FY 10 - FY 14
General Fund & Transportation Fund
Budget Projections

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OFFICE OF FISCAL ANALYSIS

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General Fund

With a continued decline in projected revenues, the General Fund faces modest deficits of less than 5% of the budget in the biennium (FY 10 and FY 11) but considerable deficits of up to 20% of the budget afterward (see table). The deficit jumps significantly in FY 12 as the one-time infusions of federal stimulus, rainy day funds and assumed securitization (in FY 11) disappear.

($ - millions)	FY 10	FY 11	FY 12	FY 13	FY 14
Est. Deficit	**$ (535.5)**	**$ (725.7)**	**$ (3,880.7)**	**$ (3,738.6)**	**$ (3,808.9)**
% of Est. Expenditures	3.0%	4.1%	20.1%	18.8%	18.4%
Est. Expenditures	$ 17,565.0	$ 17,869.9	$ 19,266.5	$ 19,927.2	$ 20,741.2
Est. Revenue	17,029.5	17,144.2	15,385.8	16,188.6	16,932.3

Transportation Fund

The Transportation Fund outlook is brighter than that of the General Fund as only one year (FY 12) is projected to be in deficit (see table). However, since the Transportation Fund, unlike the General Fund, carries a balance, the fund is anticipated to remain in the black over the next five years.

($ - millions)	FY 10	FY 11	FY 12	FY 13	FY 14
Est. Surplus/(Deficit)	$ 13.3	$ 14.0	$ (38.7)	$ 8.7	$ 14.2
% of Est. Expenditures	1.2%	1.2%	(3.1%)	0.7%	1.1%
Est. Fund Balance	106.9	120.9	82.2	90.9	105.1

Note: This report utilizes the consensus revenue estimates that were jointly agreed to by OPM and OFA on January 15, 2010 since nothing has transpired since that time to cause us to alter our estimates. Therefore any references to "current revenue estimates" in this report are the same as those jointly agreed to on January 15, 2010.

GENERAL FUND

FY 10 Deficit

The calculation of the estimated deficit of $535.5 million for FY 10 includes the following:

- $342.9 million in lower revenue since originally estimated;
- $194.7 million higher in expenditures than originally budgeted;
- $129.5 million in additional revenue that would have been lost if a scheduled Sales Tax rate reduction from 6.0% to 5.5% went into effect on 1/1/10;[1]
- $51 million in Governor's rescissions;
- full achievement of $473 million in budgeted lapses;
- $100 million in reduced contributions to the state employee pension fund[2]; and
- $308.2 million in additional state spending requirements (deficiencies).

FY 10 General Fund Summary ($ - millions)

	Budget Plan	Increases (Decreases)	Projected
Appropriations	$ 17,843.6	$ -	$ 17,843.6
Adjustments:			
FY 10 Deficiency Requirements	-	308.2	308.2
Adjudicated Claims	-	7.5	7.5
Refunds of Escheated Property	-	30.0	30.0
Budgeted Lapses	(473.3)	-	(473.3)
Governor's 11/5/09 Rescissions	-	(31.6)	(31.6)
Governor's 11/24/09 Rescissions	-	(19.4)	(19.4)
State Employee Pension Payments	-	(100.0)	(100.0)
Total [2]	**17,370.3**	**194.7**	**17,565.0**
Revenues			
Taxes	10,927.6	(372.5)	10,555.1
Other Revenue	1,306.8	12.6	1,319.4
Other Sources	5,138.0	17.0	5,155.0
Total	**17,372.4**	**(342.9)**	**17,029.5**
Balance	**2.1**	**(537.6)**	**(535.5)**

[1] The trigger provisions specified that if the gross state tax revenue drops by 1% as estimated by the Comptroller, then the rate decrease would not take effect (Section 113 of PA 09-3 (JSS)).

[2] The April 2009 collective bargaining agreement between the state and SEBAC included a provision that allowed reducing the contribution to the state employees retirement plan by up to $100 million annually if the Comptroller's projected revenues fall $300 million or more below the revenue estimates included in the adopted budget.

Expenditures

Lapses

The FY 10 and FY 11 biennial budget included significant lapses that were 2.7% and 2.9% of the budget respectively. The table below breakouts the $624.3 million in anticipated General Fund lapses. This includes the budgeted lapse of $473.3 million that is anticipated to remain unexpended, either through normal spending patterns (most agencies do not expend their full appropriation), or through "mandated" savings.

