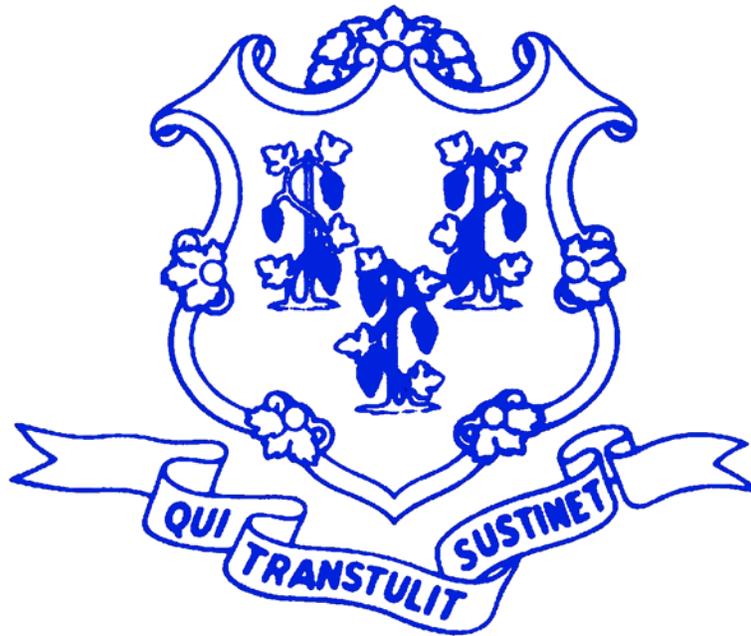


Connecticut General Assembly

OFFICE OF FISCAL ANALYSIS

<http://www.cga.ct.gov/ofa/>



FY 08 – FY 12 General Fund and Transportation Fund Budget Projections

August 8, 2008

**General Fund Current Services Budget Projections [1]
as of August 8, 2008
(in millions)**

	FY 08	FY 09	FY 10	FY 11	FY 12
Revenues	\$ 16,406.0	\$ 16,932.0	\$ 17,469.0	\$ 18,179.0	\$ 19,079.0
Expenditures	<u>16,321.1</u>	<u>17,071.4</u>	<u>18,317.2</u>	<u>19,347.0</u>	<u>20,044.0</u>
Balance	\$ 84.9	\$ (139.4)	\$ (848.2)	\$ (1,168.0)	\$ (965.0)
Governor's Recisions (net of holdbacks)	-	115.8	121.6	127.7	134.1
Operating Surplus/(Deficit) after Recisions	\$ 84.9	\$ (23.6)	\$ (726.6)	\$ (1,040.4)	\$ (830.9)

Highlights of General Fund Budget Projections:

FY 08 - the \$84.9 million operating surplus represents 0.5% of the budget and is largely attributable to higher than anticipated Personal Income Tax collections partially offset primarily by the Corporation Business Tax as well as various other revenue sources. The final FY 08 surplus amount may change based upon final executive branch carryforward decisions (expected by 8/12/08), Corporation Tax accruals (due 8/22/08) and any subsequent action by the legislature to earmark it for other purposes.

FY 09 - the \$139.4 million operating deficit (before recisions) represents 0.8% of the budget and is largely attributable to projected weakness in the Sales and Use Tax, Corporation Tax, Insurance Companies, Real Estate Conveyance, Indian Gaming and Investment Income partially offset by an increase in the Oil Companies Tax.

FY 10 through FY 12 - Projected shortfalls are attributable to: 1) the ongoing impact of \$210 million in FY 09 Teachers' Retirement expenditures from FY 07 anticipated surplus that will need to be restored to FY 10 appropriations; 2) \$80 million one-time revenues provided in FY 09 from FY 07 anticipated surplus and a \$16 million revenue transfer from FY 08 to FY 09 that are no longer available in FY 10; 3) increased debt service costs related to the issuance of \$2 billion in pension obligation bonds to fund a portion of the shortfall in the Teachers' Retirement Fund; and 4) expenditure growth which is anticipated to exceed revenue growth in FY 10 and FY 11.

