

Fiscal Forecast Presentation to the Appropriations & Finance Committees

November 18, 2009

Topic Areas

- ❖ **FY 10 through FY 12 General Fund Budget Projections and Explanation for Deficits**
- ❖ **Current Services for Major Expenditure Accounts**
- ❖ **Budget Reserve Fund Status**
- ❖ **Surpluses/Deficits in Recent Years**
- ❖ **Long-Term Obligations (Unfunded Liabilities)**
- ❖ **Revenue Projections**
- ❖ **Transportation Fund**

General Fund Budget Overview

Budget Overview:	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>
Consensus Revenues as of 10/15/09	\$ 17,204.0	\$ 17,432.7	\$ 15,794.8
OFA Expenditures as of 11/13/09	17,581.4	17,849.4	19,206.8
Balance	\$ (377.4)	\$ (416.7)	\$ (3,412.0)
OFA Revised Revenue as of 11/13/09	17,195.5	17,562.7	15,924.8
OFA Revised Balance as of 11/13/09	\$ (385.9)	\$ (286.7)	\$ (3,282.0)
Deficit as a % of budget	2.2%	1.6%	17.1%
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Spending Cap Comparison (All Funds):	(840.9)	(589.9)	1,245.3
General Fund Growth Rates			
Revenue		3.4%	5.8%
Expenditures		1.5%	7.6%

Factors of the FY 10 – FY 12 Deficits

- ❖ **Higher Spending Requirements**
- ❖ **Governor’s Recisions Announced on 11/5/09**
- ❖ **Consensus Revenues as of 10/15/09**
- ❖ **OFA’s Updated Revisions to the Consensus Revenues**
- ❖ **Beginning in FY 12, Deficits Also Reflect:**
 - Discontinuation of One-Time Revenues Available in FY 11 from Budget Reserve Fund, Federal Stimulus Funding and Securitization
 - Impact of Deficit Financing (ERN’s to cover the \$925 million FY 09 deficit and securitization of \$1.3 billion to balance the FY 11 budget)

FY 10 General Fund Summary

(in millions) as of November 13, 2009

	<u>Budget Plan</u>	<u>Increases/ (Decreases)</u>	<u>Projected</u>
Consensus Revenues as of 10/15/09			
Taxes	\$10,927.6	(\$121.5)	\$10,806.1
Other Revenue	1,306.8	(21.7)	1,285.1
Other Sources	5,138.0	(25.2)	5,112.8
Total Consensus Revenue as of 10/15/09	\$17,372.4	(\$168.4)	\$17,204.0
OFA Revised Revenue as of 11/13/09			
Taxes	\$10,927.6	(\$130.0)	\$10,797.6
Other Revenue	1,306.8	(21.7)	1,285.1
Other Sources	5,138.0	(25.2)	5,112.8
Total OFA Revised Revenue as of 11/13/09	\$17,372.4	(\$176.9)	\$17,195.5
Appropriations			
Original Appropriations - Gross	\$17,843.6	\$0.0	\$17,843.6
Plus:			
FY 10 Deficiency Requirements	-	205.9	205.9
Governor's November Recisions	-	(32.3)	(32.3)
Adjudicated Claims	-	7.5	7.5
Refunds of Escheated Property	-	30.0	30.0
Less:			
Lapses	(473.3)	-	(473.3)
Total Expenditures [1]	\$17,370.3	\$211.1	\$17,581.4
Balance - OFA Expenditures (11/13/09) and Consensus Revenue (10/15/09)			
	\$2.1	(\$379.5)	(\$377.4)
Balance - OFA Expenditures (11/13/09) and OFA Revised Revenue (11/13/09)			
	\$2.1	(\$388.0)	(\$385.9)

[1] Excludes expenditures from prior year carryforwards.

