tax growth rates reflect adjustments for rate and base changes.

Projected FY 05 General Fund Deficiencies
as of November 12, 2004

Note: The projected OPM deficiencies indicated in the first block of each table below are as of October 25, 2004.

Ethics Commission

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(177,000)	$(22,000)	$2,791	$(19,209)

The Ethics Commission has a projected net deficiency of $22,000, which represents 2.5% of its FY 05 appropriation of $871,078. This assumes that a Spend Management holdback of $2,791 is not released. If the holdback is released, an estimated remaining deficiency of $19,209 would result.

The $22,000 net deficiency results from a shortfall in the Lobbyist Electronic Filing System account. The lobbyist registration, reporting, and the statement of financial interest disclosure modules need to be upgraded which will require a contractual agreement with the Department of Information Technology (DOIT). The funds are needed to pay DOIT for hosting, database support, application maintenance for troubleshooting, and development costs for these online applications. The $22,000 deficiency results from this upgrade. The potential for funding to support additional staffing has been postponed by the Governor pending possible reorganization of the agency.

Office of Policy and Management – Energy Contingency

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(10,000,000)	$(10,000,000)	$0	$(10,000,000)

The Office of Policy Management has a projected net deficiency of $10 million in an Energy Contingency account which was not budgeted in FY 05.

The $10 million net deficiency results from increased heating costs across state agencies. It is uncertain how the Office of Policy and Management calculated these cost estimates. It is anticipated that this information will be available in a November 15th report to the Governor.

Department of Public Works

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(1,500,000)	$(1,500,000)	$606,781	$(893,219)

The Department of Public Works has a projected net deficiency of $1.5 million, which represents 3.6% of its FY 05 appropriation of $41.6 million. This assumes that a Personal Services holdback of $50,046, an Other Expenses holdback of $529,589 and a Spend Management holdback of $27,146 are not released. If the holdbacks are released, an estimated remaining deficiency of $893,219 million would result.

The $1.5 million net deficiency, which is in the Management Services account, results from the carry forward of $1.29 million in unpaid expenses from FY 04 and a projected FY 05 shortfall of $0.21 million for security services. The FY 04 carry forward is composed of $0.2 million for repairs and maintenance to buildings under the agency's care and control, $0.23 million for security services, $0.2 million for snow removal services, and $0.66 million in bills for services rendered in June 2004.

Department of Public Safety

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(4,450,000)	$(4,450,000)	$2,269,579	$(2,180,421)

The Department of Public Safety has a projected net deficiency of $4.45 million, which represents 3.4% of its FY 05 appropriation of $130.7 million. This assumes that a Personal Services holdback of $850,810, an Other Expenses holdback of $574,495 million and a Spend Management holdback of $844,274 are not released. If the holdbacks are released, an estimated remaining deficiency of $2.2 million would result.

The $4.45 million net deficiency occurs in two areas: Personal Services ($3.35 million) and Other Expenses ($1.1 million).

The shortfall in Personal Services results from a partial inability to meet a $4 million reduction that was included in the revised FY 05 budget. This reduction related to collections for reimbursements for troopers assigned to certain facilities (such as Bradley Airport). In past years, the agency, for budgeting purposes, was allowed to retain about $6 million of the $12 million collected for trooper reimbursements. As part of the Revised FY 05 Budget, the agency's retention of these reimbursements was reduced by $4.0 million while total reimbursements received dropped by $2.0 million for an effective budgetary loss of $6 million.

The agency could have absorbed these reductions but was given the approval to conduct a trooper training class of 70 (the agency lost 57 troopers due to early retirement) and to refill 40 civilian positions (the agency lost 59 civilian positions due to layoff). The cost of these refills is about $3.4 million.

The shortfall in Other Expenses relates to a range of higher than expected cost areas and the carry forward of FY 04 bills into FY 05 including: motor vehicle fuel (prices are also about 20% higher than last year), motor vehicle maintenance, IT hardware and data contract costs, electricity, and oil/natural gas/propane and aircraft fuel costs. These costs could substantially exceed $1.1 million figure that is being recognized at this time.

