



Office of Fiscal Analysis

Fiscal Accountability Presentation to the Appropriations & Finance Committees

November 18, 2015



Methodology

- Current Services
 - Amount needed to continue current level of services in the next year(s); includes:
 1. Inflation
 2. Annualization of partial year costs
 3. Caseload changes
 4. Statutory requirements/court orders
 5. Continuation of multi-phase projects
 6. Expenditure projections are driven by detailed account estimates totaled and compared to revenue



FY 16 General Fund Summary¹

(in millions)

Summary	Budget Plan \$	Increase/ (Decreases) \$	Projected \$
Expenditures			
Agency Appropriations	18,362.2	-	18,362.2
Deficiency Requirements	-	63.8	63.8
Rescissions	-	(102.8)	(102.8)
Lapses	(200.6)	76.7	(123.9)
Total Expenditures	18,161.6	37.7	18,199.3
Revenues			
Taxes	15,711.6	(201.1)	15,510.5
Other Revenue	1,174.3	(12.3)	1,162.0
Other Sources	1,276.5	(4.1)	1,272.4
Total Revenue	18,162.4	(217.5)	17,944.9
ESTIMATED SURPLUS/(DEFICIT)	0.8	(255.2)	(254.4)

¹Totals may not appear to add up due to rounding.



FY 16 Deficiency Requirements¹

(in millions)

Agency	Budgeted Appropriation \$	Available ² Appropriation \$	Estimated Expenditures \$	Deficiency without release of holdbacks \$	Deficiency with release of holdbacks \$
General Fund					
Debt Service - State Treasurer	1,937.6	1,937.6	1,976.9	(39.3)	(39.3)
Department of Correction	693.4	680.6	687.9	(7.2)	-
Office of Early Childhood	295.0	294.3	300.5	(6.2)	(6.0)
State Comptroller - Miscellaneous	69.6	69.2	75.3	(6.1)	(5.8)
Public Defender Services Commission	70.3	69.3	73.7	(4.4)	(3.8)
Office of the Chief Medical Examiner	6.2	6.1	6.6	(0.5)	(0.4)
TOTAL				(63.8)	(55.2)

¹Totals may not appear to add up due to rounding.

²Appropriation less budgeted lapses (holdbacks) and rescissions; plus transfers from the Reserve for Salary Adjustments account to cover the costs of collective bargaining agreements that were not otherwise provided in the agencies' budgets.



FY 16 General Fund Budgeted Lapses (in millions)

	Amount \$
Gross Appropriations	18,362.2
Lapses	
Unallocated Lapse	(93.1)
Unallocated Lapse - Legislative	(5.0)
Unallocated Lapse - Judicial	(7.4)
General Lapse - Legislative ¹	(0.0)
General Lapse - Judicial	(0.3)
General Lapse - Executive	(9.7)
Statewide Hiring Reduction - Executive	(30.9)
Statewide Hiring Reduction - Judicial	(3.3)
Statewide Hiring Reduction - Legislative	(0.8)
General Employee Lapse	(7.1)
Municipal Opportunities and Regional Efficiencies Program	(20.0)
Overtime Savings	(10.5)
Targeted Savings	(12.5)
Subtotal	(200.6)
NET APPROPRIATIONS	18,161.6