FY 11 Budget Problems

Current FY 11 Estimated Deficit **(\$286.7)**

Areas of Concern:

<i>Budgeted Lapses</i>	<i>\$530.4</i>
<i>DSS Significant Budgeted Savings</i>	<i>200.0</i>
<i>Securitization</i>	<i>1,290.7</i>

Total for Areas of Concern - FY 11 ***\$2,021.1***

Budget-Related Triggers

- ❖ **Deficit Mitigation** - If the year-end deficit projected by the State Comptroller on the first of each month exceeds 1% of the budget, the Governor is required to submit a Deficit Mitigation Plan (Sec. 4-85, CGS).
- ❖ **Sales Tax Reduction** - If Gross Tax Revenues are projected by the State Comptroller to be at least 1% less than budgeted, the Sales Tax Reduction from 6% to 5.5% shall not take effect (PA 09-3 JSS, Sec. 113).
- ❖ **SERS Reduction** - If projected revenue from all General Fund and Special Transportation Fund Sources is projected by the State Comptroller to be \$300 million less than budgeted and the Governor exercises recision authority, the SERS Contribution may be reduced up to \$100 million annually after SEBAC and the Administration consider potential savings and encourage voluntary schedule reductions (SEBAC Agreement).

SCOPE will also be delayed until FY 12 if revenue falls by at least \$350 million.

Status of Triggers

(assumed in OFA budget projections)

1. Deficit Mitigation –

- ◇ Trigger occurs if projected deficit level exceeds 1% of budget.
- ◇ 1% of \$17,370.3 million adopted FY 10 General Fund (GF) budget = \$173.7 million.
- ◇ OFA Deficit Projection = \$385.9 million (assumes no sales tax reduction).
- ◇ **Deficit mitigation plan is required.**

2. Sales Tax Reduction –

- ◇ Trigger occurs if projected Gross Tax Revenue (GTR) shortfall exceeds 1%.
- ◇ 1% of \$12,017.5 million adopted FY 10 GTR = \$120.2 million.
- ◇ OFA projects GTR will be \$11,783 million or 2% (\$234.5 million) less than adopted.
- ◇ **Therefore, OFA projects sales tax reduction (from 6% to 5.5%) will not occur.**

3. SERS Reduction –

- ◇ Trigger occurs if projected revenue shortfall is \$300 Million or more.
- ◇ Total adopted FY 10 GF (\$17,372.4 million) and Transportation Fund (\$1,115.7 million) revenue = \$18,488.1 million.
- ◇ OFA Projects \$18,314.2 Million or \$173.9 Million Less in Revenue (assumes no Sales Tax reduction).
- ◇ **OFA assumes SERS Contribution will not be reduced by \$100 million annually, unless: 1) projected revenue shortfall is \$300 million or more and 2) SEBAC and the Administration consider other options (also, SCOPE Implementation will not be delayed until FY 12 unless revenue falls by at least \$350 million).**

Major FY 12 Deficit Factors

(in millions)

One-Time Measures Utilized in FY 11 and Not Available in FY 12

Federal Stimulus	\$594.8
Budget Reserve Fund (BRF)	342.0
Securitization	1,290.7
Reductions to Certain Funds (Sweeps)	45.3
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Total - One-Time Measures **\$2,272.8**
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Economic Recovery Notes (ERN's) and Securitization

ERN's - Debt Service (principal and interest)	\$238.0
Securitization - Revenue Intercept	216.5
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Total - ERN's and Securitization **\$454.5**

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GRAND TOTAL **\$2,727.3**



Explaining the FY 12 Deficit

(in millions)

Continuation of FY 11 deficit in FY 12	(\$286.7)
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Revenue Issues:

Revenue growth at 5.8%	\$870.4
Loss of one-time FY 11 revenue sources	(2,508.3)

Total Revenue Issues	(\$1,637.9)
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Expenditure Issues:

Growth in Four Major Areas	
Personal Services (including fringe benefits)	\$380.4
Medicaid	265.8
Education Equalization Grant (ECS)	47.2
Debt Service	25.2
State Administered General Assistance (SAGA) - DSS	21.3
Board & Care (Residential, Foster Care, and Adoption) - DCF	22.0

<i>Subtotal growth in four major areas</i>	\$761.9
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Other Expenditure Growth Across All State Agencies	\$238.1
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New Expenditures

Debt Services (Economic Recovery Notes)	\$238.0
27th State Payroll Costs	108.7
Juvenile Jurisdiction Age Change (PA 07-4, PA 09-7 SSS)	10.7

<i>Subtotal new expenditures</i>	\$357.4
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Total Expenditure Issues	\$1,357.4
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TOTAL CONTRIBUTING MAJOR FACTORS	(\$3,282.0)
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Balancing the Budget in FY 12

Projected FY 12 Deficit = \$3,282 Million



18.4% Decrease in Expenditures
(Cut the budget by \$3.2 billion)



20.6% Increase in Revenues
(Above Projected Growth – 5.8%)

