

OFFICE OF FISCAL ANALYSIS

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State Budget Projections General Fund January 25, 2016

Summary

We are currently projecting a \$72.2 million deficit in the General Fund. This reflects an increase of \$65.1 million in the projected deficit of \$7.0 million since deficit mitigation actions were taken in PA 15-1, December Special Session.

FY 16 General Fund Overview (in millions) ¹					
Estimates	Budget	December Projection	January Projection	Difference from December	Difference from Budget
Expenditures					
Agency Appropriations ²	18,362.2	18,362.2	18,362.2	-	-
Deficit Mitigation	-	(214.3)	(167.8)	46.5	(167.8)
Deficiency Requirements	-	63.8	77.8	14.0	77.8
Lapses	(200.6)	(123.9)	(146.1)	(22.2)	54.5
Total Expenditures	18,161.6	18,087.7	18,126.1	38.3	(35.5)
Revenues					
Personal Income Tax	9,834.4	9,645.0	9,570.0	(75.0)	(264.4)
Sales and Use	4,121.1	4,230.3	4,230.3	-	109.2
Corporations	902.2	900.4	950.4	50.0	48.2
Federal Grants	1,265.2	1,263.1	1,217.0	(46.1)	(48.2)
Other Taxes and Refunds	853.9	840.8	859.1	18.3	5.2
Other Revenue Sources	1,185.5	1,201.1	1,227.1	26.0	41.6
Total Revenues	18,162.3	18,080.7	18,053.9	(26.8)	(108.4)
Operating Surplus/(Deficit)	0.7	(7.0)	(72.2)	(65.1)	(72.9)
% of Expenditures	0.0%	0.0%	-0.4%		
<small>1 Totals may appear to not add up due to a rounding effect</small>					
<small>2 Projected expenditures include \$15.5 million in statutory carry forwards that are not anticipated to lapse.</small>					

As illustrated in the table above, the \$65.1 million increase in OFA's projected FY 16 deficit is attributable to net increases of \$38.3 million in expenditures and a decline of \$26.8 million in revenues since December.

Since December, OFA has adjusted its expenditure estimates as follows:

- 1) Based on the Governor's actions to date, \$46.5 million¹ of savings from deficit mitigation have not been identified or allocated to state agency accounts;

¹ Although unidentified currently, these FY 16 savings may yet be achieved pursuant to the Governor's expanded authority (per PA 15-1, DSS) to holdback funds.

- 2) Increased our anticipated deficiency requirements for state agencies by \$14.0 million (primarily for Adjudicated Claims); and
- 3) Increased our estimated state agency lapses (i.e., savings) by \$22.2 million to recognize anticipated savings in various accounts which are not directly attributable to deficit mitigation actions taken in December.

In addition to the expenditure adjustments summarized above, OFA's revenue estimates have been adjusted downward by \$26.8 million in accordance with consensus revenue estimates finalized on January 15th. Details on OFA's significant adjustments to expenditure and revenue estimates are provided in the text below and in the supplemental reports linked at the bottom of this report.

Major Expenditure Increases since December

Office of State Comptroller - Miscellaneous - Adjudicated Claims- The account projection was increased by \$17.4 million or 57.4% from our last projection predominately due to four, \$4.2 million settlements against the state for individuals who were wrongly incarcerated. As of January, \$18.5 million has been expended, which reflects 74.5% of the FY 16 appropriation.

Office of the State Comptroller - Fringe Benefits - State Employees' Health Services - The account projection was increased by \$6.1 million or 0.9% from our last projection due to additional paid claims information. Year to date average monthly carrier payments are approximately \$80.5 million; an increase of approximately 2.9% from FY 15.

Department of Correction - Personal Services - The account projection was increased by \$1.8 million or 0.41% from our last projection. The reductions to this account as a result of the PA 15-1 DSS, the deficit mitigation bill, totaled \$6,450,796. Although overall overtime spending has fallen approximately 13% through the same period last fiscal year, the agency is unable to meet its full reduction target.