General Fund Lapses ($ - millions)	FY 10	FY 11
Budgeted Lapse:		
Reduce Outside Consultant Contracts	$ (95.0)	$ (95.0)
Estimated Unallocated Lapses[1]	(87.8)	(87.8)
General Personal Services Reduction	(14.0)	(14.0)
General Other Expenses Reductions	(11.0)	(11.0)
Personal Services Reductions	(191.0)	(193.7)
Legislative Unallocated Lapses	(2.7)	(2.7)
DoIT Lapses	(30.8)	(31.7)
Enhance Agency Outcomes	(3.0)	(50.0)
Management Reduction	(10.0)	(12.5)
Reduce Other Expense to FY 07 Levels	(28.0)	(32.0)
Total Budgeted Lapse	**(473.3)**	**(530.4)**
Governor's November 2009 Rescissions	(51.0)	(0)
State Employee Pension Contribution	(100.0)	(0)
TOTAL LAPSES	**$(624.3)**	**$(530.4)**

Deficiencies

State agency spending needs have grown by $102.3 million since last November and now total $308.2 million. However, the 14 agencies that are experiencing deficiency needs have also had $328.1 million held back from their original appropriations. Therefore, were it not for the budgeted lapses identified above, the agencies would have had enough resources to cover their spending requirements. On average, the deficiencies represent about 3.1% of the agency's original appropriation. See the table on the next page for detail.

[1] Our expenditure estimates assume full achievement of all lapses including the unallocated lapse. Included in the unallocated lapse figure is 1) $16.1 million in Governor's programmatic reductions that she instituted in November 2009 that did not require legislative approval and 2) $9.22 million in inactive bond funds that will be transferred to debt service upon cancellation and bond commission approval – this review was required by Section 8 of PA 09-7 (SSS).

FY 10 State Agency Estimated Deficiency Needs ($ - millions)					
Agency	**Orig. Approp.**	**Holdbacks**	**Est. Def. Amount**	**% of Approp.**	**Change since Nov.**
Public Works	$ 54.7	$ 9.3	$ 7.15	13.1%	$ (1.2)
Public Safety	170.4	25.1	7.0	4.1	3.7
Public Health	88.0	6.7	5.5	6.3	0.0
Developmental Services	1,002.2	31.8	13.0	1.3	(5.2)
Mental Health & Addiction Services[1]	609.0	31.1	12.1	2.0	6.4
Social Services	5,066.5	35.6	176.5	3.5	103.8
Correction	694.1	37.2	18.9	2.7	(2.6)
Comptroller - Fringes Benefits	1,966.8	128.3	60.9	3.1	0.0
Revenue Services	72.9	12.2	1.5	2.1	(0.5)
Administrative Services	43.2	3.9	1.3	3.0	0.0
Administrative Services - Workers Comp	24.7	0.0	2.5	10.1	0.5
Information Technology	47.9	5.1	1.2	2.5	1.2
Commission on Culture and Tourism	18.1	1.1	0.5	2.6	0.5
Chief Medical Examiner	6.0	0.7	0.2	2.5	0.2
Total	**$9,864.5**	**$328.1**	**$308.2**	**3.1%**	**$106.8**[2]

See Appendix A for detail on each agency's deficiency.

Change since Last OFA Projection on 11/13/09

The deficit has grown by $149.6 million since last November. This is despite the deferral of a $100 million state employee pension contribution, the gain of $129.5 million in revenue that would have occurred on January 1, 2010 by avoiding a sales tax reduction, and the implementation of $51.0 million in rescissions. Without those occurrences, the deficit would be $817.0 million.

Projected deficits in FY 11 and in FY 12 - FY 14 have also grown by $439 million to $715 million depending on the year. See the table on the next page for further detail.

[1] FY 10 appropriation includes Disproportionate Share expenditures budgeted in DSS

[2] The OFA 11/13/09 Statement included a projected deficiency of $4.5 million in the Judicial Department. This deficiency is no longer being recognized therefore the net change in deficiency needs from November is $102.3 million.

Summary of Changes Since Last OFA Projection (11/13/09)					
General Fund ($ - millions)					
	FY 10	FY 11	FY 12	FY 13	FY 14
Projected Deficit as of 11/13/09	**(385.9)**	**(286.7)**	**(3,282.0)**	**(3,023.6)**	**(3,191.9)**
Expenditure (Increases)/Decreases					
Increased Deficiency Requirements	(102.3)				
Adjustment to Gov's 11/5/09 Rescissions	(0.7)				
State Employee Pension Contribution Deferral	100.0				
Governor's 11/24/09 Rescissions	19.4				
Net Change	**16.4**	**(20.5)**	**(59.7)**	**(18.1)**	**66.4**
Revenue Increases/(Decreases)					
Federal Grants	42.2				
Rents, Fines & Escheats	74.2				
Personal Income Tax	(137.7)				
Sales Tax	(42.3)				
Corporation Business Tax	(15.0)				
Public Service Corporations	(1.1)				
Inheritance and Estate	(6.0)				
Alcoholic Beverages	(0.4)				
Licenses, Permits and Fees	(15.0)				
Refunds of Payments	(40.0)				
Miscellaneous	(24.9)				
Net Change	**(166.0)**	**(418.5)**	**(539.0)**	**(696.9)**	**($683.4)**
Current Projected Deficit	**(535.5)**	**(725.7)**	**(3,880.7)**	**(3,738.6)**	**(3,808.9)**
Deficit Change Since 11/13/09	**149.6**	**439.0**	**598.7**	**715.0**	**617.0**

Out-Year Deficit Problems

The significant shortfalls in FY 12 – FY 14 are primarily due to three factors: (1) one-time measures utilized in FY 11, (2) increased debt service payments due to the issuance of Economic Recovery Notes (ERNs), and (3) revenue intercepts due to securitization that will impact the out-years beginning in FY 12.