50 Major Accounts Projections

(General Fund, current services, in millions)

	FY 11	FY 12	FY 13	FY 14
1 DSS - Medicaid	\$3,796.4	\$4,062.1	\$4,346.5	\$4,650.7
2 Personal Services (gross statewide - includes constituent units and Reserve for Salary Adjustment account)	3,295.4	3,443.7	3,598.7	3,760.6
3 SDE - Education Equalization Grants	1,889.6	1,936.8	1,985.3	2,034.9
4 Debt Service - Debt Service (includes UConn 2000, CHEFA, TRB (POB))	1,682.7	1,945.9	1,992.9	2,049.0
5 OSC - State Employees Retirement Contributions	663.3	829.2	866.5	905.5
6 OSC - Retired State Employees Health Service Cost	607.9	632.2	657.5	682.1
7 TRB - Retirement Contributions	581.6	604.9	629.1	654.2
8 Other Expenses	576.5	588.6	601.0	613.6
9 OSC - State Employees Health Service Cost	516.9	537.5	559.0	580.0
10 DCF- Board and Care for Children - Residential, Foster, Adoption	402.0	424.0	436.4	456.4
11 DDS - Community Residential Services	398.5	406.5	414.6	422.9
12 DSS - State Administered General Assistance	304.0	325.3	348.1	372.4
13 OSC - Employers Social Security Tax	249.8	271.1	261.1	272.8
14 SDE - Magnet Schools	189.6	207.2	222.5	233.9
15 DDS - Employment Opportunities and Day Services	185.0	188.7	192.5	196.4
16 DSS - Temporary Assistance to Families - TANF	123.2	128.1	133.2	138.5
17 SDE - Excess Cost - Student Based	120.5	172.0	180.6	189.6
18 SDE - Priority School Districts	117.2	117.2	117.2	117.2
19 OSC - Reimbursements to Towns for Loss of Taxes on Private Tax-Exempt Property	115.4	115.4	115.4	115.4
20 DSS - DMHAS - Disproportionate Share	105.9	105.9	105.9	105.9
21 DOC - Inmate Medical Services	104.5	108.7	112.7	117.0
22 Workers' Compensation Claims (DAS, DOC, DDS, DMHAS, DPS, DCF)	99.6	102.7	108.9	115.7
23 DSS - Child Care Services-TANF/CCDBG	90.9	94.6	98.3	102.3
24 DMHAS - General Assistance Managed Care	86.8	90.7	94.8	99.1
25 DMHAS - Grants for Mental Health Services	\$81.3	\$85.1	\$88.9	\$92.9

50 Major Accounts Projections

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	FY 11	FY 12	FY 13	FY 14
26 DSS- Connecticut Home Care Program	\$80.7	\$84.8	\$89.0	\$93.4
27 OSC - Reimbursement to Towns for Loss of Taxes on State Property	73.5	73.5	73.5	73.5
28 DSS- Aid to the Disabled	62.7	65.2	67.8	70.6
29 OPM - P.I.L.O.T. - New Manufacturing Machinery and Equipment	57.3	57.3	57.3	57.3
30 JUD - Alternative Incarceration Program	55.2	57.4	59.7	62.0
31 SDE - Charter Schools	53.1	55.0	55.0	55.0
32 DSS - Disproportionate Share-Medical Emergency Assistance	51.7	51.7	51.7	51.7
33 DMHAS - Young Adult Services	48.0	49.1	50.2	51.4
34 SDE - Transportation of School Children	48.0	90.5	94.2	97.9
35 DSS - Housing/Homeless Services	47.3	49.2	51.2	53.2
36 DSS - HUSKY Program	41.0	43.8	46.9	50.2
37 DOC - Community Support Services	40.4	40.4	40.4	40.4
38 DMHAS - Managed Service System	38.9	40.6	42.5	44.4
39 DSS - Old Age Assistance	38.1	38.9	39.7	40.4
40 DDS - Early Intervention	37.8	38.6	39.4	40.2
41 DDS - Voluntary Services	35.2	35.9	36.6	37.3
42 OSC - Higher Education Alternative Retirement System	34.2	37.1	35.7	37.3
43 DSS - DSH-Urban Hospitals in Distressed Municipalities	31.6	31.6	31.6	31.6
44 DOL - Workforce Investment Act	30.5	31.1	31.1	31.7
45 DHE - Connecticut Aid for Public College Students	30.2	30.2	30.2	30.2
46 JUD - Juvenile Alternative Incarceration	30.2	31.4	32.6	33.9
47 DMHAS - Grants for Substance Abuse Services	26.7	27.9	29.1	30.4
48 DCF - Community KidCare	25.7	26.2	26.7	27.2
49 DoIT - Statewide Information Technology Services	23.9	24.9	25.9	26.9
50 DHE - Connecticut Independent College Student Grant	\$23.4	\$23.4	\$23.4	\$23.4
Total Top 50 Accounts*	\$17,449.8	\$18,659.8	\$19,428.7	\$20,270.9