Office of Child Advocate

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(70,000)	**$(70,000)**	**$2,265**	**$(67,735)**

The Office of Child Advocate has a projected net deficiency of $70,000, which represents 11.4% of its FY 05 appropriation of $612,470. This assumes that a Spend Management holdback of $2,265 is not released. If the holdback is released, an estimated remaining deficiency of $67,735 would result.

The $70,000 net deficiency results from 4 contracts with 2 vendors that were unanticipated prior to FY 05. These contracts were entered into to provide technical assistance and consultation with the agency's caseload since the agency no longer has a staff attorney.

Department of Public Health

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(1,583,000)	**$(1,533,046)**	**$419,564**	**$(1,113,482)**

The Department of Public Health has a projected net deficiency of $1.5 million, which represents 2.2% of its FY 05 appropriation of $69.1 million. This assumes that a Personal Services holdback of $216,775, an Other Expenses holdback of $153,671 and a Spend Management holdback of $49,118 are not released, but that $75,000 in lapsing funds under various accounts is made available via FAC transfer. If the holdbacks are released, an estimated remaining deficiency of $1.1 million would result.

The $1.5 million net deficiency is attributable to bills incurred in FY 04 being paid in the current fiscal year due to delays in processing payments through the CORE-CT accounting system. An equivalent amount lapsed under these same accounts on June 30, 2004.

Department of Mental Retardation

OPM Net Deficiency $(5,200,000)	OFA Net Deficiency $(5,200,000)	Less: Available Funds $3,145,545	OFA Remaining Deficiency $(2,054,455)

The Department of Mental Retardation has a projected net deficiency of $5.2 million, which represents 0.7% of its FY 05 appropriation of $741.8 million. This assumes that a Personal Services holdback of $2,224,536, an Other Expenses holdback of $624,896 and a Spend Management holdback of $296,113 are not released. If the holdbacks are released, an estimated remaining deficiency of $2.1 million would result. The deficiency is the result of a projected shortfall in two accounts: Employment Opportunities and Day Services ($1.48 million) and the Community Residential Services ($3.7 million).

Employment Opportunities and Day Services - The $1.48 million deficiency is the result of increased demand on day programs by the number of AgeOuts and High School graduates. The ageouts include individuals that will be aging out of existing services with the Department of Children and Families or the local educational authorities (LEA's). The high school graduates include individuals who are living at home with their families and will be graduating from the school systems and in need of a day program. Due to the level of funding provided in the FY 05 budget and the increased number of ageouts and high school graduates, a net deficiency of $1.48 million is projected. There are a total of 76 additional day programs (33 ageouts and 43 high school grads) than originally projected. It is anticipated that $1.3 million of the federal SSBG (Social Services Block Grant) carry forward funding will be utilized along with the $1.48 million deficiency funding to fully support these day programs.

Community Residential Services - A $3.7 million shortfall is anticipated in the Community Residential Services account due to two factors: 1) $1.8 million in residential services for ageouts due to the level of funding provided in the FY 05 budget and the increased number of ageouts (15 additional residential placements); and 2) $1.9 million for unmet residential needs due to the FY 04 conversions of publicly operated Community Living Arrangements (CLA's, otherwise known as group homes) to private contracts. The FY 04 Conversion project was started during FY 04 due to the changes in staffing from the ERIP (early retirement incentive plan) and regional consolidation. The total contracted amount in FY 05 in the community residential account as a result of the FY 04 conversions is $10.8 million, of which $4.7 million is anticipated to be funded from a future FAC action during this fiscal year (transfer from the Personal Services account to the Community Residential account). Further, the department anticipates that in order to meet the total contractual amount, a $1.9 million shortfall in this account will result. This assumes that existing FY 05 dollars (of approximately $4.2 million) are utilized in this account to fund part of the conversion contracts. However, it is unclear what existing FY 05 dollars will be earmarked for the balance of the conversion contracts once the deficiency ($1.9 million) and future FAC ($4.7 million) are applied to the $10.8 million total as referenced in the table below.

