



Office of Fiscal Analysis

FY 20 BUDGET PROJECTIONS

January 27, 2020

GENERAL FUND DEFICIT GROWS TO \$95.9 MILLION

The Office of Fiscal Analysis projects a General Fund deficit of \$95.9 million and a Special Transportation Fund surplus of \$5.7 million in FY 20. Unchanged, the projected deficit in the General Fund effectively would reduce, from \$318.3 million to \$222.4 million, the projected FY 20 deposit into the Budget Reserve Fund from the Volatility Adjustment transfer.¹ The General Fund deficit increased \$66.3 million from our [previous estimate](#) of \$29.6 million, due to the following: (1) a downward revision of \$32 million in projected revenues; (2) reflection of the \$20.7 million negative budgetary impact of the recently enacted hospital settlement; and (3) an upward revision of \$13.6 million in other expenditure projections.

General Fund

General Fund revenues are revised downward by \$32 million² this month, bringing the total revenue shortfall to \$116.5 million, or -0.6%, from budget.

Tax refunds are the major factor in the projected revenue shortfall and are anticipated to exceed the budget by \$165 million. This temporary surge in tax refunds in large part is due to taxpayer responses to recently enacted state policies such as the withholding of pension payments and implementation of the passthrough entity tax.

Positive updates to other revenue streams, including Sales & Use Tax, Inheritance and Estates Tax and Indian Gaming Payments partially offsets the negative impact of the upward adjustments in tax refunds.

Projected state agency deficiencies have increased from \$84.3 million compared to our previous estimate to \$105.7 million. Projected shortfalls in Adjudicated Claims, Fringe Benefits and the departments of Corrections and Social Services comprise most of the total projected deficiency.³ State agency lapse projections are increased by \$7.8 million to \$33.3 million in total, which is \$5.8 million more than budgeted but insufficient to offset the projected state agency deficiencies total of \$105.7 million.

Overview

In Millions of Dollars

General Fund	Budget*	January Estimate	Difference from Budget
Revenues	19,543.7	19,427.2	(116.5)
Expenditures	19,423.2	19,523.1	99.8
Surplus/(Deficit)	120.5	(95.9)	(216.3)
Budget Reserve Fund			
Budget Reserve Deposit	429.4	222.4	(207.0)
Budget Reserve Balance	2,935.0	2,728.0	(207.0)
Special Transportation Fund			
Revenues	1,723.4	1,730.3	6.9
Expenditures	1,710.3	1,724.6	14.3
Surplus/(Deficit)	13.1	5.7	(7.4)
Fund Balance	333.2	325.8	(7.4)

* Includes December Special Session Revisions

¹ See the OLR Issue Brief 2018-R-0296 [Connecticut's Volatility Cap](#) for more information on the Volatility Cap and Adjustment

² This amount excludes the FY 20 revenue impact of the Hospital Settlement. Including the impact of the Hospital Settlement, the total revenue adjustment from November 2019 to January 2020 is a positive \$51.5 million.

³ See OFA's [FY 20 General Fund Agency Deficiencies](#) report for details.



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Hospital Settlement

This report reflects SA 19-1, An Act Approving the Settlement Agreement between the State and the Connecticut Hospital Association, enacted on December 20th, which negatively impacts the FY 20 operating balance of the General Fund by \$20.7 million.

The individual adjustments are as follows: (1) \$104.2 million increase in General Fund expenditures; and (2) a net decrease of \$17.1 million in General Fund revenue from the Hospital Settlement Agreement. January's revenue estimates assume the use of \$100.6 million of FY 19 General Fund resources designated in FY 20 for the settlement.

Notable Items

- On January 6th, the Secretary of the Office of Policy and Management provided state agency fiscal officers with: (1) guidance concerning discretionary spending; and (2) notice of impending rescissions. As of this report, a list of rescissions had not been released.
- Positive outlook for FY 20 debt service lapse: overall General Fund-supported debt service is expected to be under budgeted amounts by approximately \$10 million for FY 20 primarily based on strong market rates in the January 2020 General Obligation (GO) bond issuance. Additional lapse may be possible with similarly strong bond issuances for the remainder of the year.

Special Transportation Fund

The Special Transportation Fund (STF) surplus decreased \$3.2 million from our [previous estimate](#) of \$8.9 million, primarily due to a downward revision to the projected revenues from the Oil Companies Tax. The estimated \$5.7 million FY 20 operating surplus would increase the cumulative balance of the STF to \$325.8 million. Note that the projected FY 20 STF surplus includes \$25.7 million in additional (Motor Vehicle Receipts) revenues due to implementation of PA 19-165 in accordance with expectations.⁴

⁴ See the [Public Act Summary](#).

General Fund Summary

In Millions of Dollars

Summary	FY 20
Original Budgeted Surplus	141.1
+ Hospital Settlement Revenues	83.5
+ Hospital Settlement Expenditures	(104.2)
Budgeted Surplus	120.4
Revenue Changes	
+ Sales & Use Tax	46.8
+ Refunds of Taxes	(165.0)
+ Net Revenue	1.7
Revenue Subtotal	(116.5)
Expenditure Changes	
+ Agency Deficiencies	(105.7)
+ Net Lapses	5.8
Expenditure Subtotal	(99.8)
= Surplus/(Deficit)	(95.9)
Budget Reserve Fund Starting Balance	2,505.6
+ Surplus/(Deficit)	(95.9)
+ Volatility Adjustment	318.3
= Budget Reserve Transfer Subtotal	222.4
= Budget Reserve Fund Balance	2,728.0

Special Transportation Fund Summary

In Millions of Dollars

Summary	FY 20
Budgeted Surplus	13.1
Revenue Changes	
+ Motor Vehicle Receipts*	25.7
+ Oil Companies	(18.9)
+ Refunds of Taxes	(10.0)
+ Net Revenue	10.1
Revenue Subtotal	6.9
Expenditures	
+ Net Lapses	(11.3)
+ Agency Deficiencies	(3.0)
Expenditure Subtotal	(14.3)
= Surplus/(Deficit)	5.7
STF Starting Balance	320.1
+ Surplus/(Deficit)	5.7
= Fund Balance	325.8

* Pursuant to PA 19-165

For further information, please see the links below:

[Revenue Details Table](#)

[Expenditure Details Table](#)

[Budget Status Page](#)