Major Factors Contributing Toward the FY 12 Deficit ($ - millions)	
Federal Stimulus	$ 594.8
Budget Reserve Fund (BRF)	342.0
Securitization	1,290.7
Reductions to Certain Funds (Sweeps)	45.3
Total—One-Time Measures Utilized in FY 11 and Not Available in FY 12	**2,272.8**
Economic Recovery Notes (ERN's) - Debt Service	238.0
Securitization - Revenue Intercept	216.5
Total - Impact of ERN's and Securitization	**454.5**
Grand Total - One-Time Measures and Impact of ERN's and Securitization	**2,727.3**

In addition, there are several major expenditure categories that are expected to add significantly to expenditure growth. The major areas of increases in FY 12 – FY 14 include (1) costs associated with collective bargaining contracts that may be approved and (2) increased future year appropriations that reflect FY 10 deficiency needs rolled forward into the out-years.

Projections have been developed by applying inflationary and specific growth factors to the estimated expenditure levels for FY 10 and each subsequent year. This assumes 4.5% to 5% salary increases for state employees in subsequent years (3.0% to 3.5% for cost of living adjustments and 1.5% for Annual Increments) and 2.0% in each year for other accounts. In addition, each major appropriated account has been examined individually and adjusted as necessary to reflect amounts anticipated to be required based on current law, historical trends or caseload projections.

The table on the next page identifies some of the major accounts with significant increases in FY 12 through FY 14:

Major General Fund Appropriation Increases for FY 12 - FY 14 (in millions) (increases shown are above prior year base)			
Agency/Account	**FY 12**	**FY 13**	**FY 14**
DSS – Medicaid	$ 341.8	$ 232.4	$ 245.2
Debt Service	251.6	53.3	56.6
Personal Services (gross - statewide)	148.3	154.9	161.9
SDE - Education Equalization Grant (ECS)	47.2	48.4	49.6
Fringe Benefits - Retirement Contribution	165.8	37.3	38.9
Fringe Benefits - Retired State Employee Health	24.3	25.3	24.7
DCF - Board & Care (Residential, Foster & Adoption)	17.4	12.6	11.7
TRB – Retirement Contributions	23.3	24.2	25.2
27th Payroll of State Employees	108.7	-	-
Total Major GF Appropriation	**$1,128.4**	**$588.4**	**$613.8**

Spending Cap

The state is under the spending cap in both FY 10 and FY 11 but is projected to be over the cap in FY 12 – FY 14. Appropriations for FY 10 include original appropriations plus estimated deficiency appropriations.[1] The below calculations are based on all appropriated funds.

($ - millions)	FY 10	FY 11	FY 12	FY 13	FY 14
Approp. Allowed by Cap	$ 19,455.4	$ 19,638.7	$ 20,183.4	$ 20,731.8	$ 21,178.0
Estimated Expenditures	18,834.8[2]	19,209.4	20,707.5	21,386.3	22,225.8
$ Over/(Under) the Cap	**(620.6)**	**(429.3)**	**524.1**	**654.5**	**1,047.8**

[1] Estimated expenditure amounts reflect current services estimates. Figures assume that expenditure amounts in excess of the cap are not built into the subsequent year's base for cap calculation purposes.
[2] Figure assumes a deficiency appropriation in FY 10.

Revenues

FY 10 - FY 11

Our revenue estimates are based on current year revenue collection data and data from prior years, national and international economic trends and economic forecasts for Connecticut provided by Moody's/Economy.com.

The estimates (see table at end of section) indicate a $342.9 million net decrease in FY 10 General Fund revenue collections and a $452.6 million net decrease in FY 11. The FY 10 net decrease is due to projected decreases of $485.1 million and increases of $142.2 million. The FY 11 net decrease is due to projected decreases of $550.3 million and increases of $97.7 million. The table below summarizes significant changes from the original estimates.

Significant Revenue Changes ($ - millions)		
	FY 10	**FY 11**
Significant Decreases		
Income Tax	$(207.7)	$(212.2)
Sales and Use Tax	(90.6)	0.0
Refunds of Taxes*	(65.0)	(50.0)
Federal Grants	0.0	(136.3)
Indian Gaming Payments	(13.1)	(38.4)
Minor adjustments	(108.7)	(113.4)
Total Decreases	**(485.1)**	**(550.3)**
Significant Increases		
Sales and Use Tax	0.0	70.4
Federal Grants	42.2	0.0
Rents, Fines, and Escheats	72.7	0.0
Oil Companies	25.5	25.5
Minor adjustments	1.8	1.8
Total Increases	**142.2**	**97.7**
Net Change	**$(342.9)**	**$(452.6)**
*An increase in Refunds of Taxes results in a revenue decrease		

Significant Revenue Changes

The following describes the major sources of revenue changes. Detail on each category appears in the table on page 11.

The projected FY 10 **Income Tax** decrease of $207.7 million reflects:

- 4th quarter payments that were $166.7 million less than anticipated;
- a decrease of $21.0 million in estimated final payments due in April; and
- a decrease of $20.0 million in withholding.