FY 04 Conversions - Contracts for FY 05 (in millions)	
FY 05 Total Value of Contracts	$10.8
Apply Future FAC from PS	($4.7)
Apply existing $ within residential account (unknown source)	($4.2)
Balance Deficiency Request	($1.9)

It should be noted that the FY 05 Midterm Budget Adjustments did not include any new dollars or transfers among accounts to implement the FY 04 Conversions (only a transfer to DSS for room & board costs). It was anticipated that a future FAC action during FY 05 would fully cover the costs of the FY 04 conversion contracts.

Department of Mental Health and Addiction Services

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Lapse
$(5,500,000)	$(5,200,000)	$2,427,748	$(2,772,252)

The Department of Mental Health and Addiction Services has a projected net deficiency of $5.2 million, which represents 1.2% of its FY 05 appropriation of $449.1 million. This assumes that a Personal Services holdback of $1,241,713, an Other Expenses holdback of $709,441 and a Spend Management holdback of $476,594 are not released. If the holdbacks are released, an estimated remaining lapse of $2.8 million would result.

The $5.2 million net deficiency is primarily due to expenditures in the Other Expenses, Behavioral Health medications, and Professional Services accounts. Other Expenses has a projected deficiency due mainly to increased repair, utility and maintenance costs at Connecticut Valley and Cedarcrest Hospitals. A $1.55 million deficiency is projected in the Behavioral Health Medications account due to continued increases in drug costs. A $2.2 million deficiency is projected in the Professional Services account due to the utilization of temporary agency nurses at Connecticut Valley Hospital. This expenditure is necessary due to a general shortage of nurses in the state that has led to difficulties in filling permanent nursing positions. These deficiencies are partially offset by projected surpluses in the Personal Services and Special Populations accounts.

Department of Social Services

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(8,400,000)	$(5,780,000)	$3,427,660	$(2,352,340)

The Department of Social Services has a projected net deficiency of $5.8 million, which represents 0.1% of its FY 05 appropriation of $3,916.6 million. This assumes that a

Personal Services holdback of $749,857, an Other Expenses holdback of $2,489,609 and a Spend Management holdback of $188,194 are not released. If the holdbacks are released, an estimated remaining deficiency of $2.4 million would result.

The $5.8 million net deficiency is primarily due to expenditures in the ConnPACE, SAGA, Connecticut Home Care and Supplemental Assistance programs. These shortfalls are offset by potential lapses in the Temporary Family Assistance and Child Care Subsidies accounts.

ConnPACE - A deficiency of approximately $4.3 million is projected for the Connecticut Pharmaceutical Assistance Contract to the Elderly and the Disabled (ConnPACE) program. This shortfall is primarily attributable to fewer than projected enrollees obtaining Medicare Prescription Drug Discount Card (DDC) Transitional Assistance benefits and delays in integrating ConnPACE with the new federal program.

Savings of $16.9 million were included within PA 04-216 (the budget bill) to reflect reduced program costs due to making participation in the new DDC program a condition of continued ConnPACE eligibility for those enrollees who (a) are Medicare eligible, and (b) are eligible for new federal Transitional Assistance drug benefits – i.e., those with incomes at or below 135 percent of the federal poverty level. This savings estimate assumed that a portion of the prescription costs of an estimated 21,700 individuals would be shifted from the state to the federal government as of July 1, 2004. Revised estimates project that approximately 17,000 enrollees will be eligible for DDC Transitional Assistance benefits. Additionally, delays have been experienced in the course of enrolling clients with the thirteen Drug Discount Card vendors selected by the state.

State Administered General Assistance - The State Administered General Assistance (SAGA) program has a current projected deficiency of $3.9 million. The medical portion of this program was scheduled to complete the changeover from a fee-for-service system to system of care managed by the community health centers by the beginning of the fiscal year. Delays in this changeover have resulted in higher than anticipated medical costs in the first quarter of FY 05.