¹The General Lapse - Legislative is \$39,492

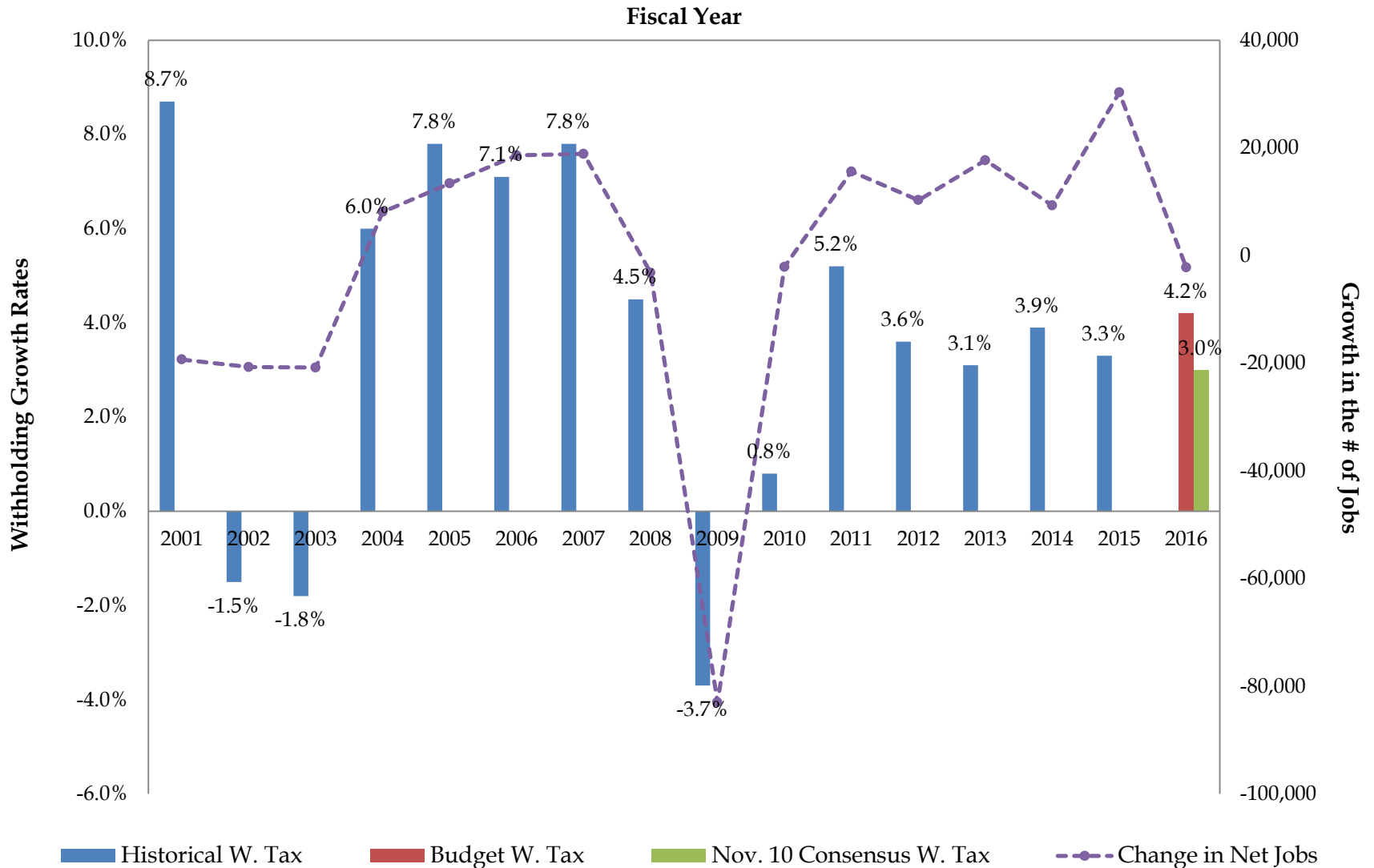


Major Revenue Changes - General Fund (in millions)

	FY 16 \$	FY 17 \$
Total Revenue - Budget	18,162.4	18,713.6
Update Policy	(19.2)	(16.6)
Keno	(13.6)	(11.0)
Hospital Tax	(3.7)	(3.7)
Other	(1.9)	(1.9)
Update Base	(39.1)	(59.1)
Withholding	(30.3)	(30.3)
Public Service Companies	(20.0)	(20.0)
Other	11.2	(8.8)
Change in Growth	(159.2)	(326.1)
Withholding	(66.1)	(180.1)
Estimates/Finals	(93.1)	(142.7)
Other	-	(3.3)
Sum of Major Changes	(217.5)	(401.8)
Total Revenue - November Consensus	17,944.9	18,311.8

