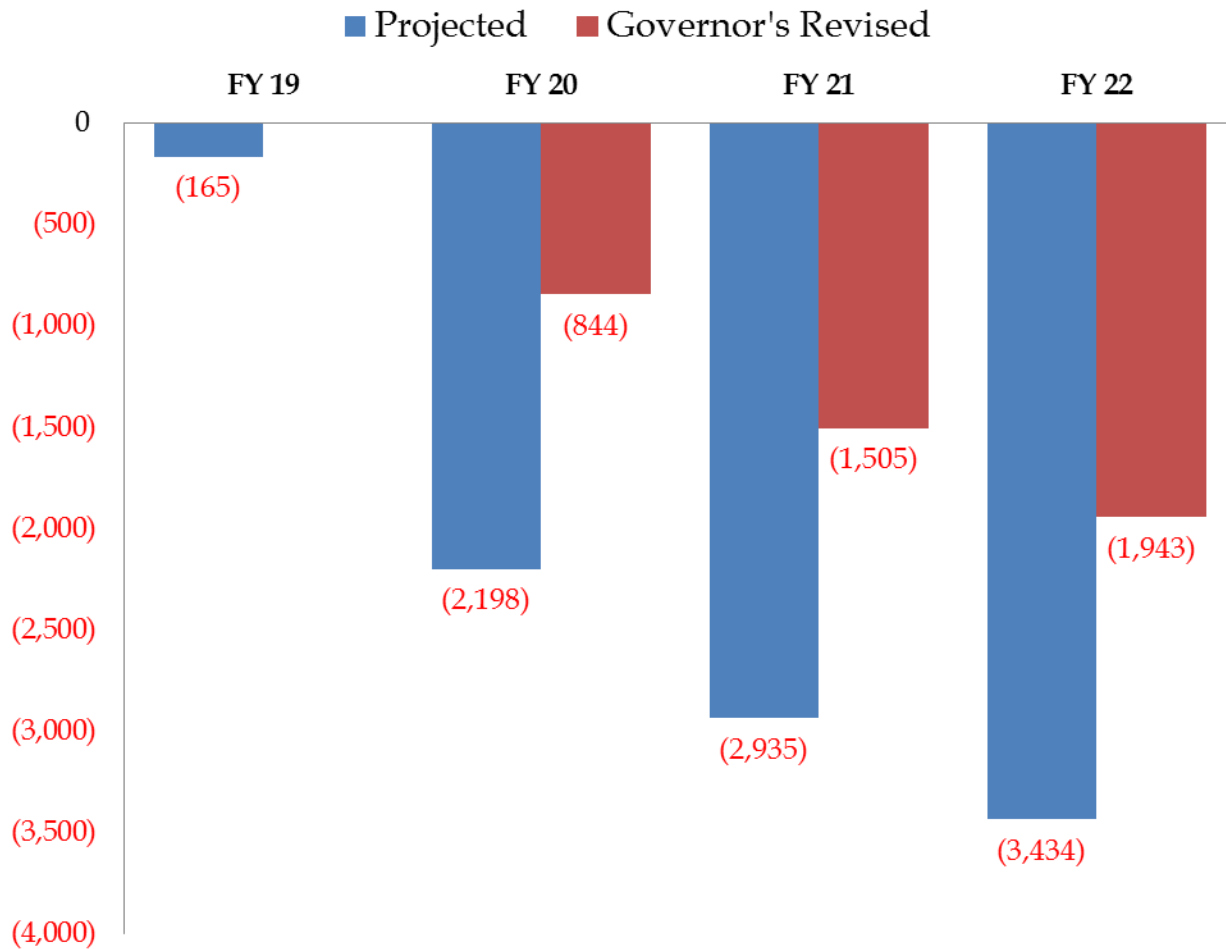


OFA

Synopsis of Governor's Budget Plan FY 19 Revised

Addressing Budget Deficits Governor's Recommended Revisions In Millions of Dollars



The following is intended to provide information on the Governor's Revised FY 19 Budget, revenue and capital plan for the committees of Appropriations and Finance, Revenue and Bonding as background for the Office of Policy and Management presentation. Since the budget was released, we have tried to highlight major areas of interest rather than provide a full-scale comprehensive analysis. Such in-depth analysis will be undertaken by both committees with the assistance of OFA staff in the coming weeks.

