



# Office of Fiscal Analysis

FY 24 BUDGET PROJECTIONS

January 25, 2024

## SPENDING OVERRUNS DIMINISH GENERAL FUND SURPLUS

The Office of Fiscal Analysis projects operating surpluses within the General and Special Transportation funds of \$148.8 million and \$249.5 million, respectively.

General Fund total revenue projections track budget, with a negative difference of only \$5.4 million thus far. Spending overruns of \$245.6 million in total within the General Fund are the primary reason for the downgrade to that fund's projected operating surplus, which was budgeted at \$399.7 million.

Based on current projections (\$148.8 million General Fund operating surplus and a \$478.5 million volatility adjustment transfer), it is anticipated that a total of \$627.3 million would be available in FY 25 to further build up the Budget Reserve Fund and reduce unfunded pensions debt.

Revenue and spending patterns both favor the Special Transportation Fund's projected operating surplus, increasing it by \$45.3 million over budget.

### Overview In Millions of Dollars

General Fund	Budget	January Estimate	Difference from Budget
Revenues	22,505.3	22,499.9	(5.4)
Expenditures	22,105.6	22,351.1	245.6
<b>Surplus/(Deficit)</b>	<b>399.7</b>	<b>148.8</b>	<b>(251.0)</b>
<b>Budget Reserve Fund</b>			
Budget Reserve Deposit	1,082.9	627.3	(455.7)
<b>Budget Reserve Balance</b>	<b>6,273.3</b>	<b>5,817.7</b>	<b>(455.7)</b>
<b>Special Transportation Fund</b>			
Revenues	2,352.6	2,367.1	14.5
Expenditures	2,148.4	2,117.6	(30.8)
<b>Surplus/(Deficit)</b>	<b>204.2</b>	<b>249.5</b>	<b>45.3</b>
<b>Fund Balance</b>	<b>874.2</b>	<b>919.5</b>	<b>45.3</b>

## GENERAL FUND

### Revenues

Adjustments to projections of General Fund budgeted revenues (outside of the volatility cap) are as follows: 1) a negative \$197.7 million in taxes; 2) a positive \$89.5 million in other revenues; and 3) a positive \$102.8 million in other sources. The net impact of these adjustments is a negative \$5.4 million adjustment.

Tax revenue projections in categories not subject to the volatility cap are down \$197.7 million (net) relative to budget. The largest negative adjustment is to the sales and use tax projection, which is reduced by \$200 million to reflect unanticipated weakness in tax collections at the close of FY 23 / beginning of FY 24. Refunds of taxes are revised upwards by \$100 million (negative revenue impact) in FY 24 to reflect extensions of the 2022 tax year (S&P down 18.1%), which were processed in October 2023. An ongoing \$55 million shortfall in collections of the hospital user fee portion of the health provider tax is recognized. Ongoing weakness in cigarette tax collections is also recognized, with a downwards adjustment of \$17.5 million in total (6.3% less than budget).



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Partially offsetting the negative adjustments to tax revenue projections listed above is a positive adjustment to the withholding portion of the personal income tax, in the amount of \$152.9 million, to reflect ongoing strength in collections. In addition to the positivity in withholding, adjustments to various other tax projections yield a positive \$21.9 million (net) amount.

Total other revenues projections within the General Fund are up \$89.5 million (net) relative to budget. These adjustments include: 1) a positive adjustment of \$60 million to investment income revenues in anticipation that interest rates will remain 'higher for longer' as the Federal Reserve has indicated; 2) a (net) positive adjustment to miscellaneous revenues of \$41.5 million to better reflect recently enacted policies related to: (a) funding of the alternative retirement program within higher education constituent units and (b) a shifting of recovery of certain pension costs from the General Fund to the State Employees Retirement Fund; and 3) other adjustments that yield a negative \$12 million (net) amount.

Total other sources projections within the General Fund are up \$102.8 million (net) relative to budget. A net positive adjustment to federal funds of \$98.2 million makes up most of this change. Within the federal funds revenue stream, prior period adjustments and a shift in certain revenues from FY 24 to FY 25 are the major moving pieces. Technical updates of \$4.6 million (net) comprise the remainder of changes to projections in this category.

## Expenditures

Projected agency deficiencies of \$278.4 million in total are partially offset by anticipated net lapses of \$32.8 million. Net lapses consist of agency lapses (unspent appropriations) of \$79.2 million and bottom-line unallocated lapses of \$46.4 million. The net total spending overrun within the General Fund is projected to be \$245.6 million. Major deficiencies and lapses are indicated below. Please see the [deficiencies](#) document for further details.

### *General Fund Major Deficiencies*

The largest projected single deficiency (\$140 million) is within the Medicaid line item of the Department of Social Services. This projected deficiency is primarily driven by a reconciliation of costs related to Medicare Part D clawback billing, costs for undocumented individuals, and adjustments for ARPA HCBS.

A projected \$65.4 million deficiency within the Office of the State Comptroller's fringe benefits is due to shortfalls in several accounts which are partially offset by lapses. An additional \$40 million deficiency is projected within the Office of the State Comptroller - Adjudicated Claims account, which had no FY 24 appropriation. Through January 23, 2024, approximately \$13 million has been spent, and an additional \$25.2 million is anticipated for the settlement of two claims made against the State.