Connecticut Home Care Program - The Connecticut Home Care Program has a projected deficiency of $2.5 million (6.8% of the original appropriation). This deficiency is due to continued caseload growth as well as increased medical costs. Although not legally an entitlement, the state has treated the home care program as such, with a no waiting list enrollment policy. This has led to significant program growth in recent years.

Supplemental Assistance - Two programs within Supplemental Assistance have projected deficiencies. The Aid to the Disabled program has a projected deficiency of $670,000 while the Old Age Assistance program has a projected deficiency of $400,000. These deficiencies (1.3% of the original appropriations) are due to higher than anticipated cost-per-case over the first three months of FY 05.

Department of Correction

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(13,500,000)	**$(13,500,000)**	**$6,438,668**	**$(7,061,332)**

The Department of Correction has a projected net deficiency of $13.5 million, which represents 2.5% of its FY 05 appropriation of $548.5 million. This assumes that a Personal Services holdback of $2,851,199, an Other Expenses holdback of $1,818,782 and a Spend Management holdback of $1,768,687 are not released. If the holdbacks are released, an estimated remaining deficiency of $7.1 million would result.

The $13.5 million net deficiency results from a shortfall in Personal Services. The Original FY 05 budget included funding for a projected inmate population of over 20,000 inmates. The Revised FY 05 Budget, which reduced agency funding by $28 million, was based on a leveling of the inmate population, which was about 18,500 at that time. The current population is about 350 inmates higher for a total of 18,850 as of October 1, 2004. The revised budget also includes about $13.4 million in savings from prison overcrowding reduction initiatives, including residential program funding for 440 beds in the community, that are not yet fully operational. These initiatives may reduce or eliminate the agency projected shortfall in the future.

Department of Children and Families

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$(13,750,000)	**$(13,774,539)**	**$3,291,708**	**$(10,482,831)**

The Department of Children and Families has a projected net deficiency of $13.8 million, which represents 2.1% of its FY 05 appropriation of $642.6 million. This assumes that a $1.2 million lapse in the Board and Care for Children – Adoption account is made via FAC transfer, but that a Personal Services holdback of $1,817,441, an Other Expenses holdback of $1,141,281 and a Spend Management holdback of $332,986 are not released. If the holdbacks are released, an estimated remaining deficiency of $10.5 million would result.

Contributing to the $13.8 million net deficiency (assuming the $1.2 million FAC transfer) are shortfalls of:

- $2.2 million (1% of the original budget) in Personal Services, primarily attributable to unexpected costs associated with supporting 40 durational social workers needed to allow the agency to maintain compliance with caseload standards set forth under an agreement with the federal court. Funding for this purpose was not included within the revised FY 05 budget act.

- $0.9 million (2.3% of the original budget) in Other Expenses, primarily attributable to costs incurred to support the 40 additional positions discussed above, higher than anticipated data processing charges and unbudgeted costs associated with improvements and alterations to the Connecticut Juvenile Training School (CJTS) in Middletown.

  The CJTS improvements, at a cost of $464,550, are one component of an overall facility upgrade intended to improve service delivery to its residents. On October 29, 2004, the Bond Commission approved a request for authorization of $609,000 to support various capital projects at the facility. These funds will be supplemented by $155,000 from the Capital Equipment Purchase Fund, bringing the total funding dedicated to upgrading the Training School to $1,228,550.

  Items to be supported with General Fund dollars include:

In bedrooms:	
Provide desk and chair units	$ 120,050
Provide additional storage units	94,500
Install cork boards	10,000
Install new carpeting	25,000
In other areas:	
Install carpeting in dayrooms of living units	42,000
Establish a reading room on each of nine living units/purchase furniture and reading materials	45,000
Install staging system and safety apparatus for creating wall murals	15,000
Outfit unit in now closed high security building (Building 2) to be an alternative school	25,000
Create an art studio in Building 2	25,000
Establish a computer lab on each of nine living units	63,000
Total	$ 464,550

- $2.4 million (251.9% of the original budget) in the Emergency Needs account, and $2.7 million (38.1% of the original budget) in the Individualized Family Supports accounts, attributable primarily to payments in excess of budgeted amounts for emergency needs and discretionary/flexible funds.