Executive Summary

The Governor's Revised FY 19 Budget balances a projected General Fund deficit of \$165.2 million and recommended spending increases of \$65.4 million against recommended revenue increases of \$234.6 million, as illustrated below.

FY 19 Adjustments

In Millions of Dollars

	Projected	Governor's Revisions	Governor's Recommended
Revenues	18,625.4	234.6	18,860.0
Appropriations	18,790.6	65.4	18,856.0
Surplus/ (Deficit)	(165.2)		4.0

General Fund out years

In addition to balancing the FY 19 projected General Fund deficit, the Governor's Revised FY 19 Budget makes recommendations that would reduce projected deficits in FY 20 and beyond. The Governor's recommendations to solve out-year projected deficits primarily rely on the following:

- 1) Maintaining current taxes on hospitals
\$516 million each year;
- 2) Making permanent elimination of several revenue diversions which the enacted budget suspends temporarily
\$366 million in FY 20 and \$375 million in FY 21;
- 3) Eliminating the \$200 Property Tax Credit
\$105 million each year; and
- 4) Repealing certain new tax exemptions established in the enacted budget
\$45 million in FY 20 and \$66 million in FY 21.

Out-year Adjustments

In Millions of Dollars

Projections	FY 20	FY 21
Revenues	17,510.1	17,612.9
Appropriations	19,708.5	20,548.0
Surplus/ (Deficit)	(2,198.4)	(2,935.1)
Governor's Revised FY 19 Budget	FY 20	FY 21
Revenue Increases	1,198.5	1,179.3
Spending Reductions	155.8	251.7
Total	1,354.3	1,431.0
Surplus/ (Deficit)	(844.1)	(1,504.1)

General Fund FY 18 Deficit Mitigation

The Governor's Revised FY 19 Budget document does not address the FY 18 General Fund deficit which OFA estimates to be \$206.1 million. Deficit mitigation options have been submitted separately by the Office of Policy and Management (December 2017). Provided that the estimated deficit is not otherwise addressed through policy changes or improvements to revenue and expenditure projections, a withdrawal from the Budget Reserve Fund would be necessary. The Budget Reserve (Rainy Day) Fund has a projected balance of \$877.8 million including a scheduled transfer due to the volatility cap adjustment.

PA 17-1 (JSS) (AAC Adjustments to the State Budget Regarding the Medicare Savings Programs and Eligibility Therefor) transferred \$17.8 million of revenue from FY 19 to FY 18. The Governor's proposal assumes that this transfer is reversed.

Special Transportation Fund

The Governor's Revised FY 19 Budget increases revenue to the Special Transportation Fund by \$47.1 million in FY 19 rising to \$189.9 million in FY 22 (excluding any revenue from tolls). Proposed new revenue consists of the following:

- 1) A total increase of seven cents over four years to the gasoline tax;
- 2) Acceleration of the transfer of new car sales starting in FY 19 instead of FY 21;
- 3) Establishing a new three dollar per tire fee; and
- 4) Eliminating a transfer to the School Bus Seat Belt Account in FY 20.

These new revenues support Special Tax Obligation (STO) bond issuance levels consistent with the FY 19 enacted budget (increasing from \$900 million in FY 19 to \$1.2 billion in FY 22). Absent an increase of revenues, the Governor indicates that he would reduce projected STO issuances (decreasing from \$800 million in FY 19 to \$650 million in FY 22), increase rail fares by 10%, increase bus fares by 25 cents and reduce subsidies to transit districts by 15%.

Municipal Aid Reductions

The Governor's Revised FY 19 Budget reduces municipal aid by \$155.2 million from originally appropriated FY 19 levels, and by \$32.0 million from FY 18, post-holdback levels.

Major changes to originally appropriated FY 19 figures include:

- A \$66.6 million reduction in the Education Cost Sharing grant.
- A cumulative \$29.5 million reduction to 1) the State Property PILOT, 2) the College & Hospital PILOT, 3) the Pequot grant, 4) the Municipal Revenue Sharing grant, and 5) the Municipal Stabilization grant.

These reductions reflect 1) the rollout of \$5.2 million in FY 18 non-education municipal aid holdbacks, 2) the elimination of increased FY 19 grant funding to any town, and 3) the elimination of appropriated, formula grant funding to towns with an equalized grand list per capita over \$200,000.

- An \$18.5 million reduction in funding for Magnet Schools.