Lastly, the Department of Correction (DOC) is projected to have a deficiency of \$26 million, resulting from shortfalls of \$17 million in Other Expenses and \$10 million in Inmate Medical Services. These account deficiencies are partially offset by a \$1 million lapse in the Boards of Pardons and Parole due to a delay in refilling vacancies. The deficiencies within DOC are due to increased costs for utilities, food, clothing, and pharmaceutical and medical supplies, as well as a higher inmate population count. The average



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population count in FY 23 was 10,033 while the population count as of 1/1/24 is 10,420 (an increase of 3.9%).

## *General Fund Major Lapses*

General Fund debt service requirements are approximately \$23 million below budget for FY 24, a decrease of approximately \$7 million below prior estimate (November 2023 Fiscal Accountability Report). This decrease reflects changes to issuance amounts and actual results of bond issuances from November (UConn) and December (GO tax exempt bonds) 2023.

An agency-wide projected lapse of \$33.8 million within the Department of Developmental Services is primarily driven by Employment and Day Services (\$24.3 million) and Community Residential Services (\$7.8 million). Funding is available due to lower-than-expected utilization and excess cost settlement funds from FY 20-22 (finalized in FY 24), as well as changes in timing of special education transitions out of LEA care.

## **VOLATILITY ADJUSTMENT TRANSFER**

Projections of certain tax revenues subject to the volatility cap<sup>1</sup> have been revised downwards by approximately \$199.6 million to reflect weakness in collections through November 2023. The anticipated volatility adjustment transfer amount from the General Fund to the Budget Reserve Fund has been reduced accordingly. Additionally, technical adjustments are made which further reduce the volatility adjustment transfer by \$5.1 million (for a total reduction to the transfer of \$204.7 million).

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<sup>1</sup> The total amount of revenues from the estimates and finals portion of the personal income tax and the pass-through entity tax is subject to the volatility cap.



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## BUDGET RESERVE FUND / PENSIONS DEPOSITS

In total, the projected General Fund surplus and volatility adjustment transfer amount is approximately \$627.3 million, to be allocated in accordance with PA 23-1. Projected allocations are illustrated in the table below.

### Projected Surplus/Volatility Transfers Allocations

In Millions of Dollars

Projected Allocations	FY 25 Projected Deposit
<b>Budget Reserve Fund</b>	
15% Cap Allocation	105.1
18% Cap Allocation	261.1
<b>Budget Reserve Fund SUBTOTAL</b>	<b>366.1</b>
<b>Additional Pensions Funds Deposits</b>	
18% Cap Allocation	261.1
<b>Pensions Funds Deposits SUBTOTAL</b>	<b>261.1</b>
<b>TOTAL Allocations*</b>	<b>627.3</b>

\*Amounts may not appear to sum due to a rounding effect.

## SPECIAL TRANSPORTATION FUND

### Revenues

Net revenue projections are up \$14.5 million relative to budget. Projections of motor vehicle receipts and related licenses, permits and fees are revised upward by \$36 million because of higher-than-expected collections. Partially offsetting this is a \$25 million downward adjustment to the Highway Use Tax (HUT), which is based on almost a year's worth of lower-than-expected collections since the tax became effective in January 2023. Various other adjustments amount to an additional \$3.5 million (net) in revenue.

### Expenditures

Total spending is projected to be \$30.8 million less than budget. Personal Services lapses are projected at both the Department of Transportation (DOT) and the Department of Motor Vehicles (DMV). For DOT, the Personal Services lapse is partly offset by overruns in Other Expenses. Debt service spending is less than anticipated in the budget due primarily to positive results in the FY 23 transportation bond issuance and a reduction to the assumed FY 24 issuance amount. Various other minor adjustments are projected, primarily in fringe benefits.

**General Fund Summary**

In Millions of Dollars

Summary	FY 24
<b>Budgeted Balance</b>	<b>399.7</b>
<b>Revenue Changes</b>	
+ Withholding	152.9
+ Estimates and Finals	(144.9)
+ Sales and Use	(200.0)
+ Federal Grants	98.2
+ Net Revenue	88.4
<b>Revenue Subtotal</b>	<b>(5.4)</b>
<b>Expenditure Changes</b>	
+ Agency Deficiencies	(278.4)
+ Net Lapses	32.8
<b>Expenditure Subtotal</b>	<b>(245.6)</b>
<b>= Surplus/(Deficit)</b>	<b>148.8</b>
<b>Budget Reserve Fund Starting Balance</b>	<b>5,190.4</b>
+ Surplus/(Deficit)	148.8
+ Volatility Adjustment	478.5
<b>= Budget Reserve Transfer Subtotal</b>	<b>627.3</b>
<b>= Budget Reserve Fund Balance</b>	<b>5,817.7</b>

**Special Transportation Fund Summary**

In Millions of Dollars

Summary	FY 24
<b>Budgeted Surplus</b>	<b>204.2</b>
<b>Revenue</b>	
+ Motor Vehicle Receipts	18.5
+ Licenses, Permits & Fees	17.5
+ Highway Use Tax	(25.0)
+ Net Revenue	3.5
<b>Revenue Subtotal</b>	<b>14.5</b>
<b>Expenditures</b>	
+ Agency Deficiencies	(1.5)
+ Net Lapses	32.3
<b>Expenditure Subtotal</b>	<b>30.8</b>
<b>= Surplus/(Deficit)</b>	<b>249.5</b>
<b>STF Starting Balance</b>	<b>670.0</b>
+ Surplus/(Deficit)	249.5
<b>= Fund Balance</b>	<b>919.5</b>

For further information, please see the links below:

[Revenue Details Table](#)

[Expenditure Details Table](#)

[Budget Status Page](#)