*Represents 95% of the General Fund appropriation

Budget Reserve Fund (BRF) Status

- ❖ Unappropriated surpluses are deposited in the BRF per article XXXVIII of the state constitution and Sec. 4-30a (CGS).
- ❖ The \$594.7 million balance in FY 01 was completely used to partially cover the \$817.1 million deficit in FY 02.
- ❖ The \$1,381.7 million balance in FY 09 was completely transferred to revenue to help balance the FY 10 (\$1,039.7 million transfer) and FY 11 (\$342 million transfer) budgets.
- ❖ PA 03-2 increased the maximum funds allowable in the BRF to 10% of net General Fund appropriations. With the FY 10 General Fund budget amounting to \$17,370.3 million, the maximum allowable in the BRF is \$1,737 million; however, no funding remains given the transfers.

Budget Reserve Fund Revenue

(General Fund, in millions)

Recent Surpluses Credited to the BRF:

FY 04	\$302.2
FY 05	363.9
FY 06	446.5
FY 07	269.2
Total - Recent Surpluses to the BRF	\$1,381.7

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Transfers from BRF to the General Fund:

FY 10	(\$1,039.7)
FY 11	(342.0)
Total - Transfers to the General Fund	(\$1,381.7)

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BRF BALANCE **\$0.0**

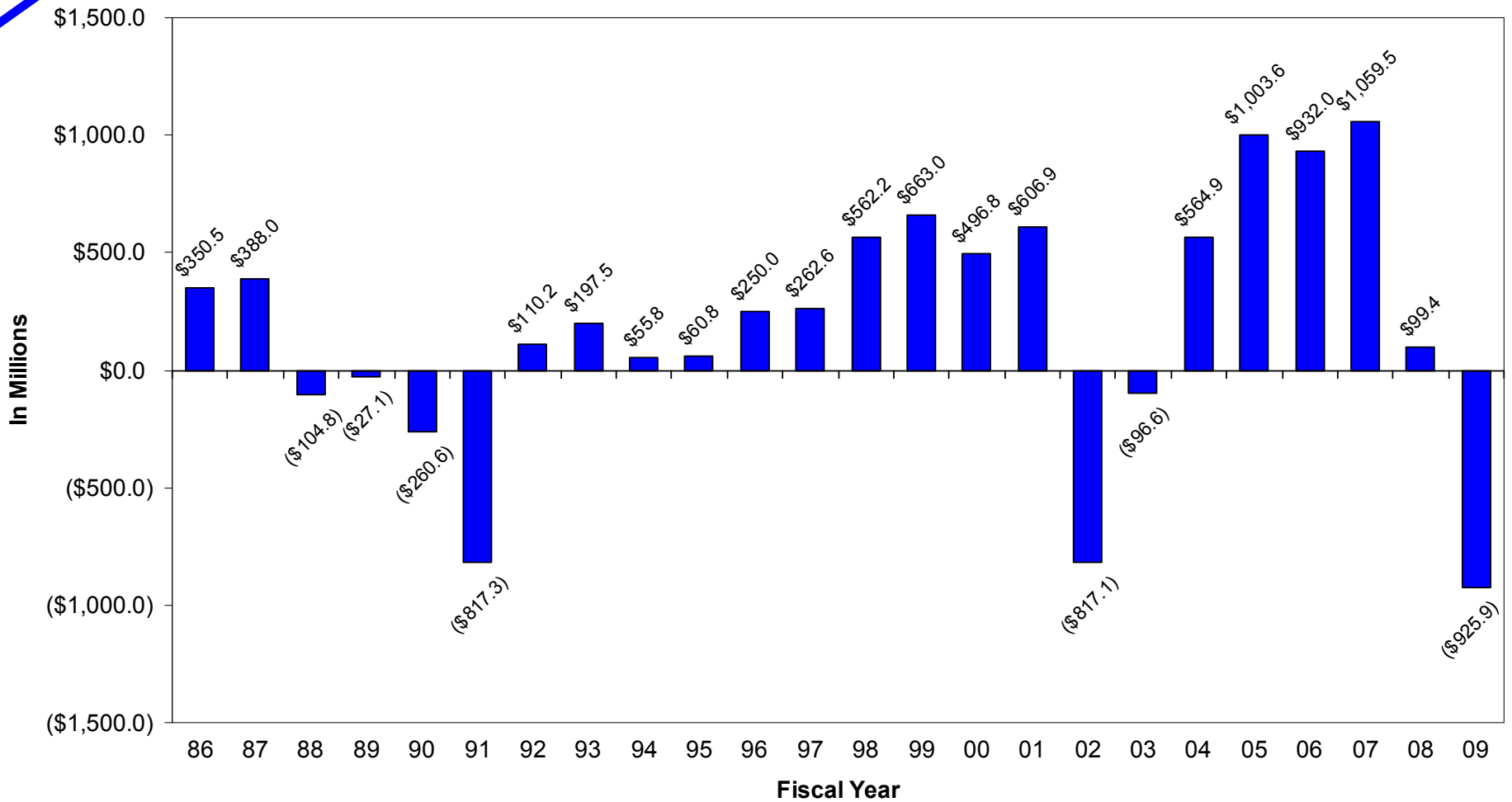
Long-Term Obligations

(in billions)

Debt Outstanding	\$18.0
State Employee Pensions – Unfunded	9.3
Teachers’ Pensions – Unfunded	6.5
State Post Retirement Health and Life – Unfunded	21.7
Teachers’ Post Retirement Health and Life	2.3
Generally Accepted Accounting Principles (GAAP) Deficit	1.1
TOTAL	\$58.9