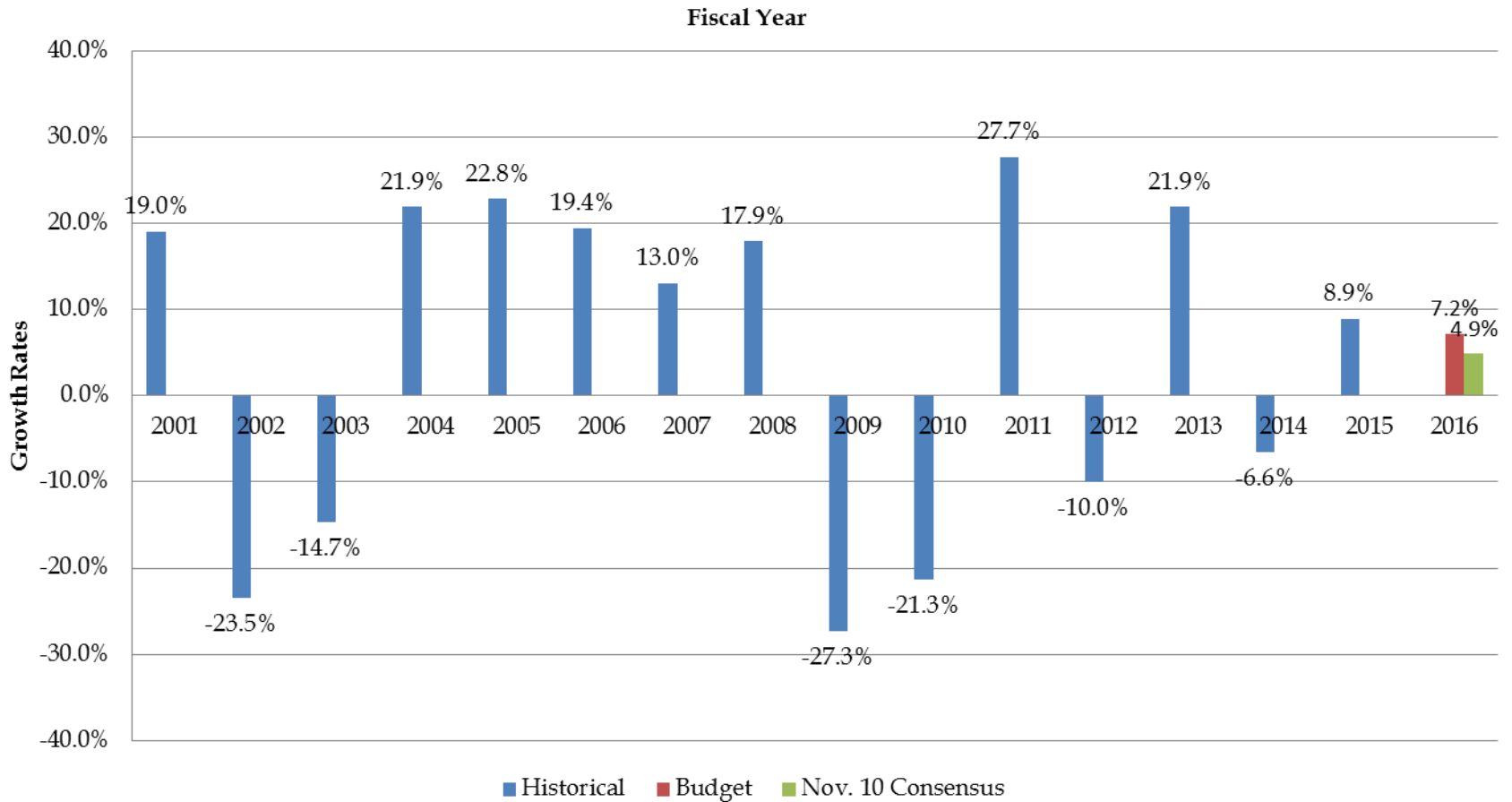


Withholding Income Tax & Jobs





Estimates & Finals Income Tax





Deficit Mitigation

- If the year-end General Fund deficit projected by the State Comptroller on the first of any month exceeds 1% of the budget, the Governor is required to submit a Deficit Mitigation Plan within 30 days.
 - Pursuant to CGS Sec 4-85(b)
- 1% of the budget = \$181.6 million.
- The Comptroller has not yet projected a deficit in FY 16 that would necessitate a DMP.
- The Governor has statutory authority to implement rescissions if a “change in circumstances” is determined.
 - Pursuant to CGS Sec. 4-85(b)



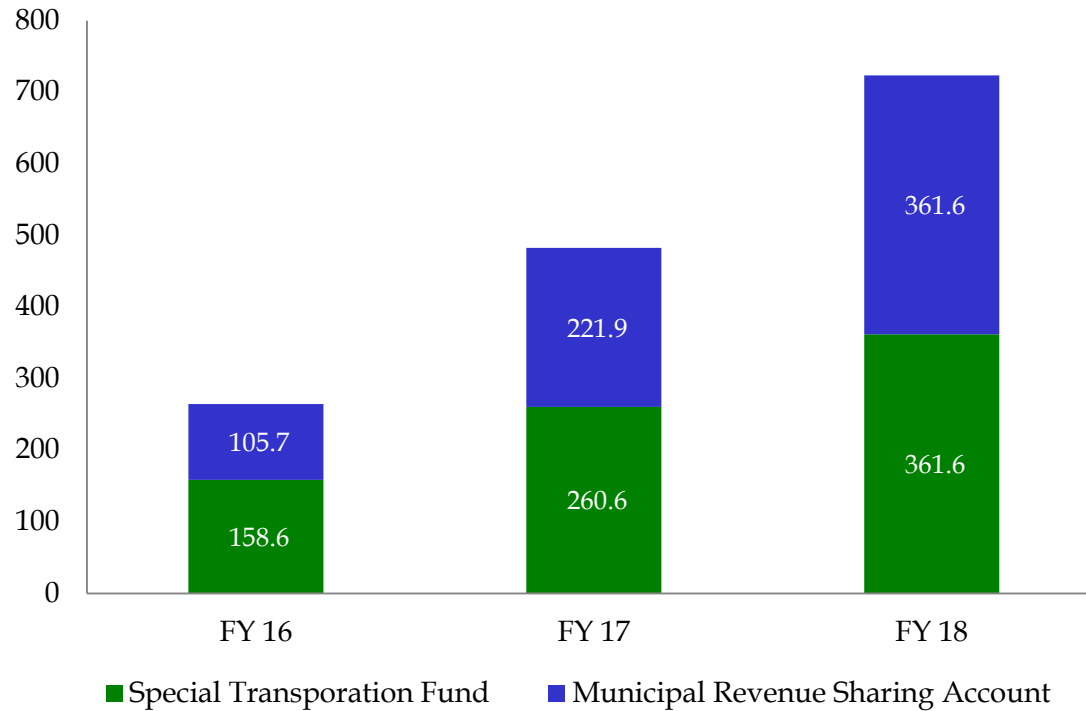
General Fund Projections (in millions)

Projections	FY 16 \$	FY 17 \$	FY 18 \$	FY 19 \$	FY 20 \$
Expenditures	18,199.3	18,863.8	20,253.7	20,939.5	21,840.2
Revenues	17,944.9	18,311.8	18,530.9	19,066.6	19,628.7
ESTIMATED SURPLUS/(DEFICIT)	(254.4)	(552.0)	(1,722.8)	(1,872.9)	(2,211.5)
% of Expenditures	-1.4%	-2.9%	-8.5%	-8.9%	-10.1%

Growth Rates	FY 16	FY 17	FY 18	FY 19	FY 20
Expenditures	4.3%	3.7%	7.4%	3.4%	4.3%
Revenues	3.7%	2.0%	1.2%	2.9%	2.9%



Sales Tax Transfer Schedule¹ (in millions)



Municipal Revenue Sharing Account	
Months Commencing On or After	Percentage Point
January 1, 2016 - April 30, 2017	0.30%
May 1, 2017 - June 30, 2017	0.40%
July 1, 2017 and thereafter	0.50%

Special Transportation Fund	
Months Commencing On or After	Percentage Point
October 1, 2015 - September 30, 2016	0.30%
October 1, 2016 - June 30, 2017	0.40%
July 1, 2017 and thereafter	0.50%

¹In FY 18, both programs are fully annualized with the full 0.5% transfer rate



Explaining the Projected FY 18 General Fund Deficit (in millions)