Implementation of Generally Accepted Accounting Principles (GAAP) is scheduled to begin on July 1, 2009 under current law. Our projections include the impact of the conversion to GAAP in FY 10, which adds approximately \$55.4 million to the budget on a net expenditure basis in that year and increases to approximately \$121.7 million including amortization of the GAAP deficit in each of the following 15 fiscal years. The Comptroller's monthly report dated August 1, 2008 indicates that the cumulative General Fund GAAP deficit as of June 30, 2007 was \$994.3 million. Our projections also include \$133 million for the 27th state employee payroll, which will occur in FY 11.

Budget Reserve Fund Status - General Fund surpluses resulted in the following fiscal years: \$302.2 million in FY 04; \$363.9 million in FY 05; \$446.5 million in FY 06; and \$269.2 million in FY 07, each contributing toward a total Budget Reserve Fund (BRF) balance of \$1,381.8 million (which represents 80.9% of full BRF capacity). At this time, it is uncertain as to whether any anticipated FY 08 surplus will remain unappropriated and be transferred to the BRF. The Budget Reserve (Rainy Day) Fund had been depleted when its prior \$594.7 million balance was used to partially cover the \$817.1 million deficit in FY 02. The maximum allowable in the BRF is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 09 totaling \$17,083 million, the maximum allowable in the BRF is \$1,708.3 million or \$326.5 million more than currently deposited.

[1] The projections in this report are based on present law, existing policy commitments, estimated caseload and workload requirements. These preliminary projections will be updated by November 15, 2008.

**FY 08 General Fund Summary
as of August 8, 2008
(in millions)**

	<u>Budget Plan</u>	<u>Increases (Decreases)</u>	<u>Projected</u>
Revenues			
Taxes	\$ 12,453.2	\$ 66.9	\$ 12,520.1
Other Revenue	1,206.3	(35.4)	1,170.9
Other Sources	<u>2,656.1</u>	<u>58.9</u>	<u>2,715.0</u>
Total Revenue	\$ 16,315.6	\$ 90.4	\$ 16,406.0
Appropriations			
Original Appropriations - Gross	\$ 16,431.4	\$ -	\$ 16,431.4
FY 08 Appropriation Adjustments (SA 08-1, June Special Session):			
Appropriation Reductions	-	(42.9)	(42.9)
Deficiency Appropriations	-	41.5	41.5
Adjudicated Claims	-	9.8	9.8
Refunds of Escheated Property	-	30.7	30.7
Lapses [1]	(116.5)	(34.3)	(150.8)
Miscellaneous Adjustment	<u>-</u>	<u>1.4</u>	<u>1.4</u>
Total Expenditures [2]	\$ 16,314.9	\$ 6.2	\$ 16,321.1
Surplus from Operations for FY 08	\$ 0.7	\$ 84.2	\$ 84.9

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

unallocated budgeted lapses	\$ (90.5)	\$ (34.3)	\$ (124.8)
general PS and OE reductions (holdbacks)	<u>(26.0)</u>	<u>-</u>	<u>(26.0)</u>
Total - Lapses Originally Budgeted	\$ (116.5)	\$ (34.3)	\$ (150.8)

Note: Lapses have been reduced by \$19 million to reflect transfers to cover costs associated with An Act Concerning Criminal Justice Reform (PA 08-1, January Special Session) amounting to approximately \$2 million in FY 08 and \$17 million in FY 09.

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

**FY 09 General Fund Summary
as of August 8, 2008
(in millions)**

	<u>Budget Plan</u>	<u>Increases (Decreases)</u>	<u>Projected</u>
Revenues			
Taxes	\$ 12,971.1	\$ (151.0)	\$ 12,820.1
Other Revenue	1,208.4	(10.7)	1,197.7
Other Sources	<u>2,893.6</u>	<u>20.6</u>	<u>2,914.2</u>
Total Revenue	\$ 17,073.1	\$ (141.1)	\$ 16,932.0
Appropriations			
Original Appropriations - Gross	\$ 17,190.5	\$ -	\$ 17,190.5
Plus:			
Technical Adjustment Increases including Roll-Out of FY 08 Deficiency Requirements	-	199.3	199.3
FY 09 Deficiency Requirements	-	21.5	21.5
Criminal Justice System Appropriation (PA 08-51)	-	10.0	10.0
Adjudicated Claims	-	10.6	10.6
Refunds of Escheated Property	-	27.5	27.5
Less:			
Lapses and Technical Adjustment Decreases [1]	<u>(117.5)</u>	<u>(270.5)</u>	<u>(388.0)</u>
Total Expenditures [2]	\$ 17,073.0	\$ (1.6)	\$ 17,071.4
Balance	\$ 0.1	\$ (139.5)	\$ (139.4)
Governor's Recisions (6/24/08)			115.8
Net FY 09 Operating Deficit for FY 09 after Governor's Recisions			\$ (23.6)