These changes were rolled forward into the subsequent year, which results in a $212.2 million decrease in FY 11.

The **Sales and Use Tax** net adjustments consist of a $90.6 million decrease in FY 10 and a $70.4 million increase in FY 11. These figures result from a combination of two factors:

1) a reduction in collections of $220.1 million in FY 10 and $197.6 million in FY 11 due to the continued weakness in the retail and housing sectors; and
2) a revenue increase of $129.5 million in FY 10 and $268.0 million in FY 11 associated with the elimination of the scheduled Sales Tax rate reduction from 6.0% to 5.5%, which did not go into effect 1/1/10 because the trigger provisions that prevented the rate decrease from taking effect (Section 113 of PA 09-3 (JSS)) were met.

The projected increase of $65.0 million in **Refunds of Taxes** in FY 10 and $50.0 million in FY 11 reflects higher than anticipated Personal Income Tax refunds based on data through the end of January.

The **Federal Grants** adjustments show a $42.2 million increase in FY 10 and a $136.3 million decrease in FY 11. The July 2009 consensus revenue estimate utilized a current services projection for the biennium, though the adopted budget did not incorporate all the current services expenditure projections. The Federal Grants base has been adjusted downward accordingly in each year to reflect this difference. This downward adjustment is partially offset by:

- revenue associated with increased projected Medicaid expenditures of $150.0 million in FY 10 and $188.0 million in FY 11; and
- a one-time revenue gain of $93.0 million in FY 10 related to retroactive rate-claiming under the Department of Developmental Services.

The projected **Indian Gaming Payments** decrease of $13.1 million in FY 10 reflects the net effect of:

- a one-time payment of $25.0 million to the state for a settlement related to promotional slot machine play; and
- a decrease of $38.1 million due to the continued decline in the level of slot machine gaming activity.

The $38.4 million decrease in FY 11 parallels the decline in gaming activity in FY 10.

The $72.7 million increase in **Rents, Fines and Escheats** in FY 10 is primarily due to the liquidation of a portfolio of escheated securities by the Office of the State Treasurer, and a settlement by the Attorney General.

The projected increase of $25.5 million in **Oil Companies Tax** revenue in both FY 10 and FY 11 reflects the most recent 12-month outlook of the federal Energy Information Administration for the wholesale price of gasoline.

General Fund Revenue
Comparison of Budget Estimates and Current Estimates
($ - millions)

	FY 10			FY 11		
	Original Est.	**Increases (Decreases)**	**Current Est.**	**Original Est.**	**Increases (Decreases)**	**Current Est.**
Taxes						
Personal Income	$ 6,630.7	$ (207.7)	$ 6,423.0	$ 6,654.7	$ (212.2)	$ 6,442.5
Sales and Use	3,166.7	(90.6)	3,076.1	3,095.4	70.4	3,165.8
Corporations	721.6	(15.0)	706.6	731.9	(37.0)	694.9
Public Service Corporations	272.3	(1.1)	271.2	278.3	(1.1)	277.2
Inheritance and Estate	208.7	(12.5)	196.2	102.0	(3.0)	99.0
Insurance Companies	202.7	(2.5)	200.2	216.8	(2.5)	214.3
Cigarettes	392.6	(5.0)	387.6	403.1	(16.6)	386.5
Real Estate Conveyance	94.5	-	94.5	117.5	-	117.5
Oil Companies	98.9	25.5	124.4	75.5	25.5	101.0
Alcoholic Beverages	48.0	(0.4)	47.6	48.5	(0.4)	48.1
Admissions, Dues and Cabaret	37.1	-	37.1	37.6	-	37.6
Real Estate Conveyance	143.7	1.8	145.5	144.7	1.8	146.5
Total - Taxes	12,017.5	(307.5)	11,710.0	11,906.0	(175.1)	11,730.9
Refunds of Taxes	(1,080.5)	(65.0)	(1,145.5)	(983.3)	(50.0)	(1,033.3)
R & D Credit Exchange	(9.4)	-	(9.4)	(10.5)	-	(10.5)
Total - Net taxes	**10,927.6**	**(372.5)**	**10,555.1**	**10,912.2**	**(225.1)**	**10,687.1**
Other Revenue						
Transfer Special Revenue	293.4	-	293.4	295.1	-	295.1
Indian Gaming Payments	384.1	(13.1)	371.0	391.7	(38.4)	353.3
Licenses, Permits and Fees	281.5	(16.6)	264.9	265.6	(4.3)	261.3
Sales of Commodities and Services	33.2	-	33.2	34.3	-	34.3
Rentals, Fines and Escheats	97.3	72.7	170.0	103.4	(1.5)	101.9
Investment Income	10.0	-	10.0	10.0	-	10.0
Miscellaneous	208.0	(30.4)	177.6	218.5	(47.0)	171.5
Refunds of Payments	(0.7)	-	(0.7)	(0.7)	-	(0.7)
Total - Other Revenue	**1,306.8**	**12.6**	**1,319.4**	**1,317.9**	**(91.2)**	**1,226.7**
Other Sources						
Federal Grants	4,051.8	42.2	4,094.0	3,770.4	(136.3)	3,634.1
Transfer to the General Fund	1,121.9	(25.2)	1,096.7	1,678.0	-	1,678.0
Transfer from Tobacco Settlement Fund	107.3	-	107.3	106.1	-	106.1
Transfer From (To) Other Funds	(143.0)	-	(143.0)	(187.8)	-	(187.8)
Total - Other Sources	**5,138.0**	**17.0**	**5,155.0**	**5,366.7**	**(136.3)**	**5,230.4**
Total -General Fund Revenue	**$17,372.4**	**($342.9)**	**$17,029.5**	**$17,596.8**	**($452.6)**	**$17,144.2**