  Per department policy, child protective services workers may request the authorization of discretionary/flexible funds to obtain needed services and/or goods when such services or goods (a) are intended to enhance family preservation and reunification, (b) are individualized, (c) are time limited, and (d) do not supplant existing services to prevent out-of-home placement and facilitate reunification.

  An October 7, 2003 stipulated agreement between the parties to the Juan F. Consent Decree required the department "to establish a discretionary funds pool of $1 million for meeting emergency needs of class members pending DCF's completion of a comprehensive needs assessment using a methodology approved by the (DCF Court) Monitor."[1] The revised FY 05 Appropriations Act included $950,000 for this same purpose under a newly created Emergency Needs account. An additional $4.6 million was appropriated under the Individualized Family Supports account to support discretionary/flexible fund payments, bringing the total available for this service type to approximately $5.6 million.

As of September 2004, actual expenditures under the Emergency Needs account were approximately $836,000, while discretionary/flexible fund expenses under the Individualized Family Supports account were slightly more than $1.8 million (for a combined total of about $2.65 million). If these trends persist, year end expenditures of $10.7 million are projected.

The DCF Court Monitor's Office recently issued findings regarding these discretionary funds. One hundred (100) of the 1,089 payments made from April to September 2004 were sampled. They ranged in value from $24 to $4,200 (average of $556).

The number of payments by service type is shown in the following table:

SERVICE/GOOD	**# OF PAYMENTS**
camp/recreational program	18
security deposit	12
heating/electricity bill	10
undefined	7
clothing	6
rent to avoid eviction	6
counseling	6
beds/furniture	5
daycare	4
therapeutic mentor and education	4
medical or dental need	3
licensing related fees and supervised visitation	3
emergency shelter	2
phone bill/utility	2
one-to-one services	2
food	1
transportation	1
baby room necessities	1
court ordered payment to maternal grandmother	1
drivers license examination	1
employment assistance	1
graduation expense	1
in-home supports	1
prom	1
respite	1
Total	100

[1] The needs assessment was submitted to the DCF Court Monitor on October 28, 2004.

- $1.5 million (1.8% 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 $7.42 million. Current projections indicate that expenditures will average $7.55 million.

- $5.2 million (3.5% of the original budget) in the Board and Care for Children – Residential account, $4.45 million of which is attributable to costs in excess of budgeted for children and youth in residential placement. Of this, $3.0 million is associated with the department's financial obligation for children receiving services provided in collaboration with the Department of Mental Retardation; $0.45 million is attributable to costs in excess of budgeted for a new group home for autistic children; and $0.4 million is attributable to the implementation of a more intensive service model and minor facility upgrades at a residential program offering assessment and stabilization services for court involved girls. The remaining $0.6 million reflects a revised estimate of costs and caseload trends associated with children and youth in various other placement categories.

  Additionally, a $1 million shortfall is attributable to the costs of developing two new group homes. Partial year funding will be provided to Family and Children's Aid, Inc. (Danbury) for a 6-bed group home for children 6 – 12 years of age with serious emotional and psychiatric disturbance who have had lengthy stays at Riverview Hospital (or other psychiatric inpatient units) due to the lack of appropriate treatment and placement options. Additionally, Community Health Resources has been selected to develop a 6-bed group home for adolescent girls 14-18 years of age who are stepping down from DCF-operated residential facilities (Connecticut Children's Place, High Meadows). Funding for these two group homes was not included within PA 04-216. Their annualized cost is estimated to approximate $2 million.

  These costs are partially offset by approximately $0.2 million in unobligated funds that were carried forward from FY 04.