[1] The breakdown for budgeted lapses as affected by technical adjustment decreases is as follows:

unallocated budgeted lapses	\$ (92.5)	\$ (270.5)	\$ (363.0)
general PS and OE reductions (holdbacks)	<u>(25.0)</u>	<u>-</u>	<u>(25.0)</u>
Total - Lapses Originally Budgeted	\$ (117.5)	\$ (270.5)	\$ (388.0)

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

Note: General Fund surpluses resulted in the following fiscal years: \$302.2 million in FY 04; \$363.9 million in FY 05; \$446.5 million in FY 06; and \$269.2 million in FY 07, each contributing toward a total Budget Reserve Fund (BRF) balance of \$1,381.8 million (which represents 80.9% of full BRF capacity). At this time, it is uncertain as to whether any anticipated FY 08 surplus will remain unappropriated and be transferred to the BRF. The Budget Reserve (Rainy Day) Fund had been depleted when its prior \$594.7 million balance was used to partially cover the \$817.1 million deficit in FY 02. The maximum allowable in the BRF is 10% of the amount of the net General Fund appropriations for the fiscal year in progress. With net General Fund appropriations for FY 09 totaling \$17,083 million, the maximum allowable in the BRF is \$1,708.3 million or \$326.5 million more than currently deposited.

**Transportation Fund Projections FY 08 - FY 12
as of August 8, 2008
(in Millions)**

	FY 08	FY 09	FY 10	FY 11	FY 12
	Estimate	Estimate	-----Out-Year Projections-----		
Operating Deficit Summary					
Revenues	\$1,062.0	\$1,094.5	\$1,102.2	\$1,135.3	\$1,145.1
Expenditures	<u>\$1,078.3</u>	<u>\$1,142.1</u>	<u>\$1,201.5</u>	<u>\$1,256.8</u>	<u>\$1,292.1</u>
Balance	(\$16.3)	(\$47.6)	(\$99.3)	(\$121.5)	(\$147.0)
Governor's Recisions		(\$18.8)	(\$19.7)	(\$20.7)	(\$21.8)
Net Operating Deficit After Recisions	(\$16.3)	(\$28.8)	(\$79.6)	(\$100.8)	(\$125.2)

Impact of Operating Deficit on the Cumulative Transportation Fund Balance

Beginning Balance as of July 1st	\$192.9 ¹	\$176.6	\$147.8	\$68.2	(\$32.6)
Ending Balance as of June 30th	\$176.6	\$147.8	\$68.2	(\$32.6)	(\$157.8)

Highlights of Transportation Fund Projections

FY 08

The Transportation Fund is projected to end FY 08 with an annual operating deficit of \$16.3 million. This was \$38.9 million less than the budget plan surplus of \$22.6 million. The decrease was the result of revenues that were \$59.4 million less than anticipated partially offset by an increase of \$20.5 million in lapses. Revenues were lower than anticipated primarily because of lower than anticipated collections in motor fuels taxes and motor vehicle receipts.

The FY 08 operating deficit of \$16.3 combined with the prior year balance of \$192.9 million results in a cumulative fund balance of \$176.6 million as of June 30, 2008.

FY 09

FY 09 Transportation Fund operating deficit (after recisions) is projected at \$28.8 million (\$31.6 million lower than budgeted), which decreases the cumulative surplus to \$147.8 million. The change in the projections is mainly due to lower than anticipated revenues from the Motor Fuels Tax and Motor Vehicle Receipts.

FY 10 through FY 12

Out year projections indicate that the Transportation Fund will continue to experience operating deficits. The operating deficits are expected to eliminate the cumulative balance by FY 11. This is attributable to the combined effects of growth rates in expenditures accelerating faster than the anticipated growth in revenues.

¹ Per the November 1, 2007 Comptroller's Letter to Governor Rell, the FY 07 ending balance was \$192.9 million in the Transportation Fund.