Item	Amount \$
Starting Point: FY 17 Deficit	(552.0)
Revenue Issues	+
Sales Tax Transfers	(240.9)
Expiring Revenue Transfers	(72.1)
Expiring Revenue Policies	(68.4)
New Revenue Policies	(1.6)
All Other Adjustments	(14.0)
Federal Revenue Changes	22.2
Revenue Growth	
Income	440.9
Sales	164.5
All Other (Net)	(11.5)
Total Revenue Issues	219.1
Expenditure Issues	-
State Employee Growth	435.0
Teachers' Retirement	259.1
Debt Service	210.6
Health & Social Service Programs	241.3
Education Grants	201.0
All other	43.0
Total Expenditure Issues	1,389.9
	=
PROJECTED FY 18 DEFICIT	(1,722.8)



FY 18 - FY 20 General Fund Major Expenditure Growth Areas

(increases shown are above prior year base - in millions and percent growth)

Driver	FY 18 \$		FY 19 \$		FY 20 \$	
	\$	%	\$	%	\$	%
State Employees	435.0	6.9%	324.4	4.8%	343.4	4.8%
Teachers' Retirement	259.1	25.1%	45.6	3.5%	47.6	3.6%
Debt Service	210.6	10.0%	(31.8)	-1.4%	139.3	6.1%
Health & Social Service Programs	241.3	4.9%	208.8	4.1%	235.8	4.4%
Education Grants	201.0	7.1%	91.6	3.0%	89.6	2.9%
All other	43.0	2.6%	47.3	2.8%	45.0	2.6%
Total General Fund Expenditure Growth	1,389.9	7.4%	685.9	3.4%	900.7	4.3%



Major Revenue Growth Assumptions

Budget			
Taxes	FY 16	FY 17	FY 18
Personal Income Tax	5.4%	5.5%	5.8%
Withholding	4.2%	4.8%	5.5%
Estimates/Finals	7.2%	6.6%	6.1%
Sales & Use Tax	3.7%	3.9%	3.8%
Corporation Tax	3.6%	3.0%	2.9%
Oil Companies Tax	-3.3%	-1.5%	-0.2%
Transfers-Special Revenue	1.4%	2.9%	2.9%
Indian Gaming Payments	-2.5%	-2.5%	-25.1%

November 10			
Taxes	FY 16	FY 17	FY 18
Personal Income Tax	3.8%	3.9%	4.4%
Withholding	3.0%	3.3%	3.3%
Estimates/Finals	4.9%	4.9%	6.0%
Sales & Use Tax	4.2%	4.3%	4.3%
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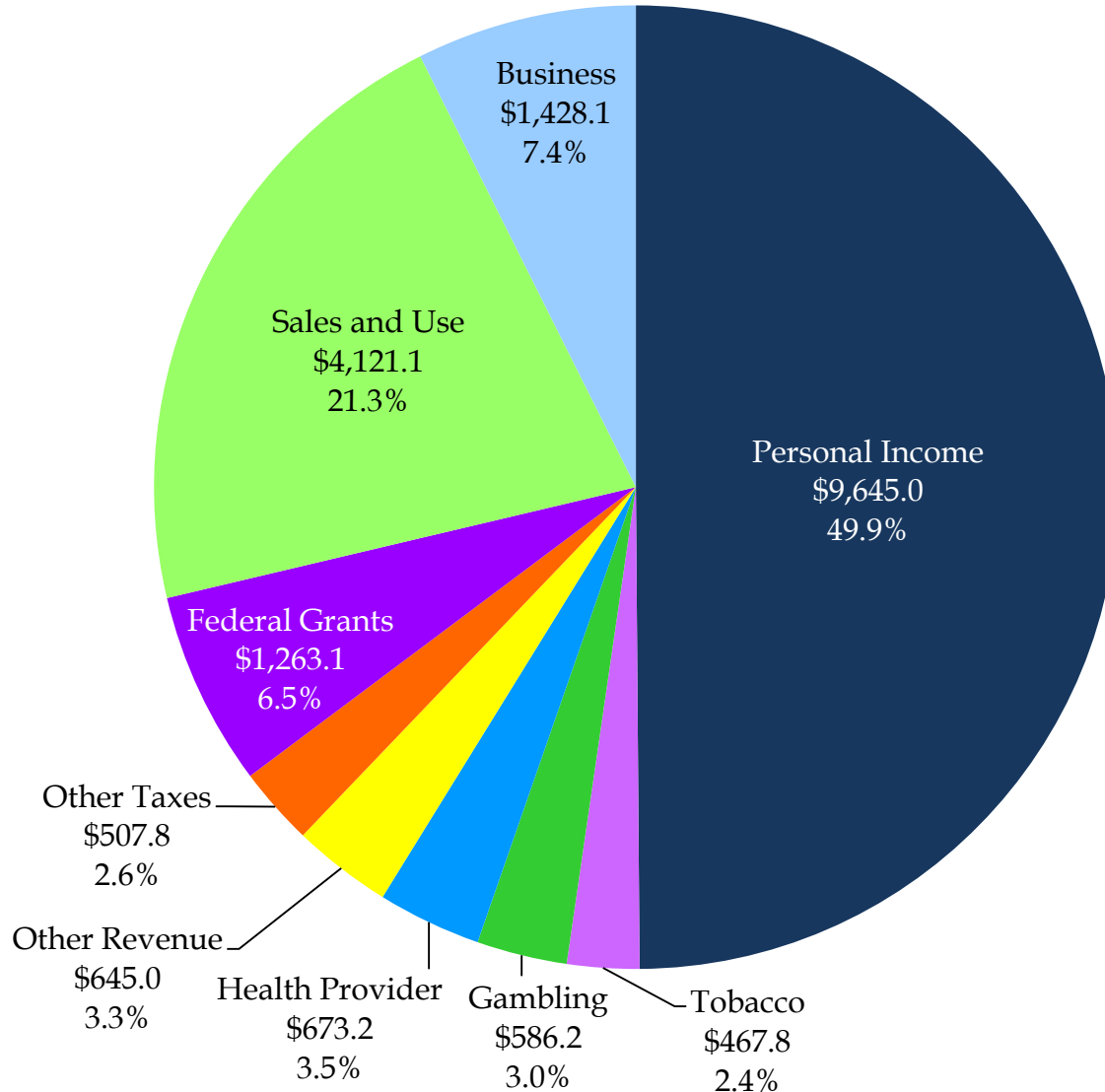