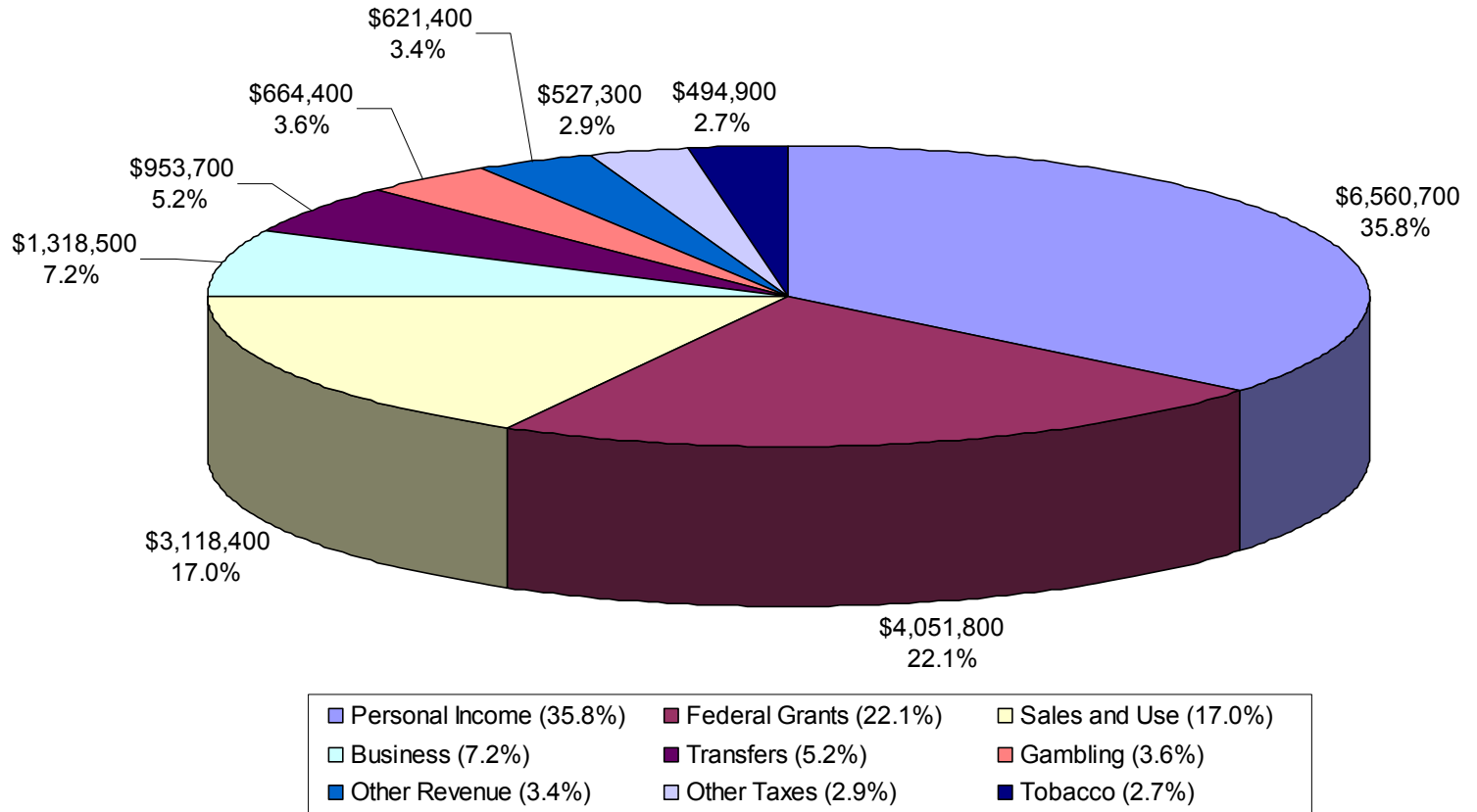
Surplus/(Deficit) from Operations

(in millions, by fiscal year)



FY 10 General Fund Revenue

(prior to refunds, in thousands)



- NOTES:**
- 1) Business revenue consists of: Corporations (\$721,600), Public Service Corporations (\$272,300), Insurance Companies (\$200,200), and Oil Companies (\$124,400).
 - 2) Gambling revenue consists of: Indian Gaming (\$371,000) and Special Revenue (\$293,400).
 - 3) Other Revenue includes: Licenses, Permits and Fees (\$279,900), Sales of Commodities and Services (\$33,200), Rentals, Fines and Escheats (\$95,800), Investment Income (\$10,000) and Miscellaneous (\$202,500).
 - 4) Other Taxes revenue consists of: Inheritance and Estate (\$202,200), Real Estate Conveyance (\$94,500), Alcoholic Beverages (\$48,000), Admissions, Dues and Cabaret (\$37,100) and Miscellaneous (\$145,500).

FY 10 General Fund Revenue Estimates (in thousands)