Public Defender Services Commission

OPM Net Deficiency	OFA Net Deficiency	Less: Available Funds	OFA Remaining Deficiency
$0	**$(409,000)**	**$269,182**	**$(139,818)**

The Public Defender Services Commission has a projected net deficiency of $409,000, which represents 1.2% of its FY 05 appropriation of $33.9 million. This assumes that a Personal Services holdback of $216,330, an Other Expenses holdback of $36,582, and a Spend Management holdback of $16,270 are not released. If the holdbacks are released, an estimated remaining deficiency of $139,818 would result.

The $409,000 net deficiency results from anticipated shortfalls in the non-contractual Special Public Defenders (SPDs) and Expert Witnesses accounts. Greater than expected case assignments and billed hours in the current fiscal year, in addition to $130,000 in FY 04 obligations carried forward into the current fiscal year, contribute to an estimated, FY 05 gross deficiency of $258,000 in the non-contractual SPDs account. The projected FY 05 gross deficiency in the agency's Expert Witnesses account is $185,000, and is related to costs for services of psychiatric and forensic professionals required in the defense of capital felony cases.

Summary of General Fund Lapsing Appropriations for FY 05

	Amount (in millions)		
	Budget Plan	(Incrs.) Decrs.	OFA Projected
Status of Budgeted Lapses:			
Unidentified Unallocated Lapses	$ (78.6)	$ (11.2)	$ (89.8)
Other Reductions:			
Personal Services Reduction (holdback)	$ (14.0)	-	$ (14.0)
Other Expenses Reduction (holdback)	(11.0)	-	(11.0)
Fleet Reduction (holdback)	(2.5)	2.5	-
Spend Management Lapse	(3.8)	-	(3.8)
Subtotal	$ (31.3)	$ 2.5	$ (28.8)
Totals	**$ (109.9)**	**$ (8.7)**	**$ (118.6)**

“Watch List” of
Potential Additional FY 05 Net Deficiencies [1]
as of November 12, 2004

Agency / Account / Description	Potential Magnitude of FY 05 Net Deficiency Minimum	Maximum
General Fund:		
DPW - The state’s lease for the 55 Elm Street building in Hartford, which houses the offices of the State Treasurer, the Comptroller and the Attorney General, will expire during the month of November. The Department of Public Works is currently negotiating an new lease with the building owner, the Konover Group, and hopes to sign the agreement before the old lease expires. However, if this does not occur, the current lease agreement stipulates that the state will rent the space on a monthly basis at twice the rate that it currently pays. Since the state pays $291,666 per month under the current lease, the state will pay double this amount if the lease expires and no new lease is signed. In the worst-case scenario the state will have a shortfall of $2.042 million in FY 05 (i.e., no agreement is signed and state is obligated to pay an additional $291,666 per month for the remainder of the fiscal year - 7 months.)	-	2,042,000
State Employee Wage Increases - A range of $5.5 million to $21.4 million may need to be added to the FY 05 budget depending upon whether a 1 year wage freeze is extended or not to 6 contracts which have expired as of 6/30/03 and 6/30/04 and remain unsettled. Ten more contracts (that have not agreed to a wage freeze) will expire 6/30/05 and 1 on 6/30/06. Preliminary estimates indicate that the cost of providing no wage freeze versus providing a 1 year wage freeze could approximate $124.5 million cumulatively for all of these 17 unsettled contracts over the period of FY 05 through FY 07. The amounts of $62.7 million in FY 04 and $126.1 million in FY 05 were removed from agency budgets in the original biennial budget for wage increases for contracts unsettled as of FY 03 through FY 05. During the 2004 session, $48.4 million was appropriated in FY 04 and carried forward into FY 05 for certain contracts that subsequently became settled. Nine contracts/arbitration awards approved during the 2004 session. Each includes a 1-year freeze on General Wage Increases (GWI’s) and Annual Increments (AI’s) with the following exceptions: 1) the Corrections Supervisors unit has no GWI or AI freeze and 2) the Social and Human Services unit has a GWI freeze, but no AI freeze. More than half of all state employees will have experienced a 1-year wage freeze by FY 05, when the employees subject to a wage freeze in the 2004 contract/arbitration awards are added to the higher education employees who agreed to a wage freeze during the 2003 session and the state managers who experienced a wage freeze in FY 03.	5,500,000	21,400,000