Bonding

The Governor's Revised FY 19 Budget includes a net increase of \$121 million in GO bonding for FY 19. This includes a \$100 million authorization for renovation of the XL Center in Hartford (\$40 million was authorized and allocated in FY 18) and removing all five years of the \$20 million per year bond authorization for grants to hospitals that began in FY 18. Under the bond proposal and proposed change to net tax revenues, the state is estimated to be at 89.2% of the statutory debt limit. Without the proposed increase in net tax revenues, the proposal would be approximately \$88 million over the 90% debt limit threshold.

Notable Revenue Items in the Governor's Revised FY 19 Budget

Establish a Pass-through Entity Tax for Certain Corporations

The proposal establishes a flat 6.99% Pass-through Entity Tax (PET) on pass-through business (e.g., LLCs, S-corps) income at the entity level that is currently taxed under the Personal Income Tax. This is offset entirely by a credit for PET taxes paid against affected filers' Personal Income Tax.

Limit the Unitary Tax Liability Cap of \$2.5 million to Manufacturers

Current law sets a \$2.5 million cap on the amount a corporation's business taxes, calculated on a unitary basis, can exceed the tax it would have paid on a separate basis. The Governor's FY 19 Revised budget eliminates the \$2.5 million cap for all companies except manufacturers.

Eliminate the Brownfield Tax Credit Program

PA 17-2 JSS establishes the "7/7 program" as a package of tax incentives to property owners after they remediate, redevelop, and use property that was contaminated, abandoned, or underutilized.¹ The Governor's revised FY 19 budget recommends repealing the "7/7 program" which would eliminate a projected revenue loss by OPM of \$4 million in FY 19 and up to \$40 million by FY 22.

Impose New Tax to Support Unemployment Administration

The proposal establishes a new 0.05% surcharge (effective 1/1/19) on the first \$15,000 of employees' taxable wages (to be paid by the employer) to supplement declining federal funding the Labor Department receives. This change results in an annualized revenue gain of \$9 million and is deposited directly to the Employment Security Administration Fund for use by the Labor Department. A one-time appropriation of \$500,000 is provided in FY 19 to supplement declining federal funding in the short-term.

Tourism Fund

PA 17-2 JSS establishes the Tourism Fund and transfers 1.5 percentage points of the 15% room occupancy tax (or 10% of collections) to support the fund beginning in FY 19. The Governor's revised FY 19 budget recommends increasing the room occupancy tax from 15% to 17% and transferring the collections associated with this increase to the Tourism Fund. The net results are (1) a revenue increase of \$12.7 million for the General Fund by eliminating the transfer established under PA 17-2 JSS and (2) an increase of \$4 million for the Tourism Fund in FY 19.

¹ During the first seven years after an owner redevelops an approved property, the owner qualifies for (1) corporation, business, or personal income tax credits against the income attributed to business operations at the redeveloped property and (2) a sales and use tax exemption applicable to items purchased for use at the property. Also during this period, the owner may have the redeveloped property's tax assessment frozen for five years at its predevelopment assessed value.

**Tourism Fund: Current Law - PA 17-2 JSS
(in millions)**

Fund	FY 18 Tax Rate	FY 19 Tax Rate	FY 19 Impact
General Fund	15.0%	13.5%	(12.7)
Tourism Fund	0.0%	1.5%	12.7
Total All Funds	15.0%	15.0%	-

**Tourism Fund: Governor Revised FY 19
(in millions)**

Fund	FY 18 Tax Rate	FY 19 Tax Rate	FY 19 Impact	FY 19 Change from Current Law
General Fund	15.0%	15.0%	-	12.7
Tourism Fund	0.0%	2.0%	16.7	4.0
Total All Funds	15.0%	17.0%	16.7	16.7

Notable Expenditure Items in the Governor’s Revised FY 19 Budget

BUDGETED LAPSES

The original FY 19 General Fund budget included \$1,095 million in bottom line lapses, the majority of which were associated with the SEBAC labor agreement. The Governor’s proposal distributes \$1,029 million of these lapses to individual agency budgets, while leaving \$14.5 million as FY 19 lapses. The remaining \$51.2 million of the original FY 19 lapses are not identified, and are included as part of the deficit that the Governor’s proposal addresses.

EDUCATION

The Governor proposes several changes to the State Department of Education (SDE). A summary of the major account changes is included in the table below.

