

Department of Revenue Services DRS16000

Permanent Full-Time Positions

| Fund | Actual FY 14 | Actual FY 15 | Governor Estimated FY 16 | Original Appropriation FY 17 | Governor Revised FY 17 | Final FY 17 | Difference Fin-Gov FY 17 |
|--------------|--------------|--------------|--------------------------|------------------------------|------------------------|-------------|--------------------------|
| General Fund | 665 | 665 | 660 | 660 | 660 | 660 | - |

Budget Summary

| Account | Actual FY 14 | Actual FY 15 | Governor Estimated FY 16 | Original Appropriation FY 17 | Governor Revised FY 17 | Final FY 17 | Difference Fin-Gov FY 17 |
|--|-------------------|-------------------|--------------------------|------------------------------|------------------------|-------------------|--------------------------|
| Personal Services | 55,603,677 | 57,853,931 | 61,648,494 | 62,091,282 | - | 57,419,820 | 57,419,820 |
| Other Expenses | 8,679,502 | 8,136,912 | 8,395,265 | 7,722,172 | - | 6,776,492 | 6,776,492 |
| Other Current Expenses | | | | | | | |
| Collection and Litigation Contingency Fund | 8,266 | 17,077 | - | - | - | - | - |
| Agency Operations | - | - | - | - | 86,246,410 | - | (86,246,410) |
| Nonfunctional - Change to Accruals | 272,634 | 530,204 | - | - | - | - | - |
| Agency Total - General Fund | 64,564,079 | 66,538,124 | 70,043,759 | 69,813,454 | 86,246,410 | 64,196,312 | (22,050,098) |

| Account | Governor Revised FY 17 | Final FY 17 | Difference from Governor |
|---------|------------------------|-------------|--------------------------|
|---------|------------------------|-------------|--------------------------|

Policy Revisions

Consolidate Appropriations for Agency Operations

| | | | |
|-----------------------------|--------------|----------|--------------|
| Personal Services | (60,229,341) | - | 60,229,341 |
| Other Expenses | (7,353,200) | - | 7,353,200 |
| Agency Operations | 67,582,541 | - | (67,582,541) |
| Total - General Fund | - | - | - |

Background

Currently, state agency appropriations are distributed between multiple line items. The Governor's Revised FY 17 budget consolidates funding by collapsing most or all appropriations into a new "Agency Operations" line item. Certain major line items such as Education Cost Sharing (ECS) grants, entitlements, pension and debt service payments, remain as separate line items within their respective agencies and are not consolidated.

Governor

Consolidate all agency appropriations into one account.

Final

Maintain existing appropriated accounts.

Reduce Funding for Various Accounts

| | | | |
|-----------------------------|--------------------|--------------------|----------------|
| Personal Services | - | (2,809,521) | (2,809,521) |
| Other Expenses | - | (576,708) | (576,708) |
| Agency Operations | (3,885,996) | - | 3,885,996 |
| Total - General Fund | (3,885,996) | (3,386,229) | 499,767 |

Background

The Governor reduces funding in the new Agency Operations accounts across state agencies by \$267.9 million.

| Account | Governor Revised FY 17 | Final FY 17 | Difference from Governor |
|---------|------------------------|-------------|--------------------------|
|---------|------------------------|-------------|--------------------------|

Governor

Reduce funding by \$3,885,996 to reflect a 5.75% reduction.

Final

Reduce funding by a total of \$3,386,229 to reflect a reduction in the Personal Services and Other Expenses accounts.

Transfer Funding to Agencies for Fringe Benefits

| | | | |
|-----------------------------|-------------------|----------|---------------------|
| Agency Operations | 22,549,865 | - | (22,549,865) |
| Total - General Fund | 22,549,865 | - | (22,549,865) |

Background

Funding for fringe benefits for General Fund and Special Transportation Fund supported employees is budgeted centrally in the State Comptroller-Fringe Benefit accounts.

Governor

Transfer funding of \$22,549,865 from the Office of the State Comptroller to the Agency Operations account to support fringe benefit costs for employers' social security and Medicare taxes, active employee health, and the normal retirement costs for employees whose earnings are supported by the General Fund and the Special Transportation Fund.

Final

Maintain funding for fringe benefits within the Office of the State Comptroller.

Distribute Lapses

| | | | |
|-----------------------------|--------------------|--------------------|----------|
| Personal Services | (1,243,441) | (1,243,441) | - |
| Other Expenses | (151,067) | (151,067) | - |
| Total - General Fund | (1,394,508) | (1,394,508) | - |

Background

The Original FY 16 - 17 Biennial Budget included bottom line savings targets (lapses) totaling \$95,110,616 in FY 16 and \$100,816,745 in FY 17. These savings targets were allocated to agencies via holdbacks in FY 16.

