

OFFICE OF FISCAL ANALYSIS

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State Budget Projections General Fund April 30, 2012

Summary

We are currently projecting a \$284.6 million deficit in the General Fund. This reflects a net increase in the projected deficit of \$160.2 million since last month. Projected expenditures have increased \$47.4 million, which was compounded by a decrease in revenue of \$112.8 million. These figures include the impact of the Governor's anticipated rescissions totaling \$78.7 million, but do not include the setting aside of funds for GAAP, since the law requires this reserve only if available surplus exists.¹ See the table below for a summary.

Please note, however, that OPM has indicated that it intends to use the balance of available FY 11 carry forward funding in the Reserve for Salary Adjustment line item² toward the FY 12 estimated deficit. Assuming this occurs, the projected deficit would be reduced to \$206.8 million. In addition, our projections do not include any of the \$27.0 million related to the national mortgage foreclosure settlement since the decision on how these funds will be used has not been made.

FY 12 General Fund Overview (in millions)

Estimates	Budget \$	March Projection \$	Current Projection \$	Difference from March \$	Difference from Budget \$
Operating Surplus/(Deficit)	80.9	(124.4)	(284.6)	(160.2)	(365.5)
% of Expenditures	0.4%	-0.7%	-1.5%		
Expenditures	18,707.7	18,782.5	18,829.9	47.4	122.2
Agency Appropriations	19,485.6	19,485.6	19,485.6	-	-
Deficiency Requirements	0.0	5.4	59.7	54.3	59.7
Lapses	(777.9)	(708.6)	(715.5)	(6.9)	62.4
Revenues	18,788.6	18,658.1	18,545.3	(112.8)	(243.3)
Personal Income Tax	8,550.6	8,474.7	8,377.7	(97.0)	(172.9)
Sales and Use	3,789.0	3,880.5	3,869.5	(11.0)	80.5
Corporations	707.7	707.7	721.9	14.2	14.2
Federal Grants	3,589.7	3,568.7	3,611.3	42.6	21.6
Other Taxes and Refunds	971.8	918.5	859.0	(59.5)	(112.8)
Other Revenue Sources	1,179.8	1,108.0	1,105.9	(2.1)	(73.9)

¹ Section 46 of PA 11-48 requires that \$75.0 million be reserved toward GAAP if an unappropriated surplus exists at the end of FY 12.

² See sHB 5015, the Deficiency bill, as favorably reported by the Appropriations Committee.

Major Expenditure Changes

Projected net expenditures increased by \$47.4 million since last month. Some notable changes include:

- State Department of Education - The Magnet School account was reduced by \$5.3 million (\$4.6 million for Magnet Schools and \$700,000 for Administration), or 2.5% from last month's projection, due to a combination of unfilled seats and lower than budgeted transportation costs. Additionally, the reduced spending in administration is related to reductions in conferences, travel and supplies.
- State Department of Education - The Sheff Settlement account was reduced by \$1.4 million, or 13.24% from last month's projection, due to utilizing carry forward funding to supplant appropriations.
- State Department of Education - The Personal Services account was reduced by \$2.0 million, or 10% from last month's projection, due to higher than anticipated vacancy rates.
- Department of Correction - The Personal Services account projection was increased by \$4.8 million, or 1.1% from last month's projection due to increased overtime resulting from higher than anticipated retirements.
- Department of Mental Health and Addiction Services - The General Assistance Managed Care account was decreased by \$2.0 million, or 1.2% from last month's projection, due to lower than anticipated caseload and cost trends in the Medicaid for Low-Income Adult population. Total end-of-year expenditures are estimated to be approximately 10% below budgeted levels.
- Department of Children and Families (DCF) - The current expenditure projection for DCF's Board and Care for Children - Residential account was reduced by \$1.2 million, or 0.7% of its original FY 12 appropriation, from February to March. This reflects an updated projection based on forecasted caseloads for that account.
- Office of the State Comptroller - Fringe Benefits -The Retiree Health account projection was reduced by \$3.9 million or 0.7% from last month's projection due to additional claims information. The Employers Social Security account projection was reduced by \$1.6 million or 0.73% from last month's projection due to the delays in filling of vacant positions. In addition, the Unemployment Compensation account projection was reduced by \$1.6 million or 15.9% due to claim trends for both regular and extended benefit as the state's unemployment rate has recently improved.
- Office of the State Treasurer - The General Fund debt service account was decreased by \$6.2 million or 0.3% due to the receipt of a bond premium on the April 2012 issuance of General Obligation (GO) bonds, which increased the amount of lapse in the account.
- Department of Social Services- The Medicaid account was increased by \$79.9 million or 1.7% from last month's projection largely due to one time anomalies related to the MCO claims tail (claims payable under the Medicaid managed care organization) and accelerated payments under the ASO. The increase assumes recent claims trends remain steady for the remainder of the fiscal year.