FY 12 - FY 14

Current economic forecasts predict that the national economy will begin to recover by mid-2010 but that Connecticut's economy will not recover as quickly or as strongly.

The table below presents the growth rates for the major General Fund revenue sources. The growth rates were developed using relevant economic variables forecasted for Connecticut by Moody's/Economy.com for calendar years 2011 through 2014.

Revenue Source Growth Rates FY 12 - FY 14			
	FY 12	**FY 13**	**FY14**
Personal Income Tax:			
Withholding	3.8%	4.2%	4.5%
Estimated Payments	14.4%	14.7%	10.0%
Final Payments	18.7%	20.0%	11.2%
Sales Tax:	3.6%	3.5%	3.2%
Corporate Business Tax:	0.0%	1.0%	3.0%

TRANSPORTATION FUND

FY 10 and FY 11 Revenues and Expenditures

FY 10 - The Special Transportation Fund (STF) operating surplus is projected to increase by a net amount of $12.3 million due to:

Revenue Changes
- $15.6 million in increased Motor Fuels and Sales Taxes collected by DMV;
- $10.5 million in decreased Motor Vehicle Receipts, Licenses, Permits and Fees, and Interest Income revenue;
- $3.3 million increase from Federal Grant payments for ARRA projects;
- $3.0 million increase due to the repeal of the transfer to the Conservation Fund, which was enacted after the Finance, Revenue and Bonding Committee estimates were adopted on October 2nd.

Expenditures Changes
- $0.9 million decrease from the Governor's November 5th rescissions;
- $6.0 million increase due to deficiencies (see explanation below); and
- $6.0 million increase in lapse savings (see explanation below).

FY 11 – The STF operating surplus is projected to increase by $12.9 million due to:

Revenue Changes
- $7.4 million in increased Sales Tax collected by DMV;
- $5.8 million increase from Federal Grant payments for ARRA projects;
- $3.3 million in decreased Motor Vehicle Receipts, Licenses, Permits and Fees, and Interest Income revenue; and
- $3.0 million increase due to the repeal of the transfer to the Conservation Fund, which was enacted after the Finance, Revenue and Bonding Committee estimates were adopted on October 2nd.

The following table shows that the STF's FY 10 projected cumulative fund balance increases by $13.3 million and the FY 11 balance increases by $14.0 million.

FY 10 and FY 11 Transportation Fund Summary as of January 15, 2010 ($ - millions)						
	FY 10			FY 11		
	Budget Plan	Increase/ (Decrease)	Revised Estimates	Budget Plan	Increase/ (Decrease)	Revised Estimates
Consensus Revenues:						
Taxes	$ 684.8	$ 15.6	$ 700.4	$ 701.9	$ 7.4	$ 709.3
Other Revenue	430.9	(4.2)	426.7	479.8	5.5	485.3
Total Revenue	**1,115.7**	11.4	**1,127.1**	**1,181.7**	12.9	**1,194.6**
Appropriations:						
Original Appropriations – Gross	**1,135.9**	0.0	**1,135.9**	**1,202.0**	0.0	**1,202.0**
Plus: Deficiency Requirements:	0.0	6.0	6.0	0.0	0.0	0.0
Less: Allotment Rescissions 11/5/09	0.0	(0.9)	(0.9)	0.0	0.0	0.0
Less: Lapse	(11.0)	(6.0)	(17.0)	(11.0)	$0.0	(11.0)
PS Reduction	(10.2)	0.0	(10.2)	(10.4)	0.0	(10.4)
Total Adjustments	(21.2)	(0.9)	(21.1)	(21.4)	0.0	(21.4)
Total Expenditures	**1,114.7**	(0.9)	**1,113.8**	**1,180.6**	$0.0	**1,180.6**
Surplus/(Deficit) from Operations	**1.0**	12.3	**13.3**	**1.1**	12.9	**14.0**
Plus: Cumulative Surplus as of:	**June 30, 2009[1]**		**93.6**	**June 30, 2010**		**106.9**
Projected Fund Balance as of:	**June 30, 2010**		**106.9**	**June 30, 2011**		**120.9**

[1] Estimated FY 09 ending cumulative balance in the Transportation Fund.