State Department of Education - Magnet School - The account projection was increased by \$1.4 million or .4% from our last projection due to supplemental transportation costs for the Sheff regional transportation system.

Department of Mental Health and Addiction Services - Personal Services - The account projection was increased by \$2.0 million or 1.0% from our last projection because it is anticipated that a portion of the \$2.7 million in savings target included in the Deficit Mitigation Plan will not be achieved. Changes to staffing levels and overtime usage would be required to hit the savings target.

Department of Mental Health and Addiction Services - Other Expenses - The account projection was increased by \$1.0 million or 3.6% from our last projection due to increased steam costs at the Connecticut Mental Health Center, as well as increased IT consultant services. The deficit mitigation plan also included an additional holdback of \$287,165.

Department of Mental Health and Addiction Services - Behavioral Health Medications - The account projection was increased by \$1.4 million or 24.5% from our last projection due to recognizing the increased usage of higher cost medications related to clients with

Hepatitis C.

Major Expenditure Reductions since December

Office of the State Comptroller – Fringe Benefits – Retired State Employees’ Health Services – The account projection was reduced by \$10.6 million or 1.6% from our last projection due to additional paid claims information. In addition, the budget assumed a 6% increase in population, however actual growth is trending closer to 3%. Lastly, our previous projection included a projected Medicare Part B premium increase of approximately 51.9% (an increase of approximately \$54 per Medicare member per month); actual Medicare Part B premiums increased 16.1% (or approximately \$17 per Medicare member per month).

Office of the State Comptroller – Fringe Benefits – Employers’ Social Security Tax – The account projection was reduced by \$4.6 million or 2.0% from our last projection due to additional payroll information reflecting lower than anticipated hiring and other personnel costs across state agencies. Average General Fund social security trends are 3.4% less than anticipated.

State Department of Education – Education Equalization Grants – The account projection was reduced by \$4.1 million or 0.2% from our last projection due to the final rollout of municipal aid reductions (i.e., the “M.O.R.E.” lapse/savings target) required by the Office of Policy and Management under PA 15-244.²

Department of Mental Health and Addiction Services - Home and Community Based Services – The account projection was reduced by \$1.5 million or 7.8% from our last projection due to lower than anticipated costs and caseload.

Office of the State Comptroller – Fringe Benefits – Unemployment Compensation – The account projection was reduced by \$1.5 million or 22.6% from our last projection due to average monthly unemployment benefit costs being 30.4% less than anticipated.

State Department of Education - Open Choice – The account projection was reduced by \$1.4 million or 3.6% from our last projection due to lower than anticipated enrollment numbers.

Department of Housing – Tax Abatement Account - The account projection was reduced by \$1.1 million or 100% from our last projection due to the final rollout of municipal aid reductions (i.e., the “M.O.R.E.” lapse/savings target) required by OPM under PA 15-244. This reduction effectively eliminates the Tax Abatement program for FY 16.

Changes in Reserve for Salary Adjustment Transfers since December

Reserve for Salary Adjustment – An anticipated transfer of \$9.5 million is reflected in the current projections. The anticipated transfer contains an additional \$7.5 million for the

² In accordance with PA 15-244, a bottom-line savings of \$20 million was budgeted in municipal aid associated with recommendations of the Municipal Opportunities and Regional Efficiencies (M.O.R.E.) Commission. Previously, the Governor had made recommended reductions to: 1) PILOT, Colleges and Hospitals line item (\$12.3 million); and 2) PILOT, State Property (\$2.5 million). These reductions, in addition to the \$4.1 million reduction to ECS and \$1.1 million to the Tax Abatement account within the Department of Housing, comprise the total \$20 million savings in FY 16.

Department of Corrections and \$2.0 million for the Department of Emergency Services and Public Protection. The transfer will be used to cover accrued leave payouts for retiring employees. The remaining RSA balance after the anticipated transfers is approximately \$12.3 million. The account began FY 16 with an available balance of \$30.4 million (\$22.2 million appropriated and \$8.2 million carried forward from FY 15) and has since transferred out \$6.4 million (\$4.2 million to the Department of Emergency Services and Public Protection, \$2 million to the Department of Correction, and \$140,000 to the Office of the State Comptroller).