Deficient Agencies

Given the reduction in available funding that occurs due to budgeted lapses (holdbacks), we currently identify nine agencies that would incur \$160.9 million in additional expenditures beyond available funding. However, if holdbacks (lapse reductions) were to be released by OPM, this would reduce to three agencies that would require deficiency funding totaling \$59.7 million.

FY 12 General Fund Estimated Agency Deficiency Needs

Agency	Budgeted Appropriation \$	Available ^[1] Appropriation \$	Estimated Exp. \$	Deficiency without release of holdbacks \$	Deficiency with release of holdbacks \$
State Comptroller - Fringe Benefits	2,213,861,926	1,910,176,238	1,992,723,973	(82,547,735)	
Department of Social Services	5,764,079,677	5,751,750,725	5,817,922,885	(66,172,160)	(53,843,208)
State Comptroller - Miscellaneous (Adjudicated Claims)	4,000,000	4,000,000	7,500,000	(3,500,000)	(3,500,000)
Teachers' Retirement Board	792,027,161	791,745,682	794,418,520	(2,672,838)	(2,391,359)
Judicial Department	511,419,613	481,861,171	484,426,375	(2,565,204)	
Department of Emergency Services and Public Protection	172,588,839	165,042,409	166,708,802	(1,666,393)	
Public Defender Services Commission	64,655,475	61,810,370	63,203,468	(1,393,098)	
Office of the Chief Medical Examiner	6,199,848	5,203,098	5,399,292	(196,194)	
Division of Criminal Justice	52,399,228	49,107,248	49,298,649	(191,401)	
			Total	(160,905,023)	(59,734,567)
[1] Appropriation less budgeted lapses					

Major Revenue Changes

There are 22 areas for which estimated revenue changed. They are:

- The Personal Income Tax projection was decreased by \$97.0 million or 1.2% from last month's projection due to projected weakness in withholding collections, as well as the failure to meet targets for April estimated and final payments.
- The Sales & Use Tax projection was decreased by \$11.0 million, or 0.3%, from last month's projection, which is also the January Consensus estimate. This decrease is due to collections being slightly weaker than anticipated during the past two months.
- The Corporation Business Tax projection was increased by \$14.2 million, or 2.0%, due to strong collections in January and March, a trend which is projected to continue for the June collections period.
- The Inheritance and Estate Tax projection was increased by \$28.7 million, or 22.0%, due an influx of significant receipts during March and April.
- The Cigarette Tax projection was decreased by \$17.3 million or, 3.9%, due to a significant reduction in collections since January.
- The Refunds of Taxes projection was increased by \$120.0 million, or 13.7%, to reflect the impact of over-withholding issues related to the implementation of changes made to the Personal Income Tax last session.
- The Earned Income Tax Credit projection was decreased by \$31.0 million, or 23.4%, since the majority of activity related to this category occurred in the January through February period, with a minimal amount occurring in the March to April period.
- The Special Revenue Transfer projection was increased by \$7.6 million, or 2.5%, due to strong sales related to the Mega Millions lottery game.
- The Indian Gaming Payments projection was increased by \$5.4 million, or 1.6%, due to continued strength in casino gaming activity.
- The Miscellaneous Other Revenue projection was decreased by \$10.7 million, or 6.4%, as collections on a year-to-date basis as a percentage of prior-year collections have not met expectations.
- The Federal Grants projection was increased by \$42.6 million, or 1.6%, due to Medicaid expenditures outpacing expectations.
- The remaining 11 minor changes net to a positive \$13.7 million adjustment, due to the continuation of trends occurring through 3rd quarter of the fiscal year.

Conclusion

As we noted last month, the biennial budget is heavily reliant on budgeted lapses to achieve balance. So far, of the \$777.9 million budgeted, we have been able to identify \$715.5 million in lapses.³

Further Information

Use the links below to see estimates in more detail.

[Expenditures \(XLS\)](#) ([PDF](#))

[Revenue\(XLS\)](#) ([PDF](#))

³ OFA analyzes each expenditure line item in the budget and compares the total of these estimated expenditures to the available funding.