Lapse Savings

The FY 10 lapse increased $6.0 million, from $11.0 million to $17.0 million. This increase is attributable to the following:

- $10.0 million decrease in debt service due to lower than anticipated interest rates on new STO bonds;
- $4.0 million decrease in fringe benefits for DMV and DOT due to the ongoing hiring freeze; and
- $3.0 million decrease in Personal Services and Other Expenses requirements for DMV

Deficiency Requirements

There are two anticipated Transportation Fund deficiencies:

- $4.0 million in the Department of Transportation (DOT) Other Expenses account associated with the purchase of supplies for snow and ice removal as a result of:

(a) higher than anticipated prices for materials such as salt, fuel, utilities and repair parts for trucks and (b) replenishment of DOT's reserves of these materials, which were depleted by the severity of recent winter storms; and

- $2.0 million in the Department of Administrative Services' (DAS) Workers' Compensation Claims account driven by significant increases in medical costs, which on average have cost the state $200,000 more per month than over the same period last year.

Out-Years FY 12 - FY 14 Revenues and Expenditures

The STF operating balance is expected to be in deficit in FY 12 because estimated expenditures will continue to increase faster than estimated revenues (see table below). This is projected to reduce the cumulative balance from $120.9 million in FY 11 to $82.2 million in FY 12. However, increased General Fund transfers[1] beginning in FY 13 will result in operating surpluses for FY 13 and FY 14, which will increase the cumulative surplus to $105.1 million in FY 14.

Special Transportation Fund Operating Balance and Cumulative Balance Projections ($ - millions)

	FY 10	FY 11	FY 12	FY 13	FY 14
Operating Balance - Surplus/(Deficit)	$13.3	$14.0	($38.7)	$8.7	$14.2
Cumulative Balance	$106.9	$120.9	$82.2	$90.9	$105.1

The increases in STF expenditures are due to the following:

- Full implementation of the rail and bus subsidies provisions that were included in the recently-enacted Transportation Initiatives (PA 05-4 JSS and PA 06-136). The increases above current expenditures are expected to range between $10 million in FY 12 to $30 million in FY 14.
- Annual $1.5 million grant-in-aid to Tweed-New Haven Airport beginning in FY 10.
- $2.1 million in annual costs to DMV for implementation of the vision screening program beginning in FY 12.
- $7.4 million for a one-time cost associated with the 27th payroll in FY 12.
- The state's contribution[2] to the state employees' pension system is expected to increase due to: (a) the 2009 Retirement Incentive Program and (b) deferral of pension contributions that were included in the State Employees Bargaining Agent Coalition (SEBAC) 2009 agreement.

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[1] PA 09-8 SSS increased the amount of transfers from the General Fund to the Transportation fund to $81.2 million in FY 10, $126.0 million in FY 11 & FY 12, and $172.8 million annually thereafter.

[2] Updated estimates for these expenditures will be available after the next actuarial valuation of State Employees Retirement System (SERS), which is scheduled for 6/30/10 to determine FY 12 and FY 13 pension contribution levels.

However, transfers from the General Fund to the STF will increase from $126.0 million to $172.8 million beginning in FY 13. This will reduce the disparity between expenditures and revenues, resulting in net operating surpluses beginning in FY 13.

Appendix A

Detail on Agency Deficiencies

TOTAL NET DEFICIENCIES - $308,208,037

Department of Public Works - $7,150,000

The agency's projected FY 10 budget shortfall is composed of:

- $3.0 million in Other Expenses,
- $2.3 million in Rents and Moving,
- $0.85 million in Property Management Services and
- $1 million in Facilities Design Expenses.

The deficiencies are a result of anticipated savings associated with operating efficiencies and renegotiation of office space leases that the agency is unlikely to achieve in FY 10.

The Facilities Design Expenses account funds the agency's oversight of the planning, design and construction of state buildings as well as the provision of technical assistance to all state-managed institutions. The Property Management Services account supports the agency's administration of the operation, maintenance and security of state-owned occupied and vacant buildings. The Rents and Moving account finances the agency's efforts to assist state agencies in determining their space requirements, leasing real property and expediting physical moves into new office space.

Department of Public Safety - $7,000,000

The agency's projected FY 10 budget shortfall is composed of:

- $3.3 million in Fleet Purchase,
- $2.0 million in Other Expenses and
- $1.7 million in Workers Compensation Claims

The shortfall in Fleet Purchase is due to the application of a $3.3 million contract savings holdback to the account that cannot be achieved. DPS leases vehicles from the Department of Administrative Services (DAS) through monthly payments to DAS over a 48-month period (after which DPS continues to pay a nominal administration and insurance fee to DAS). The account is currently in deficiency and as such DPS is unable to pay DAS fleet invoices; it is unclear if this will result in agency vehicles being removed from service. The release of the $3.3 million holdback would allow DPS to cover invoice and other fleet-related costs through the end of the fiscal year.

The shortfall in Other Expenses is due to an inability to fully achieve the application of a $9.3 million total holdback to the account, which represents 31.1% of the $30.0 million Other Expenses FY 10 appropriation. Holdbacks applied to this account include a contract savings holdback ($5.3 million), a Department of Information Technology

(DoIT) lapse holdback ($3.3 million), and an Other Expenses general holdback ($737,839).