Major Revenue Changes since December

Personal Income Tax – The projection was reduced by \$75 million or 0.8% from our last projection to reflect weaker than anticipated growth in 4th quarter payments due January 15th.

Federal Grants – The projection was reduced by \$46 million or 3.7% from our last projection. The change is attributable to three main factors: (1) revenue associated with agency expenditures, (2) the timing of claims, and (3) deferrals. There is a total decrease in other agency revenue of approximately \$16 million, primarily due to retroactive adjustments for lower targeted case management rates in the Department of Mental Health and Addiction Services (DMHAS), as well as a two month billing lag for DMHAS behavioral health homes and a private non-medical institution rate reduction for FY 14- FY 16 payments. A decrease of \$22 million is associated with recognizing claims for the March 2016 quarter in FY 17, and an additional \$15 million is associated with deferring certain HUSKY D revenue for the last two quarters of FY 15. These reductions are partially offset by an increase in Medicaid Administration revenue.

Insurance Companies – The projection was reduced by \$11.4 million or 4.8% from our last projection to reflect a recent trend in collections.

Corporate Tax – The projection was increased by \$50 million or 5.6% from our last projection to reflect anticipated one-time corporate revenue.

Inheritance & Estate – The projection was increased by \$24 million or 12.4% from our last projection to reflect that several relatively large estates have been settled during this fiscal year.

Transfers – Special Revenue (i.e., Lottery) – The projection was increased by \$9 million or 2.8% to reflect anticipated revenue gains resulting from new rules for Powerball reducing the chances of winning, which have increased jackpots and sales.

Cigarette Tax – The projection was increased by \$4.7 million or 1.3% from our last projection. It is likely that the cause of this variance is an underestimate of the revenue to be gained by increasing the excise tax rate from \$3.40 per pack to \$3.65 per pack pursuant to PA 15-244.

Indian Gaming Payments (i.e., Casinos) – The projection was increased by \$3 million or 1.2% from our last projection to reflect improved growth in collections from Foxwoods.

Various Other – In aggregate, the projections for Licenses, Permits and Fees, Miscellaneous Taxes, Sales of Commodities and Services, Refunds and Payments, and Research and Development Credit Exchange was increased by \$15 million from our last projection to reflect updated trends in collections.

Deficient Agencies

Given the reduction in available funding that occurs due to budgeted lapses (holdbacks), we currently identify eight agencies that would require \$77.8 million in additional expenditure requirements. However, if available funding were to be released, this would reduce the need for deficiency funding to \$69.8 million.

FY 16 Estimated Agency Deficiency Needs					
Agency	Budgeted Appropriation \$	Available ^[1] Appropriation \$	Estimated Exp. \$	Deficiency without release of holdbacks \$	Deficiency with release of holdbacks \$
General Fund					
Debt Service - State Treasurer	1,937,570,413	1,937,570,413	1,976,853,471	(39,283,058)	(39,283,058)
State Comptroller - Miscellaneous	69,584,293	65,521,899	89,025,550	(23,503,651)	(22,441,257)
Office of Early Childhood	295,033,520	293,806,434	300,006,434	(6,200,000)	(5,653,643)
Public Defender Services Commission	70,272,615	67,968,503	72,341,728	(4,373,225)	(2,069,113)
Department of Mental Health and Addiction Services	658,781,302	641,556,522	643,756,522	(2,200,000)	-
Department of Correction	693,424,375	677,559,766	679,089,448	(1,529,682)	-
Office of the Chief Medical Examiner	6,210,356	6,071,666	6,521,666	(450,000)	(313,556)
Department of Emergency Services and Public Protection	190,498,740	190,183,942	190,423,942	(240,000)	-
			General Fund Total	(77,779,616)	(69,760,627)
[1] Appropriation less budgeted lapses					

Use the links below to see detailed estimates by agency/account and revenue category.

[Expenditures XLS PDF](#)

[Revenues XLS PDF](#)