Income Tax Revenue Growth (excludes policy)





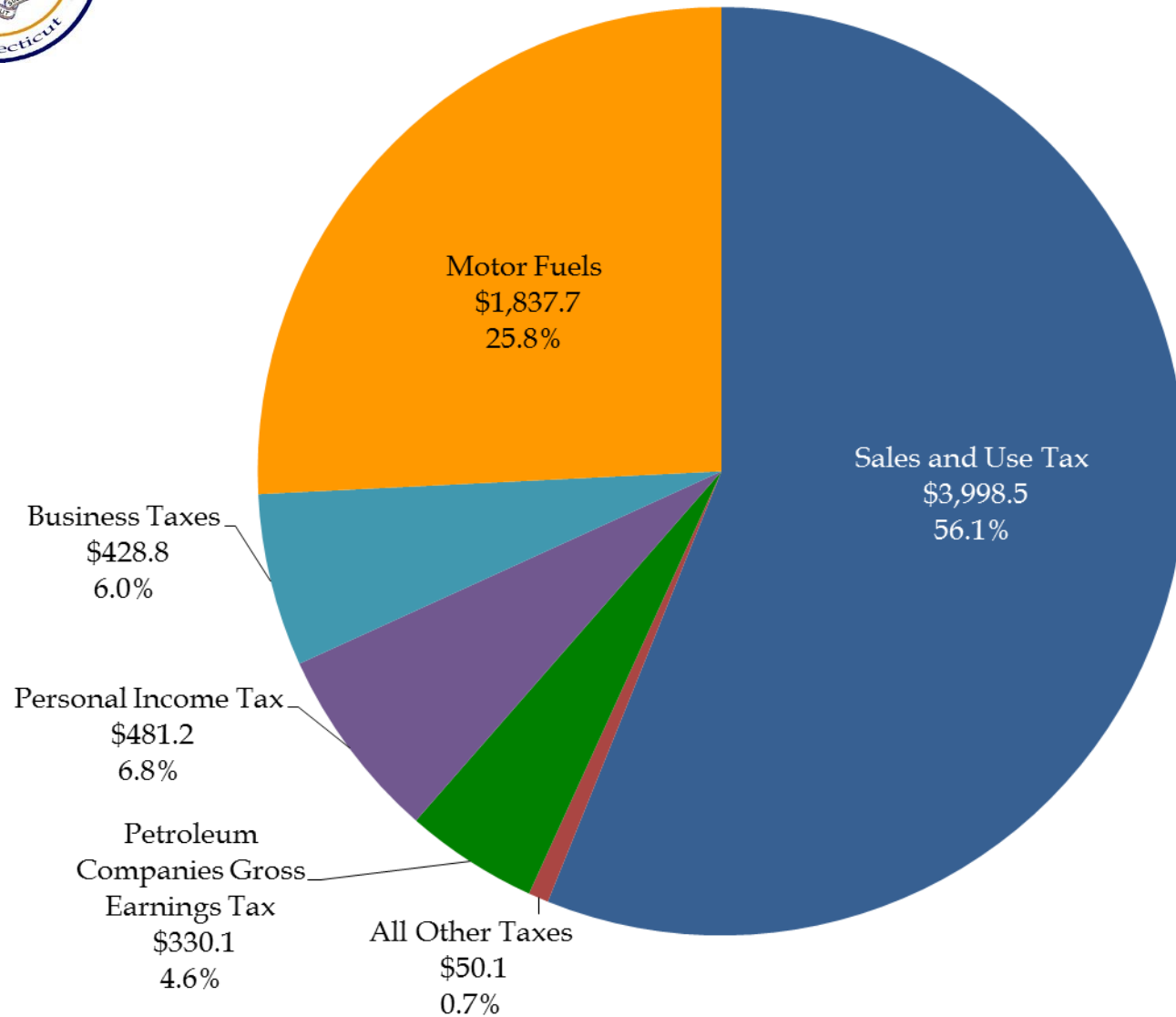
FY 16 General Fund Consensus Revenue¹ (in millions)



¹Revenue totals presented are on a gross basis and do not reflect reductions in revenue from refunds.



Major Tax Expenditure Categories¹ (in millions)



¹Includes estimated identifiable revenue reductions of \$100,000 or more.



Significant Tax Expenditure Items (in millions)

Items	FY 16 \$	FY 17 \$	FY 18 \$	FY 19 \$	FY 20 \$
Personal Income Tax					
Credit for Property Taxes Paid	163.5	116.4	117.1	117.7	118.4
Earned Income Tax Credit	127.4	133.6	150.0	155.6	161.8
Sales & Use Tax					
Sales of Food Products for Human Consumption	391.7	408.6	426.1	441.8	457.5
Prescription Medicines, Syringes and Needles	344.7	359.6	375.0	388.9	402.7
Sales to Nonprofit Organizations (combined lease, labor, and goods)	213.3	222.5	232.0	240.6	249.1
Computer and Data Processing (Taxed at 1% Rate)	152.5	159.1	165.9	172.0	178.1
Petroleum Gross Earnings Tax					
Number 2 Oil Used for Heating Purposes	174.2	185.2	205.3	227.2	241.8