The shortfall in Workers' Compensation Claims is due to higher than budgeted average monthly claims payouts. Actual monthly claims through November have averaged $380,025, though funding for average monthly claims in the amount of $287,000 was appropriated. If a contract savings holdback of $777,529 is released, a projected $1.0 total shortfall in the account exists assuming this claims payout trend continues.

Department of Public Health - $5,513,500

The agency's projected FY 10 budget shortfall is composed of:

- $2.1 million in Personal Services,
- $2.5 million in Other Expenses and
- $0.9 million in Community Health Services

The Personal Services shortfall is due to greater than budgeted staffing expenses. The Other Expenses deficiency is primarily attributable to costs associated with maintaining: 1) current operations at the state laboratory and 2) on-line licensing system vendor costs. The Community Health Services deficiency is due to the transfer of $920,500 out of this account (see below) to cover a shortfall in the X-Ray Screening and Tuberculosis account.

Expenses in the X-Ray Screening and Tuberculosis account included a payment backlog of more than $300,000 for tuberculosis care and more than $600,000 in additional invoices anticipated by the end of the fiscal year (DPH is the payer of last resort for persons with tuberculosis in the state). Funding for the X-Ray Screening and Tuberculosis account was reduced by $379,900 (50%) in FY 10 in anticipation of an increase in federal reimbursement for tuberculosis payments due to enhanced information sharing between the Department of Social Services (DSS) and DPH. To date, federal reimbursements have not replaced the funding reduction in this account. $920,500 from the Community Health Services was approved for transfer to the X-Ray Screening and Tuberculosis account by the Finance Advisory Committee on the January 14, 2010.

Department of Developmental Services - $13,000,000

The agency's projected FY 10 budget shortfall is composed of:

- $1.3 in Other Expenses,
- $1.1 million in Voluntary Services Program,
- $2.0 million in Workers Compensation Claims,
- $5.9 million in Community Residential Services and
- $9.0 million in Early Intervention Services
- Offset by $6.3 million in Personal Services lapse

The gross deficiency of $19.3 million is offset by $6.3 million in the Personal Services account resulting from the savings associated with the conversion of services in group homes. This will offset the deficiency in the Community Residential Services account and reduce other deficiencies via an anticipated Finance Advisory Committee (FAC) transfer.

The Other Expenses shortfall ($1.3 million) is resulting from higher than budgeted costs; Voluntary Services Program ($1.1 million) due to unbudgeted caseload growth in both out-of-home placements and children eligible for services; Workers' Compensation Claims ($2.0 million) due to higher than budgeted monthly claims; Community Residential Services ($5.9 million) resulting from unbudgeted development needs and the conversion of clients from state operated to privately-provided services; and Early Intervention ($9.0 million) due to unbudgeted caseload growth, increase in service hours paid at the supplemental rates and the anticipated delay in the implementation of increased parent fees and insurance reimbursement.

Department of Mental Health and Addiction Services - $12,100,000

The agency's projected FY 10 budget shortfall is composed of:

- $8.5 million in Other Expenses,
- $4.0 million in Discharge and Diversion Services,
- $2.1 million in Professional Services and
- $2.0 million in General Assistance Managed Care
- Offset by $4.5 million lapse in Personal Services & Behavioral Health

The gross deficiency of $16.6 million will be offset by the anticipated lapse of $4.0 million in the Personal Services account and $500,000 in the Behavioral Health Medications account that will result in a $12.1 million net deficiency.

The Other Expenses and Professional Services deficiencies are a result of an increased use of contracted doctors to provide coverage for retirees. The Discharge and Diversion Services deficiency is a result of providing community support for inpatient clients discharged due to the closure of inpatient psychiatric beds at Cedarcrest Hospital. The General Assistance deficiency is a result of higher than expected caseload growth.

Department of Social Services - $176,500,000

The agency's projected FY 10 budget shortfall is composed of:

- $150.0 million in Mediciad,
- $10.5 million in Other Expenses,
- $9.9 million in ConnPACE,
- $8.5 million in Charter Oak
- $6.4 million in Connecticut Home Care,
- $4.1 million in Temporary Family Assistance and
- $3.4 million in HUSKY B
- Offset by $17.1 million lapse (Child care Subsidies & SAGA)

Given the economic climate, DSS has seen greatly increased caseloads under many of its programs. Over the past year, caseloads have risen in Medicaid (6.7%), Temporary Family Assistance (8.4%), state funded home care (6.9%), and SAGA Medical (19%), among others.

The DSS shortfall is primarily in the Medicaid account ($150 million). In addition to the strong caseload growth mentioned above, the FY 10 budget included significant savings ($102.9 million) related to managing the fee-for-service population, implementing special needs plans, and reducing the HUSKY Program's managed care rates. Given the late passage of the budget as well as the complexities of implementing these policies, it is unlikely that the full savings will be achieved in FY 10.