	FY 10 Budget	Consensus Revisions	FY 10 Consensus	Additional Changes	FY 10 Revised	FY 11 Budget	Consensus Revisions	FY 11 Consensus	Additional Changes	FY 11 Revised
Taxes										
Personal Income	\$ 6,630,700	\$ (20,000)	\$ 6,610,700	\$ (50,000)	\$ 6,560,700	\$ 6,654,700	\$ (20,000)	\$ 6,634,700	\$ (50,000)	\$ 6,584,700
Sales and Use	3,166,700	(89,800)	3,076,900	41,500	3,118,400	3,095,400	(67,100)	3,028,300	180,000	3,208,300
Corporations	721,600		721,600	-	721,600	731,900		731,900	-	731,900
Public Service Corporations	272,300	-	272,300	-	272,300	278,300	-	278,300	-	278,300
Inheritance and Estate	208,700	(6,500)	202,200	-	202,200	102,000	-	102,000	-	102,000
Insurance Companies	202,700	(2,500)	200,200	-	200,200	216,800	(2,500)	214,300	-	214,300
Cigarettes	392,600	(5,000)	387,600	-	387,600	403,100	(14,100)	389,000	-	389,000
Real Estate Conveyance	94,500	-	94,500	-	94,500	117,500	-	117,500	-	117,500
Oil Companies	98,900	25,500	124,400	-	124,400	75,500	25,500	101,000	-	101,000
Alcoholic Beverages	48,000	-	48,000	-	48,000	48,500	-	48,500	-	48,500
Admissions, Dues and Cabaret	37,100	-	37,100	-	37,100	37,600	-	37,600	-	37,600
Miscellaneous	143,700	1,800	145,500	-	145,500	144,700	1,800	146,500	-	146,500
Total Taxes	\$12,017,500	(\$96,500)	\$11,921,000	(\$8,500)	\$11,912,500	\$11,906,000	(\$76,400)	\$11,829,600	\$130,000	\$11,959,600
Refunds of Taxes	(1,080,500)	(25,000)	(1,105,500)	0	(1,105,500)	(983,300)	(25,000)	(1,008,300)	-	(1,008,300)
R & D Credit Exchange	(9,400)	0	(9,400)	0	(9,400)	(10,500)	-	(10,500)	-	(10,500)
Taxes Less Refunds	10,927,600	(121,500)	10,806,100	(8,500)	10,797,600	10,912,200	(101,400)	10,810,800	130,000	10,940,800
Other Revenue										
Transfer Special Revenue	293,400	0	293,400	-	293,400	295,100	-	295,100	-	295,100
Indian Gaming Payments	384,100	(13,100)	371,000	-	371,000	391,700	(38,400)	353,300	-	353,300
Licenses, Permits and Fees	281,500	(1,600)	279,900	-	279,900	265,600	(1,800)	263,800	-	263,800
Sales of Commodities and Services	33,200	0	33,200	-	33,200	34,300	-	34,300	-	34,300
Rentals, Fines and Escheats	97,300	(1,500)	95,800	-	95,800	103,400	(1,500)	101,900	-	101,900