Transportation Fund Projections (in millions)

STF	FY 16 \$	FY 17 \$	FY 18 \$	FY 19 \$	FY 20 \$
Beginning Balance	180.0	182.7	229.7	240.3	206.1
Revenues	1,423.5	1,547.9	1,683.8	1,735.6	1,774.9
Expenditures	1,420.8	1,500.9	1,673.2	1,769.8	1,871.7
Operating Surplus/Deficit	2.7	47.0	10.6	(34.2)	(96.8)
Ending Balance	182.7	229.7	240.3	206.1	109.3
Revenue Growth	6.30%	8.74%	8.78%	3.08%	2.26%
Expenditure Growth	4.00%	5.64%	11.48%	5.77%	5.76%

Outlook

Expenditures are Outpacing Revenue

- \$60 million in Town Aid Road being bonded in FY 16 and FY 17 and \$60 million added back to the Department of Transportation's appropriation in FY 18 - FY 20;
- An increase of \$12.3 million in FY 17, \$29.4 million in FY 18, \$10.9 million in FY 19 and \$11.8 million in FY 20 for the State Employees' Retirement System (SERS); and
- An increase of \$61.1 million in FY 17, \$62.3 million in FY 18, \$64.8 million in FY 19 and \$67.6 million in FY 20 for Debt Service.



Transportation Fund Revenue (in millions)

Revenue Source	FY 16 \$ Budget	Revisions \$	FY 16 \$ Consensus	FY 17 \$ Budget	Revisions \$	FY 17 \$ Consensus
Taxes						
Motor Fuels Tax	499.0	12.5	511.5	502.3	11.1	513.4
Oil Companies Tax	339.1	(58.0)	281.1	359.7	(60.9)	298.8
Sales Tax-DMV	84.0	-	84.0	85.0	-	85.0
Sales and Use Tax	158.6	-	158.6	260.6	-	260.6
Refunds	(7.3)	-	(7.3)	(7.5)	-	(7.5)
Subtotal	1,073.4	(45.5)	1,027.9	1,200.1	(49.8)	1,150.3
Other Revenue						
Motor Vehicle Receipts	245.8	-	245.8	246.6	-	246.6
Licenses, Permits, Fees	139.3	0.9	140.2	139.9	0.8	140.7
Interest Income	7.7	-	7.7	8.5	-	8.5
Federal Grants	12.1	-	12.1	12.1	-	12.1
Transfer from/To Other Funds	(6.5)	-	(6.5)	(6.5)	-	(6.5)
Less: Refunds of Payments	(3.7)	-	(3.7)	(3.8)	-	(3.8)
Subtotal	394.7	0.9	395.6	396.8	0.8	397.6
TOTAL	1,468.1	(44.6)	1,423.5	1,596.9	(49.0)	1,547.9

Explanation

The consensus revenue projections for the STF indicate a net revenue decrease of \$44.6 million in FY 16 and \$49.0 million in FY 17. The net decrease is a combination of:

- Positive adjustments of \$12.5 million in FY 16 and \$11.1 million in FY 17 from increased Motor Fuels Excise Tax collections due to higher than anticipated consumption of gasoline and diesel fuel from lower prices.
- Negative adjustments in the Oil Companies Tax of \$58 million in FY 16 and \$60.9 million in FY 17 from the impact of a significant drop in oil prices; and
- Positive adjustments of \$0.9 million in FY 16 and \$0.8 million in FY 17 from increased collections from licenses, permits and fees.



Statutory Spending Cap

- The state is under the cap in FY 16, assuming no deficiency appropriations are made.
- The state is projected to be over the cap in FY 17 – FY 20.

Spending Cap Calculations¹ (in millions)

Items	FY 16 \$	FY 17 \$	FY 18 \$	FY 19 \$	FY 20 \$
Appropriations Allowed by Cap	19,830.2	20,592.2	21,530.3	22,263.5	23,333.7
Estimated Expenditures	19,807.2	20,594.3	22,159.4	22,948.8	23,958.9
Over/(Under) the Cap	(23.0)	2.1	629.1	685.3	625.1

¹Totals may not appear to add up due to rounding.



Statutory Spending Cap Growth Factor

Per statute, the growth factor is the greater of:

- (A) The average of the five-year annual increase in personal income in Connecticut, or
- (B) The increase in inflation for the preceding year.

Fiscal Year	5-Year Average Personal Income Growth % (Fiscal Year basis)	12-month CPI* Increase %
12	3.4	1.2
13	3.1	3.3
14	2.5	1.9
15	1.7	1.4
16	2.6	1.2
17	3.4	1.3
18	3.4	2.4
19	3.8	2.9
20	4.6	3.0

* Consumer Price Index

= Projected (source: Moody's)



Generally Accepted Accounting Principles - Update

GAAP budgeting consists of two parts:

1. Treatment of the historical deficit

- \$1,217.1 million as of FY 13.
- \$598.5 million bond proceeds from Oct. 2013 issuance.
- \$618.5 million amortized over 13 years, beginning in FY 16.
 - \$47.6 million transfer out included in FRB revenue schedule each year of the 2016-2017 Biennium.