II. Transportation Fund

FY 05

The FY 05 Transportation Fund operating deficit is projected to be $7.7 million. The un-audited cumulative surplus figure for the fund at the end of FY 04 is $132.1 million and the cumulative surplus at the end of FY 05 is now projected to be $124.4 million. The revised figures reflect the transfer of $31.0 million from the Transportation Fund to the Transportation Strategy Board (TSB) projects account.

FY 06 and FY 07

OFA's FY 06 and FY 07 projections show deficits in both years as a result of two main factors. First, in each fiscal year there is a $25 million reduction in the amount of Oil Companies Tax transferred from the General Fund to the Transportation Fund (PA 02-1.) Second, the growth rate in expenditures is predicted to outpace revenue growth in both years.

The projection for FY 06 anticipates that growth in expenditures will be 5.4%, much greater than the 3.3% growth rate for transportation revenues. For FY 07, the growth in expenditures is anticipated to be 3% whereas revenues are expected to grow by 2.7%. Significant on-going expenditures affecting overall growth factors are presented below.

The two major factors responsible for the overall growth in the Transportation Fund are DOT and DMV expenditures. OFA's projections for DOT's current services expenditures in FY 06 and FY 07 are 5.4% and 3.3%, respectively, over FY 05 appropriations. These growth rates are primarily due to:

- unfunded accumulated leave
- anticipated growth in overtime requests, mainly for snow and ice removal
- increased fuel and heating oil costs due to market price increases
- increased rail and bus operation deficits due to economic conditions and the impact of reduced ridership since September 11, 2001
- increased expenditures for DOT's Handicapped Access Program. The program is an unfunded federal mandate that requires the state to provide on-demand service for areas within ¾ mile of a fixed bus route service. Historically, this program has been under funded.
- the scheduled implementation of DMV's Vision Screening Program, which increases Transportation Fund expenditures by $1.1 million in FY 06 and FY 07

Also impacting growth in FY 06 expenditures is a one-time $10 million expenditure for completion of DMV's Real Time Online (RTOL) system. The FY 05 expenditure on this program is $15.5 million, which is being funded through combined lapse savings from Transportation Fund Debt Service and DOT's personnel services.

FY 08 and Out Years

Out year projections indicate that the Transportation Fund will continue to experience operating deficits each year, which will completely eliminate the cumulative surplus by FY 09. This is attributable to the combined effects of 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.

FY 05 Transportation Fund Summary
as of November 12, 2004
(in millions)

	Budget Plan	Increase (Decrease)	Revised Estimates
Revenues			
Taxes	545.3	2.0	547.3
Other Revenue (incl. Refunds of Payments and Transfers)	399.3	-25.0	374.3
Total Revenue	944.6	-23.0	921.6
Appropriations			
Appropriations - Gross	940.3	0.0	940.3
Less: Lapse	-11.0	0.0	-11.0
Total Expenditures	929.3	0.0	929.3
Surplus/(Deficit) from Operations for FY 05	**15.3**	**-23.0**	**-7.7**
Plus: Cumulative Surplus as of June 30, 2004	**116.5**	15.6	**132.1**
Projected Fund Balance as of June 30, 2005	**131.8**	**-7.4**	**124.4**

FY 05 Transportation Fund Revenues
as of November 12, 2004
(in millions)