Investment Income	10,000	0	10,000	-	10,000	10,000	-	10,000	-	10,000
Miscellaneous	208,000	(5,500)	202,500	-	202,500	218,500	(21,000)	197,500	-	197,500
Refunds of Payments	(700)	0	(700)	-	(700)	(700)	-	(700)	-	(700)
Total Other Revenue	\$1,306,800	(\$21,700)	\$1,285,100	-	\$1,285,100	\$1,317,900	(\$62,700)	\$1,255,200	-	\$1,255,200
Other Sources										
Federal Grants	4,051,800	0	4,051,800	-	4,051,800	3,770,400	-	3,770,400	-	3,770,400
Transfer to the Resources of the General Fund	1,121,900	(25,200)	1,096,700	-	1,096,700	1,678,000	-	1,678,000	-	1,678,000
Transfer from Tobacco Settlement Fund	107,300	0	107,300	-	107,300	106,100	-	106,100	-	106,100
Transfer From (To) Other Funds	(143,000)	0	(143,000)	-	(143,000)	(187,800)	-	(187,800)	-	(187,800)
Total Other Sources	\$5,138,000	(\$25,200)	\$5,112,800	-	\$5,112,800	\$5,366,700	-	\$5,366,700	-	\$5,366,700
Total Revenue	\$17,372,400	(\$168,400)	\$17,204,000	(8,500)	\$17,195,500	\$17,596,800	(\$164,100)	\$17,432,700	130,000	\$17,562,700

Out-Year Revenue Growth Rates

(in thousands)

Revenue Source	FY 12		FY 13		FY 14	
	Growth Rate	Amount	Growth Rate	Amount	Growth Rate	Amount
Personal Income Tax:						
Withholding	3.8%	\$159,400	4.5%	\$195,900	5.0%	\$227,400
Estimated Payments	16.1%	207,200	20.0%	300,000	10.0%	179,600
Final Payments	18.7%	204,600	24.3%	317,300	11.9%	191,100
Sales Tax:	5.3%	157,100	4.6%	142,300	3.3%	106,800
Corporate Tax	0.0%	0	2.0%	13,800	2.0%	14,800
TOTAL		\$728,300		\$969,300		\$719,700

Transportation Fund Revenue FY 10 – FY 14 Projections

(in millions) as of November 13, 2009

	-----Consensus-----			-----Consensus Out-Year Projections-----	
	FY 10	FY 11	FY 12	FY 13	FY 14
Beginning Balance as of July 1st	\$93.6	\$97.6	\$101.7	\$47.6	\$38.5
Total Revenues	\$1,118.7	\$1,184.7	\$1,200.3	\$1,260.3	\$1,287.6
Total Expenditures	\$1,114.7	\$1,180.6	\$1,254.4	\$1,269.4	\$1,291.6
Net Operating Surplus/(Deficit)	\$4.0	\$4.1	(\$54.1)	(\$9.1)	(\$4.0)
Ending Balance as of June 30th	\$97.6	\$101.7	\$47.6	\$38.5	\$34.5
Debt Service Ratio	2.6	2.6	2.5	2.7	2.7