Governor

Reduce funding by \$1,394,508 to reflect the allocation of these lapses in the FY 17 revised budget.

Final

Same as Governor

Rollout of FY 16 DMP

| | | | |
|-----------------------------|------------------|------------------|----------|
| Personal Services | (618,500) | (618,500) | - |
| Other Expenses | (217,905) | (217,905) | - |
| Total - General Fund | (836,405) | (836,405) | - |

Background

PA 15-1 December Special Session (AA Making Certain Structural Changes to the State Budget and Adjustments to the State Budget for the Biennium Ending June 30, 2017) made FY 16 General Fund expenditure modifications of \$195.8 million in various agencies and accounts. The Governor's FY 17 budget includes the rollout of \$90.5 million of the FY 16 DMP across various agencies.

Governor

Reduce funding by \$836,405 in FY 17 to reflect the rollout of expenditure reductions in PA 15-1 DSS.

Final

Same as Governor

Totals

| Budget Components | Governor Revised FY 17 | Final FY 17 | Difference from Governor |
|-------------------------------|------------------------|-------------------|--------------------------|
| Original Appropriation - GF | 69,813,454 | 69,813,454 | - |
| Policy Revisions | 16,432,956 | (5,617,142) | (22,050,098) |
| Total Recommended - GF | 86,246,410 | 64,196,312 | (22,050,098) |

| Positions | Governor Revised FY 17 | Final FY 17 | Difference from Governor |
|-------------------------------|------------------------|-------------|--------------------------|
| Original Appropriation - GF | 660 | 660 | - |
| Total Recommended - GF | 660 | 660 | - |

Other Significant Legislation

PA 16-2, An Act Adjusting the State Budget for the Biennium Ending June 30, 2017

Sections 26, 34, 35, and 36 contain provisions that allow the Secretary of the Office of Policy and Management (OPM) to allocate specific lapses to state agencies in the three branches of government (these are typically called holdbacks). The agency's FY 17 appropriation levels will be reduced by the amounts shown in the table below to achieve the lapses included in PA 16-2. This includes an Unallocated Lapse of \$641,962 and a Targeted Lapse of \$1,283,926. See the FY 17 Holdbacks schedule in Section V of this document for a further description of these statewide savings targets.

| Account | Appropriation \$ | Reduction Amount \$ | Net Remaining \$ | % Reduction |
|-------------------|------------------|---------------------|------------------|-------------|
| Personal Services | 57,419,820 | (1,722,594) | 55,697,226 | 3.00% |
| Other Expenses | 6,776,492 | (203,294) | 6,573,198 | 3.00% |

PA 15-1 DSS, An Act Making Certain Structural Changes to the State Budget and Adjustments to the State Budget for the Biennium Ending June 30, 2017

Section 27 broadens the exemption to the gross earnings tax for propane gas by applying it to propane used primarily, instead of exclusively, for heating purposes.

Section 29 raises the cap on the amount of certain tax credits corporations may claim each year against the corporation business tax. The law provides tax credits for many different purposes, but it caps the total value of credits corporations may claim at a specified portion of their annual tax liability. Starting in the 2016 income year, the act raises the cap over a period of four years to 70% but only with respect to credits for research and development expenditures (CGS §§ 12-217j and 12-217n) and urban and industrial sites reinvestment projects (CGS § 32-9t) that taxpayers could not otherwise use without exceeding the 50.01% cap (i.e., excess credits).

Sections 40 through 46 change how multistate corporations must apportion the income they derive in Connecticut. With a few exceptions, it requires all multistate corporations to apportion their Connecticut income based only on their unweighted Connecticut sales.

PA 16-3 MSS, An Act Concerning Revenue and Other Items to Implement the Budget for the Biennium Ending June 30, 2017

Section 192 delays by one year, from February 15, 2017 to February 15, 2018, the deadline by which the agency must submit its next tax incidence report.

Section 198 requires the DRS commissioner to no longer issue or renew a (1) cigarette dealer, distributor, or manufacturer license; (2) tobacco product distributor or unclassified importer license; or (3) sales tax seller's permit, for anyone who he determines has failed to file any required tax returns. Applicants for these licenses and permits must file or arrange to file all outstanding returns to the commissioner's satisfaction before the commissioner may issue or renew them.

Sections 199 and 200 require businesses to source service sales based on where their customers are located or receive the service's

benefits (i.e., market-based sourcing) for Corporation Business Tax and Personal Income Tax purposes.

Sections 200 and 201 change the formula pass-through entities must use to determine how much of a business' gains and losses are attributable to Connecticut for Personal Income Tax purposes. Beginning with the 2017 income year, they must calculate it based on Connecticut sales alone (rather than by the average of the percentage of property, payroll, and gross sales in Connecticut).