

OVERVIEW

General Fund Budget Development

In November 2012, both OFA and the Office of Policy and Management were projecting significant deficits in the FY 14 and FY 15 biennium. OFA projected a \$1.1 billion deficit in FY 14 and a \$1.0 billion deficit for FY 15. In February 2013, Governor Malloy proposed a biennial budget that solved the deficit with a mix of expenditure reductions (64%) and revenue adjustments (36%). The Governor's budget, however, was over the spending cap by \$465.7 million in FY 14 and \$690.8 million in FY 15 unless certain assumptions and definitional changes in the cap were adopted by the General Assembly.¹ Subsequently, the spending cap's impact on the FY 14 and FY 15 budget became the defining fiscal issue of the 2013 legislative session.

Due to the impact of the "Fiscal Cliff,"² revenue growth projections were reduced in FY 14 and FY 15 so that the FY 14 budget gap increased to \$1.5 billion. Ultimately the legislature adopted an FY 14 and FY 15 Budget (PA 13-184 as adjusted by PA 13-247) that solved the deficit with about the same mix of expenditure reductions (63%) and revenue adjustments (37%) in FY 14 and resulted in an FY 14 starting balance of \$4.4 million. In addition, the budget was under the spending cap by \$9.4 million in FY 14 and by \$166.2 million in FY 15 primarily due to the net funding of Medicaid which removed the federally reimbursed share of DSS-related appropriations for Medicaid and also specified the handling of a how the program should be rebased for purposes of the spending cap calculation.

FY 14 and FY 15 Budget Summary

The budget³ appropriates \$18,606.5 million in FY 14 and \$18,995.4 million in FY 15. The appropriations are supported by estimated revenues² of \$18,612.1 million in FY 14 and \$18,999.9 million in FY 15. The table below compares the revenue estimates to the appropriations.

¹The spending cap applies to all appropriated funds not just the General Fund, although the General Fund makes up 92% of the total.

²Much of the change in projected revenue was attributed to the anticipation of the impact of the federal "Fiscal Cliff" which caused some individuals to take capital gains that they otherwise would not have in anticipation of the expiration of tax cuts on January 1, 2013. This led to higher than expected income tax revenue in FY 13 but a reduction in the projections for FY 14 and FY 15.

³PA 13-184, the FY 14 and FY 15 Budget as adjusted by PA 13-247, the general government implementer.

Budgeted Appropriations Compared to Revenue Estimates (\$ - millions)

Fund	FY 14 \$			FY 15 \$		
	Approp.	Revenue	Surplus/ (Deficit)	Approp.	Revenue	Surplus/ (Deficit)
General	17,188.7	17,193.1	4.4	17,497.6	17,500.7	3.1
Special Transportation	1,243.2	1,243.7	0.5	1,322.3	1,322.7	0.4
Other Appropriated	174.6	175.3	0.7	175.5	176.5	1.0
TOTAL	18,606.5	18,612.1	5.6	18,995.4	18,999.9	4.5

Medicaid Appropriations Limited to State Share

Perhaps the most significant change in the budget is the change from a gross funding of the DSS Medicaid program to a net funded method. The FY 14 and FY 15 appropriations for the Department of Social Services' Medicaid account reflects only the state's share of this joint state/federal program, as shown in the table below. For FY 13, the \$4,697,969,332 gross appropriation for Medicaid included both the state's obligation as well as the reimbursable federal funds. The table below reflects the state and federal share of the Medicaid expenditures in FY 14 and FY 15.

State and Federal Share of Medicaid Expenditures

Item	FY 14 \$	FY 15 \$
State Appropriation	2,409,314,923	2,289,569,579
Federal Share	2,768,723,827	3,204,946,670
GROSS EXPENDITURES	5,178,038,750	5,494,516,249

The appropriation of only the state's portion of costs for Medicaid (net appropriations) rather than the combined state and federal cost of Medicaid (gross appropriations - which includes the reflection of the federal reimbursement as state revenue), requires the removal of federal reimbursements for Medicaid from the revenue schedule. This change removed \$2.8 billion in FY 14 and \$3.2 billion in FY 15 from the Federal Grants revenue category in the General Fund revenue schedule.

FY 13 Projected Deficit Turns to Surplus

FY 13 began the year with a budgeted \$3.1 million surplus. By November 2012, however, OFA was forecasting a \$320.7 million deficit. In November, the Governor implemented \$170.4 million in rescissions to address the shortfall. Although the rescissions totaled \$170.4 million, OFA estimated that the actual impact of the rescissions would be \$100.8 million or \$69.6 million less, when factoring in previously estimated lapses and loss of federal revenue.

As required by law, the Governor issued a plan, in early December, 2012, to mitigate the deficit. On December 10, 2012, OFA and OPM jointly projected a \$251.6 million deficit level as a mitigation target.