Proposed FY 19 Changes to Major Education Related Accounts

Account	Original Appropriation (\$)	Proposed \$ Change	Proposed % Change
Education Equalization Grants	2,017,131,405	(66,620,057)	-3.30%
Magnet Schools	326,508,158	(18,548,222)	-5.68%
Regional Vocational-Technical School System	133,918,454	(3,730,353)	-2.79%
Interdistrict Cooperation	3,050,000	(1,512,500)	-49.59%
Excess Cost	142,119,782	(1,500,000)	-1.06%
Technical High School Other Expenses	23,861,660	(1,193,083)	-5.00%

Account	Original Appropriation (\$)	Proposed \$ Change	Proposed % Change
Priority School District	38,103,454	(952,586)	-2.50%
Adult Education	20,383,960	(551,329)	-2.70%
Vocational Agriculture	10,228,589	(255,715)	-2.50%
Commissioner's Network	10,009,398	-	0.00%
Charter Schools	116,964,132	-	0.00%

Transfer the Office of Higher Education into SDE

The proposal transfers twenty-five positions and funding of approximately \$36.8 million from the Office of Higher Education (OHE) into SDE. Included in the transfer is \$33.4 million in funding for the Roberta Willis Scholarship program, which was not reduced from the original FY 19 appropriation.

Reduce and Redistribute Education Cost Sharing (ECS) - SDE

The proposal reduces funding for ECS by \$66.6 million and revises the ECS formula to include the following policy changes:

- The base amount for the phase-in and phase-out calculations is changed to the FY 18 grant amount (post-holdbacks), from the FY 17 grant, which lowers the base for every town.
- The phase-in increment (for towns with fully-funded amounts higher than FY 18 grants) is raised to 8% of the difference between the base and full funding amounts, rather than 4.1%.
- ECS grants are eliminated for the 33 non-Alliance district towns with an equalized net grand list per capita exceeding \$200,000 in FY 16.

HIGHER EDUCATION

Increase Community Colleges’ Block Grant - BOR

The proposal increases the block grant for the community colleges by \$2 million, net of all adjustments, for a 1.5 percent increase.

HEALTH

Provide Funding for Emergency Placements - DDS

The proposal provides funding of \$5 million to support placements for the most critical needs that arise during FY 19, including residential, behavioral, and day services, and youth in emergency departments. As of 12/31/17, the DDS Management Information Report showed 22 individuals on the waiting list for residential services in the Emergency category. These individuals are living in their family home or their own home with no services. Those on the Waiting List have an active need and are designated one of two categories: Emergency (22) or Urgent (526), for a Waiting List total of 548.

Privatize Ten DDS Group Homes - DDS/DSS

The conversion of ten group homes from public to private provider operation is anticipated to result in a net savings of \$1 million in FY 19. There are approximately 140 staff (full-time and

part-time) associated with ten homes and these employees will be offered other placements in vacancies within DDS or other state agencies, per the provisions of the 2017 SEBAC agreement.

HUMAN SERVICES

Transfer the State Unit on Aging and the Office of the Long Term care Ombudsman - DSS/DORS

The proposal transfers 23 positions and funding of \$1.9 million in Personal Services, \$107,575 in Other Expenses, \$5.8 million in Programs for Seniors, and \$376,023 in Fall Protection (Insurance Fund) from DSS to DORS. This transfer follows a federal model of combining aging and disability agencies and has no net impact.

Eliminate Hospital Medicaid Payments for Graduate Medical Education (GME) - DSS

The proposal eliminates state Medicaid funding of \$10.6 million (\$21.1 million total state and federal) for GME payments provided to hospitals to offset costs associated with GME.

Closure of the Connecticut Juvenile Training School (CJTS) - DCF

The proposal reduces funding by \$11.4 million (Personal Services account savings of \$10.9 million and Other Expenses account savings of \$0.5 million) to reflect savings from the closure of the Connecticut Juvenile Training School (CJTS) by 6/30/18. This anticipates elimination of 160 positions in accordance with applicable statutes, regulations, and collective bargaining agreements. As of 1/22/18, there were 173.83 full-time equivalent positions at CJTS. The average monthly population at CJTS for the first six months of this fiscal year was 49 individuals. There were 28 individuals at CJTS as of the end of the day 2/5/18.

Links

[Fund Summary](#)

[Revenue](#)

[Municipal Aid](#)