	Budget Plan	Increase (Decrease)	Revised Estimates
TAXES			
Motor Fuels Tax	471.0	0.0	471.0
Petroleum Products Tax	13.0	0.0	13.0
Sales Tax - DMV	70.0	2.0	72.0
Refund of Taxes	-8.7	0.0	-8.7
Total - Taxes less Refunds	**545.3**	**2.0**	**547.3**
OTHER SOURCES			
Motor Vehicle Receipts	226.2	3.8	230.0
License, Permits and Fees	159.1	0.0	159.1
Interest Income	27.0	0.0	27.0
Federal Grants (FTA)	3.3	-2.8	0.5
Transfers to Other Funds	-8.5	0.0	-8.5
Total - Other Sources	**407.1**	**1.0**	**408.1**
Less Refunds of Payments	-2.8	0.0	-2.8
Less Transfers to TSB Account	-5.0	-26.0	-31.0
TOTAL REVENUE	**944.6**	**-23.0**	**921.6**

Transportation Fund Projections FY 05 - FY 10
as of November 12, 2004
(in millions)

Transportation Fund	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10
	(Estimated)	(Estimated)	(Estimated)	(Estimated)	(Estimated)	(Estimated)
Beginning Balance as of July 1st	**$132.1**	**$124.4**	**$95.9**	**$63.8**	**$11.5**	**($59.2)**
	(Un-audited)					
REVENUES						
Taxes						
Motor Fuels Tax	471.0	478.6	485.6	492.6	500.0	507.2
Petroleum Products Tax	13.0	21.0	21.0	21.0	21.0	21.0
Sales Tax - DMV	72.0	74.0	76.0	78.0	80.0	81.0
Refund of Taxes	(8.7)	(8.6)	(8.8)	(9.0)	(9.0)	(9.2)
Total - Taxes less Refunds	**$547.3**	**$565.0**	**$573.8**	**$582.6**	**$592.0**	**$600.0**
Other Revenue Sources						
Motor Vehicle Receipts	230.0	236.9	244.0	251.3	255.1	262.7
License, Permits and Fees	159.1	161.3	163.5	165.8	168.1	170.0
Interest Income	27.0	29.0	32.0	33.0	34.0	34.0
Federal Grants (FTA)	0.5	0.5	0.5	0.5	0.5	0.5
Transfers to Other Funds	(8.5)	(8.5)	(8.5)	(8.5)	(8.5)	(8.5)
Release from Debt Service Reserves	0.0	0.0	0.0	0.0	0.0	0.0
Total - Other Sources	**$408.1**	**$419.2**	**$431.5**	**$442.1**	**$449.2**	**$458.7**
Less Refunds of Payments	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
Less Transfers to TSB Account (1)	(31.0)	(29.3)	(24.3)	(24.3)	(24.3)	(24.3)
TOTAL REVENUE	**$921.6**	**$952.1**	**$978.2**	**$997.6**	**$1,014.1**	**$1,031.6**
EXPENDITURES						
Debt Service	422.9	430.3	434.6	438.0	435.6	433.5
DOT Budgeted Expenses	372.1	393.8	411.1	429.2	448.1	467.8
DMV Budgeted Expenses	51.1	63.3	55.6	58.1	60.6	63.3
Other Budgeted Expenses	94.2	104.2	119.9	135.7	151.4	167.2
Subtotal - Expenditures	**$940.3**	**$991.6**	**$1,021.2**	**$1,061.0**	**$1,095.7**	**$1,131.8**
Less Unallocated Lapses	(11.0)	(11.0)	(11.0)	(11.0)	(11.0)	(11.0)
TOTAL EXPENDITURES	**$929.3**	**$980.6**	**$1,010.2**	**$1,049.9**	**$1,084.7**	**$1,120.8**
OPERATING SURPLUS/(DEFICIT)	**($7.7)**	**($28.5)**	**($32.1)**	**($52.3)**	**($70.7)**	**($89.2)**
Ending Balance as of June 30th	**$124.4**	**$95.9**	**$63.8**	**$11.5**	**($59.2)**	**($148.4)**
DEBT SERVICE RATIO (2)	**2.3**	**2.3**	**2.3**	**2.3**	**2.4**	**2.4**

(1) Incremental revenue from the various DMV fee changes allocated to the Transportation Strategy Board (TSB) and deposited in the TSB projects account.

(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.