Against the backdrop of the December 14, 2012 Newtown, CT school shootings that left 26 people dead, the Governor's mitigation plan was taken up in a bipartisan fashion by the General Assembly, altered, and adopted as PA 12-1 of the December Special Session. The act made expenditure modifications of \$221.5 million and revenue adjustments of \$4.2 million to the FY 13 Revised Budget totaling \$225.7 million. In addition to the changes contained in the act, other revenue adjustments were made administratively totaling \$26.6 million, which together total \$252.3 million. These actions effectively eliminated the projected deficit for FY 13 and left a balance of \$0.7 million⁴ heading into 2013.

However, with revenue deterioration in certain areas (primarily Sales and Use Tax), and increased projected expenditures in others (primarily Medicaid), OFA again projected a deficit on January 25, 2013 of \$138.6 million. Although no legislative actions were taken in response to the new deficit forecast, the Governor tightened hiring restrictions and personal service agreements to reduce expenditures.

Once the April 15 income tax collections were tallied it became clear that the income tax had performed higher than expectations. With further revenue recovery and decline in expenditures, the State Comptroller reported a final surplus of \$398.8 million. In accordance with Section 58 of PA 13-184, the FY 14 and FY 15 Budget, up to \$220.8 million of the surplus is to be accounted for as General Fund revenue for FY 14 and FY 15. The remainder of the surplus of \$178.0 million is deposited to the Budget Reserve Fund in accordance with CGS 4-30a.

⁴The bill did not affect the spending cap level for FY 13 as it did not alter FY 13 appropriations, but rather provided the authority to adjust expenditures under various accounts.

**Biennial Budget Fund Summary
(PA 13-184 as adjusted by PA 13-247)**

Item	FY 14 \$	FY 15 \$
Gross Appropriations		
General Fund ¹	17,361,371,991	17,656,098,266
Special Transportation Fund	1,254,182,080	1,333,312,395
Banking Fund	26,608,448	27,845,849
Insurance Fund	30,744,674	31,968,453
Consumer Counsel and Public Utility Control Fund	24,868,827	25,384,201
Workers' Compensation Fund	23,199,856	24,789,229
Mashantucket Pequot and Mohegan Fund	61,779,907	61,779,907
Soldiers, Sailors and Marines' Fund	3,099,619	-
Regional Market Operation Fund	921,680	941,498
Criminal Injuries Compensation Fund	3,380,286	2,787,016
Total - Gross Appropriations	18,790,157,368	19,164,906,814
General Fund (GF) Lapses		
GAAP Lapse	(5,500,000)	(7,500,000)
General Lapse - Executive	(13,785,503)	(13,785,503)
General Lapse - Judicial	(401,946)	(401,946)
General Lapse - Legislative	(56,251)	(56,251)
Unallocated Lapse	(91,676,192)	(91,676,192)
Unallocated Lapse - Judicial	(7,400,672)	(7,400,672)
Unallocated Lapse - Legislative	(3,028,105)	(3,028,105)
Transfer GAAP Funding	(40,000,000)	-
Municipal Opportunities and Regional Efficiencies Program	-	(10,000,000)
General Other Expenses Reductions - Legislative	(140,000)	(140,000)
General Other Expenses Reductions - Executive	(3,312,000)	(3,312,000)
General Other Expenses Reductions - Judicial	(548,000)	(548,000)
Statewide Hiring Reduction - Executive	(5,478,184)	(16,675,121)
Statewide Hiring Reduction - Judicial	(1,128,261)	(3,434,330)
Statewide Hiring Reduction - Legislative	(190,309)	(579,285)
Total - GF Lapses	(172,645,423)	(158,537,405)
Transportation Fund (TF) Lapses		
Unallocated Lapse	(11,000,000)	(11,000,000)
Total - TF Lapses	(11,000,000)	(11,000,000)
Net Appropriations		
General Fund ¹	17,188,726,568	17,497,560,861
Special Transportation Fund	1,243,182,080	1,322,312,395
Banking Fund	26,608,448	27,845,849
Insurance Fund	30,744,674	31,968,453

Item	FY 14 \$	FY 15 \$
Consumer Counsel and Public Utility Control Fund	24,868,827	25,384,201
Workers' Compensation Fund	23,199,856	24,789,229
Mashantucket Pequot and Mohegan Fund	61,779,907	61,779,907
Soldiers, Sailors and Marines' Fund	3,099,619	-
Regional Market Operation Fund	921,680	941,498
Criminal Injuries Compensation Fund	3,380,286	2,787,016
TOTAL - NET APPROPRIATIONS	18,606,511,945	18,995,369,409

¹The FY 14 and FY 15 General Fund appropriations for the Medicaid account in the Department of Social Services reflect only the state share of the joint state/federal program. Thus to remove the federal share of the Medicaid appropriation in FY 14, the General Fund appropriation was reduced by \$2.8 billion. In FY 15, \$3.2 billion was reduced from the General Fund appropriation.