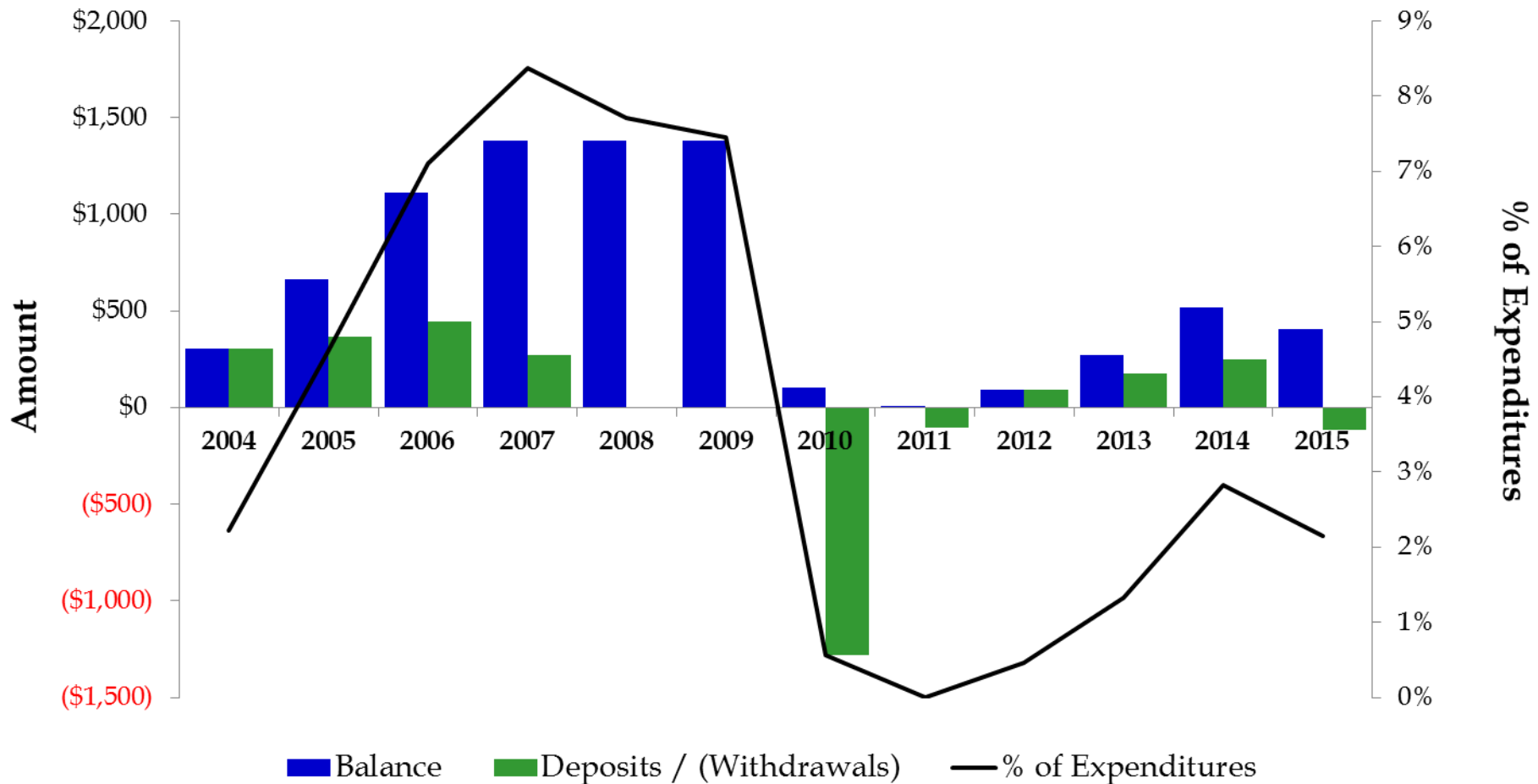
2. Preventing growth of a new deficit

- Appropriations to non-functional GAAP accrual line items.
- Revenue diversions to extinguish future increases in the deficit.

	Amount \$
FY 13 GAAP Deficit	(1,217,051,000)
Less: GAAP Conversion Bond Proceeds	598,500,000
FY 13 GAAP Deficit, Adjusted	(618,551,000)
FY 14 GAAP Deficit	(727,209,000)
Growth in the GAAP Deficit	(108,658,000)



Budget Reserve Fund Activity & Balance FY 04 - FY 15 (in millions)





Long Term Obligations (in billions)

Unfunded Liabilities	Nov. 2014 \$	Nov. 2015 \$	Difference \$
Debt Outstanding	21.3	22.8	1.5
State Employee Retirement System (SERS)	13.3	14.9	1.6
Teachers' Retirement System	10.8	10.8	-
State Post Employment Health and Life	19.5	19.5	-
Teachers' Post Employment Health	2.4	2.4	-
Generally Accepted Accounting Principles Deficit	1.1	0.7	(0.4)
TOTAL	68.4	71.1	2.7



Statutory Debt Limit on General Obligation Bonds¹ (in millions)

