



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

July 20, 2020

The Honorable Kevin Lembo
 State Comptroller
 55 Elm Street
 Hartford, Connecticut 06106

Dear Comptroller Lembo:

Section 4-66 of the General Statutes requires that my office provide information on the state's General Fund for Fiscal Year 2020. An analysis of the Special Transportation Fund is also provided here due to the significance of this fund.

Overview of Changes					
(in millions)					
	Budget (as Revised Dec. 2019)	June Estimate	July Estimate	Change in Estimate - July vs. June	July Est. Variance from Budget
General Fund					
Revenues	\$ 19,564.4	\$ 18,818.3	\$ 19,004.8	\$ 186.5	\$ (559.6)
Expenditures	<u>19,423.3</u>	<u>19,263.0</u>	<u>19,157.9</u>	<u>(105.1)</u>	<u>(265.4)</u>
Operating Results - Surplus/(Deficit)	\$ 141.1	\$ (444.7)	\$ (153.1)	\$ 291.6	\$ (294.2)
Budget Reserve Fund					
Deposit / (Withdrawal)	\$ 318.3	\$ (126.4)	\$ 165.2	\$ 291.6	\$ (153.1)
Proj. Balance 6/30/20	\$ 2,823.8	\$ 2,379.1	\$ 2,670.7	\$ 291.6	\$ (153.1)
Special Transportation Fund					
Revenues	\$ 1,749.1	\$ 1,512.3	\$ 1,518.8	\$ 6.5	\$ (230.3)
Expenditures	<u>1,710.3</u>	<u>1,675.1</u>	<u>1,668.1</u>	<u>(7.0)</u>	<u>(42.2)</u>
Operating Results - Surplus/(Deficit)	\$ 38.8	\$ (162.8)	\$ (149.3)	\$ 13.5	\$ (188.1)
Proj. Fund Balance 6/30/20	\$ 358.9	\$ 157.4	\$ 170.8	\$ 13.4	\$ (188.1)

General Fund

We project that the General Fund will close FY 2020 with an operating shortfall of \$153.1 million, an improvement of \$291.6 million from last month's forecast. The projected shortfall represents 0.8 percent of the General Fund. Our estimates include anticipated state costs for the state's pandemic response. (The table attached to this letter outlines specific measures approved to date as part of that response.) It should be noted that revenue accruals and GAAP accrual adjustments are not yet finalized and may have a material impact on final results. By operation of existing state law, any year-end deficit will be addressed through a transfer from the Budget Reserve Fund when the Comptroller closes the books for fiscal year 2020.

Our forecast of the rainy day fund balance at year end, after closing the anticipated FY 2020 deficit, is \$2.67 billion, or 13.3% of net General Fund appropriations for the fiscal year that began July 1st. A net deposit of

\$165.2 million is projected, although the final volatility cap deposit will not be clear until the revenue accrual period closes. Our Budget Reserve Fund projection is depicted below.

Budget Reserve Fund	
	(in millions)
Estimated BRF Ending Balance - FY 2019 (OSC Est. 9/30/19)	\$ 2,505.5
Projected Operating Deficit - FY 2020 (OPM 07/20/20 Est.)	\$ (153.1)
Volatility Cap Deposit - FY 2020 (OPM 07/20/20 Est.)	<u>318.3</u>
Estimated BRF Ending Balance - FY 2020	\$ 2,670.7

Revenues

Projected revenues have been revised upward by \$186.5 million compared to last month’s estimate. Federal Grants have been revised upward by \$100.0 million to align with the level of federal reimbursement received for the Medicaid program through June 30, 2020. Miscellaneous Revenue has been revised upward by \$43.4 million primarily due to the level of funds recovered from federal and other funding sources that exceed the amount needed to make the full actuarial employer contribution for the State Employees’ Retirement System. Existing law directs such over-recoveries to be deposited to the General Fund as revenue. Refunds of Taxes are revised downward by \$34.2 million as the state issued fewer refunds prior to June 30, 2020, but given the extended filing dates are expected to be issued early in FY 2021. Indian Gaming Payments have been revised upward by \$17.0 million as slot machine activity in the month of June was significantly higher than anticipated in our last forecast, achieving 93% of last fiscal year’s average monthly contribution. All other changes net to a negative \$8.1 million. It should be noted that our estimate includes estimates of FY 2020 revenues that will continue to accrue through August 7th, with approximately \$1.0 billion in revenue attributable to the General Fund still to be collected before the fiscal year closes. This revenue accrual includes the remittance deferrals that were announced by the Internal Revenue Service and the state Department of Revenue Services to assist tax filers impacted by the pandemic.