Additionally, the deficiencies in Other Expenses ($10.5 million), ConnPACE ($9.9 million), Charter Oak ($8.5 million), Connecticut Home Care ($6.4 million), Temporary Family Assistance ($4.1 million) accounts and HUSKY B ($3.4 million) are largely due to caseload changes noted above, but are also impacted by the late implementation of certain savings initiatives assumed in the budget. In particular, a slower than budgeted changeover from ConnPACE to Medicare Savings Plans has resulted in the ConnPACE deficiency. The Other Expenses deficiency recognizes the difficulty the department may have in meeting the $26.2 million in holdbacks for that account.

These deficiencies are partially offset by projected lapses in the Child Care Subsidies ($12.9 million) and State Administered General Assistance (SAGA) ($4.2 million) accounts. The Child Care Subsidies surplus is related to a temporary enrollment closure of the higher income, non-entitlement portions of the program. Under SAGA, the budget included appropriations for higher provider rates, contingent on the Federal government approving a waiver to include SAGA members in the Medicaid program. As the department has not yet sought this waiver in light of the ongoing federal health care reform efforts, these higher rates have not been implemented.

Department of Correction - $18,900,000

The agency's projected FY 10 budget shortfall is composed of:

- $15.1 million in Other Expenses,
- $5.0 million in Workers Compensation and
- $0.2 million in Legal Services to Prisoners
- Offset by $1.4 million lapse

The shortfall in Other Expenses is due to an inability to achieve a reduced appropriation (the FY 10 appropriation, not including holdbacks, is approximately $700,000 less than the FY 09 appropriation) as well as various other savings initiatives including policies on managing the prison population.

The shortfall in Workers' Compensation Claims is due to medical expenditures in August, September and November that are higher than expected. The FY 10 appropriation level of $24.9 million is $1.7 million lower than the amount expended on Workers' Compensation in FY 09.

The shortfall in Legal Services to Prisoners results from the inability to achieve a budgeted lapse for outside consultant contracts while maintaining mandated services.

It should be noted that the $18.9 million deficiency assumes that a transfer from the Reserve for Salary Adjustment (RSA) account will occur to offset any deficiency in Personal Services. Through December, the agency had received approximately $6.0 million via transfers from the RSA account.

Lapses are projected under the following accounts due to delays in implementing newly budgeted initiatives: Distance Learning ($0.2 million); Children of Incarcerated Parents ($0.5 million); and Community Support Services - for residential sex offender programming ($0.7 million).

Fringe Benefit Account - Retired State Employees Health Service Cost - $60,900,000

The gross deficiency of $60.9 million represents the retiree health costs of the approximately 3,900 employees who participated in the Retirement Incentive Program (RIP). The appropriation for this fringe benefit account was not previously adjusted to reflect these costs in the budget (PA 09-3 JSS).

Department of Revenue Services - $1,500,000

The deficiency of $1.5 million in the Other Expenses account is due to maintaining ongoing contractual obligations. The contracts support the department's Integrated Tax Administration System (ITAS) and other information systems.

Department of Administrative Services - $1,314,068

The deficiency of $1.3 million in the Workers' Compensation Administrator account is due to the agency's inability to achieve the contracted savings holdback. The deficiency results from the agency maintaining current contract requirements with the workers' compensation third party administrator. The Workers' Compensation Administrator account provides funding for the third party administrator contract for workers' compensation claims administration and medical case management.

Department of Administrative Services - Workers' Compensation Claims - $2,500,000

The deficiency of $2.5 million in Workers' Compensation Claims is the result of three factors: a rollout of the FY 09 deficiency; increases in medical and indemnity costs; and several catastrophic medical claims. Funding within the Department of Administrative Services Workers' Compensation Claims account is used to pay the workers' compensation claims costs for state employees in 84 agencies that do not receive a direct appropriation. This includes, the legislative branch, the judicial branch and all executive branch agencies except the Departments of Correction, Public Safety, Children and Families, Developmental Services, Mental Health and Addiction Services, and the

Department of Transportation/Department of Motor Vehicles Special Transportation Fund. These agencies have their own Workers' Compensation Claims accounts.

Department of Information Technology - $1,200,000

The $1.2 million shortfall consists of deficiencies in two Other Expense categories, Premises Rent Expense - Landlord and Electricity. The agency is unable to achieve the full savings of $1.8 million in Other Expenses holdbacks.

Commission on Culture and Tourism - $478,059

The $478,059 deficiency is attributable to Personal Services and is due to greater than budgeted staffing expenses. The FY 10 appropriation ($2.7 million) was $1.2 million below the FY 09 appropriation ($3.9 million), and was unable to be met with a commensurate reduction in staff. It is estimated that the agency's Personal Services needs through the end of the year will be $2.8 million while $2.3 million is available.

Office of the Chief Medical Examiner - $152,410

The agency's anticipated gross deficiency of $212,073 is the result of a shortfall in the Other Expenses (OE) account. This shortfall is slightly offset by a projected lapse in the Personal Services (PS) account of $59,663. This results in a net deficiency of $152,410 in the OE account.

The lapse in PS is due to a delay in filling the Deputy Chief Medical Examiner position, vacant due to a retirement. The deficiency in OE is due to higher than budgeted expenses in that account, including body transport services, motor vehicle rental, gas, medical supplies, and hazardous waste disposal.