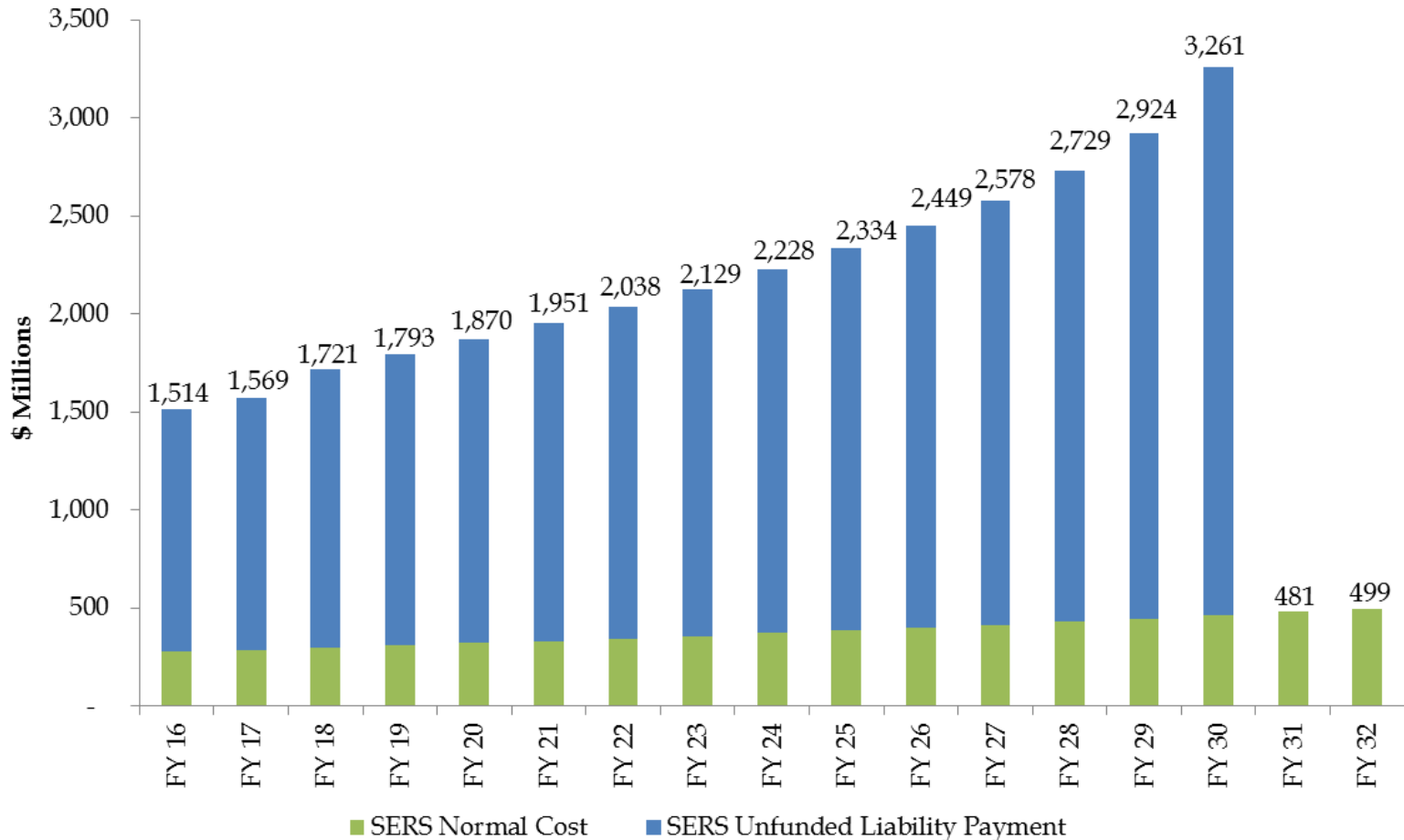
Projections	FY 16 \$	FY 17 \$	FY 18 \$	FY 19 \$	FY 20 \$
Net General Fund Tax Revenue ²	15,510.5	15,829.3	16,057.6	16,641.6	17,146.6
Multiplier	1.6	1.6	1.6	1.6	1.6
Debt Limit	24,816.8	25,326.9	25,692.2	26,626.6	27,434.6
Bonds Subject to Limit	21,520.2	22,700.9	23,443.5	24,064.4	24,501.2
% of Debt Limit	86.7%	89.6%	91.2%	90.4%	89.3%
Margin to 100% of Debt Limit	3,296.6	2,626.0	2,248.7	2,562.2	2,933.3
90% Debt Limit Ceiling	22,335.1	22,794.2	23,122.9	23,963.9	24,691.1
Margin to 90% Debt Limit Ceiling	814.9	93.3	(320.5)	(100.5)	189.9

¹Totals may not appear to add due to rounding.

²Based on November 2015 Consensus Revenue Estimates.



Projected Expenditures for State Employees' Retirement System (SERS)





Current and Future Issues

- Projected Deficit in FY 16 and FY 17.
- Out Year Gaps for the FY 18 and FY 19 Biennium.
- Unfunded Liabilities.
- Gambling Expansion in Nearby States.
- Federal Budget Actions.
- Aging Demographics.
- Slow Economic/Revenue Recovery.
- April Collections.



FY 16 - 17 Budget Information

<h3>Explore State Appropriations and Spending</h3>	<h3>Locate Tax and Revenue Information</h3>	<h3>Retrieve Bond & Grant Documents</h3>	<h3>Research Historical State Spending</h3>	<h3>What's New</h3>
<p>Examine the state budget and find OFA's current expenditure projections.</p> 	<p>View recent changes to state taxes and OFA's current revenue projections.</p> 	<p>Identify past and present grant and bonding information for your town and the state.</p> 	<p>Access information on expenditures by state agency at transparency.CT.gov.</p> 	<ul style="list-style-type: none"> • <i>Fiscal Accountability Report FY 16 - FY 20</i> • <i>Projected FY 16 Agency Deficiencies as of November 12, 2015</i> 

Additional and Historical Information

- OFA Budget Sheets
- Budget Books
- Fiscal Notes
- NCSL/OFA Webinar on Fiscal Notes
- Subject Matter Reports

- **HISTORICAL INFORMATION**
- Spending Cap
- Transfer of Funding Between Accounts (FAC)
- Non-Appropriated Cash Status & Quarterly Financial Reports
- Subject Matter Fact Sheets
- About OFA

- Results-Based Accountability (RBA)
- Municipal Information and Updates
- Federal Information and Updates
- Regulations
- Explore Town Grant Data
- External Links



Contact Information

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