Expenditures

Preliminary year end expenditures, including outlays for Adjudicated Claims, reflect a net decrease of \$105.1 million from last month’s estimate. Net FY 2020 expenditure requirements total \$265.3 million less than the amended budget plan, due in part to reduced state requirements for Medicaid that were covered through enhanced federal reimbursement. Estimated lapses by agency are detailed in Statement 4, attached.

It should be noted that the year closed with a deficiency in the Department of Correction. Due to the failure to enact deficiency appropriations for FY 2020, payroll expenditures totaling \$21.5 million are unsupported by appropriations. Given the legal and contractual obligation to honor payroll costs, this Personal Services deficiency will contribute to the overall General Fund shortfall to be addressed by transfer from the Budget Reserve Fund.

Additionally, as noted last month, the failure to enact deficiency appropriations for FY 2020 resulted in unresolved shortfalls in two agencies, effectively shifting several FY 2020 deficiencies into the new fiscal year and artificially improving FY 2020 balance. We anticipate the following FY 2020 shortfalls totaling \$5.6 million will affect estimated FY 2021 spending when we issue our first report next month:

- Department of Economic and Community Development. A \$3.45 million FY 2020 shortfall in the Capital Region Development Authority account will carry over to FY 2021. Event cancellations due to the COVID-19 pandemic impacted attendance and associated revenues at the Pratt and Whitney Stadium at Rentschler Field, the XL Center and the CT Convention Center.

- Department of Mental Health and Addiction Services. FY 2020 bills totaling \$2.15 million will be paid in FY 2021. This includes \$0.4 million in Other Expenses due largely to various facility maintenance and repair costs and increased software licensing costs, \$50,000 in the Professional Services account for contracted medical services including contracted psychiatrists, and \$1.7 million in medical costs in the Workers' Compensation Claims account.

Lastly, I note that the University of Connecticut Health Center ended the fiscal year with an estimated \$31.5 million operating deficit. This is due to the public health emergency which impacted revenues from clinical operations. The shortfall will cause cash-flow issues for the agency until clinical revenues return to pre-pandemic levels, and will exacerbate concerns about the ongoing financial position of UConn Health. OPM continues to work with the Governor, the General Assembly and the Health Center to determine the extent to which state support for FY 2021 is warranted in recognition of the FY 2020 outcome as well as a long-term approach for addressing this issue.

Special Transportation Fund

We project that the Special Transportation Fund will end the year with a \$142.2 million operating deficit, and that the fund balance as of June 30, 2020, will be \$177.9 million. Projected revenue has been revised upward by \$6.5 million compared to last month's estimate, reflecting minor adjustments across revenue sources. It should be noted that our estimate includes FY 2020 revenues that will continue to accrue through August 7th, with approximately \$120 million in revenue attributable to the Special Transportation Fund still to be collected before the fiscal year closes. Preliminary year end expenditures have improved by \$14.0 million since last month's estimate. Estimated lapses by agency are detailed in Statement 4, attached.

Tourism Fund

While Sec. 4-66, CGS, does not require that we provide analyses of other appropriated funds, we offer the following information about the status of the Tourism Fund. The fund's revenue source is the Hotel Occupancy Tax, which has underperformed as a result of the pandemic's impact on the hospitality industry. As a result, expenditures from the fund exceeded available revenues by approximately \$525,000. When added to the negative fund balance of \$2.5 million at the end of FY 2019, we anticipate the Tourism Fund will end FY 2020 with a \$3.0 million negative fund balance, and that could double to \$5.7 million by the end of FY 2021.

This is our final estimate for FY 2020. While the foregoing information represents the best estimate that can be made at this time, accounting adjustments made as part of the year-end closing process will affect final results.

Sincerely,



Melissa McCaw
Secretary

Attachments:

- COVID Responses – Budget Impact
- Summary Statements, FY 2020 Revenue and Expenditures