
FY2009 BUDGET OVERVIEW

Prepared for Legislative Republicans
by the Office of Policy and Management

September 25, 2008

INTRODUCTION

- The FY 2009 budget that was adopted during the June 2007 Special Session was based on revenue projections that exceeded expenditures by less than \$100,000
- Since January 2008 the State has experienced a significant decline in revenue in both the General Fund and Special Transportation Fund
- Calculation of the projected net \$302.4 million General Fund FY 2009 deficit:
 - \$370.9 million in revenue deterioration
 - \$10.0 million in additional expenditures with the passage of PA 08-51, Criminal Justice Reform Bill
 - \$18.3 million deficiency in the Department of Correction
 - \$ 1.5 million deficiency in DAS/Workers' Compensation
 - Offset by \$137.6 million in rescissions

STATES FACING BUDGET SHORTFALLS IN FY 2009

Neighboring States with a FY 2009 Budget Gap

	<u>Amount</u>	<u>Percent of FY2009 General Fund</u>	
Connecticut	\$302.4 million	1.76%	<ul style="list-style-type: none">■ 29 States have identified budget shortfalls in FY 2009 of at least \$48 billion■ All 6 New England states as well as New York and New Jersey have identified a FY 2009 budget gap■ California has the largest projected gap at \$22.2 billion or 22% of its FY 2009 General Fund
Maine	\$124.0 million	4.10%	
Massachusetts	\$1.2 billion	4.30%	
New Hampshire	\$200 million	6.40%	
New Jersey	\$2.5 billion	7.70%	
New York	\$5.5 billion	9.80%	
Rhode Island	\$430 million	13.10%	
Vermont	\$83 million	6.80%	

FY2009 PROBLEMS

NEGATIVE REVENUE TRENDS SEEN

State of Connecticut

Recent Revenue Performance

FY 2008 Growth For Selected Periods vs. Comparable FY 2007 Periods

	FY '08 Full <u>12 months</u>	FY '08 Last <u>6 months</u>	FY '08 Last <u>3 months</u>
<u>General Fund</u>			
Personal Income Tax-Total	8.9%	8.1%	3.0% *
Withholding	4.5%	1.4%	0.6% *
Estimates & Finals	17.9%	17.3%	9.5% *
Sales & Use Tax	2.1%	2.1%	0.6%
Corporation Tax	-4.0%	-6.0%	-2.4% *
Insurance Companies	-10.2%	-21.7%	-24.4%
Cigarettes	-6.1%	-9.3%	-11.1% *
Real Estate Conveyance	-20.7%	-41.8%	-41.9% *
Oil Companies	17.4%	18.3%	14.9%
Alcoholic Beverages Tax	2.0%	-3.6%	-5.0%
Indian Gaming Payments	-4.4%	-4.7%	-4.3%
<u>Special Transportation Fund</u>			
Motor Fuels Tax	-3.7%	-5.7%	-7.2% *
Sales Tax- DMV	-4.5%	-7.9%	-10.8%

* Adjusted for one-time revenue and tax changes

REVENUE PROJECTIONS LOWERED

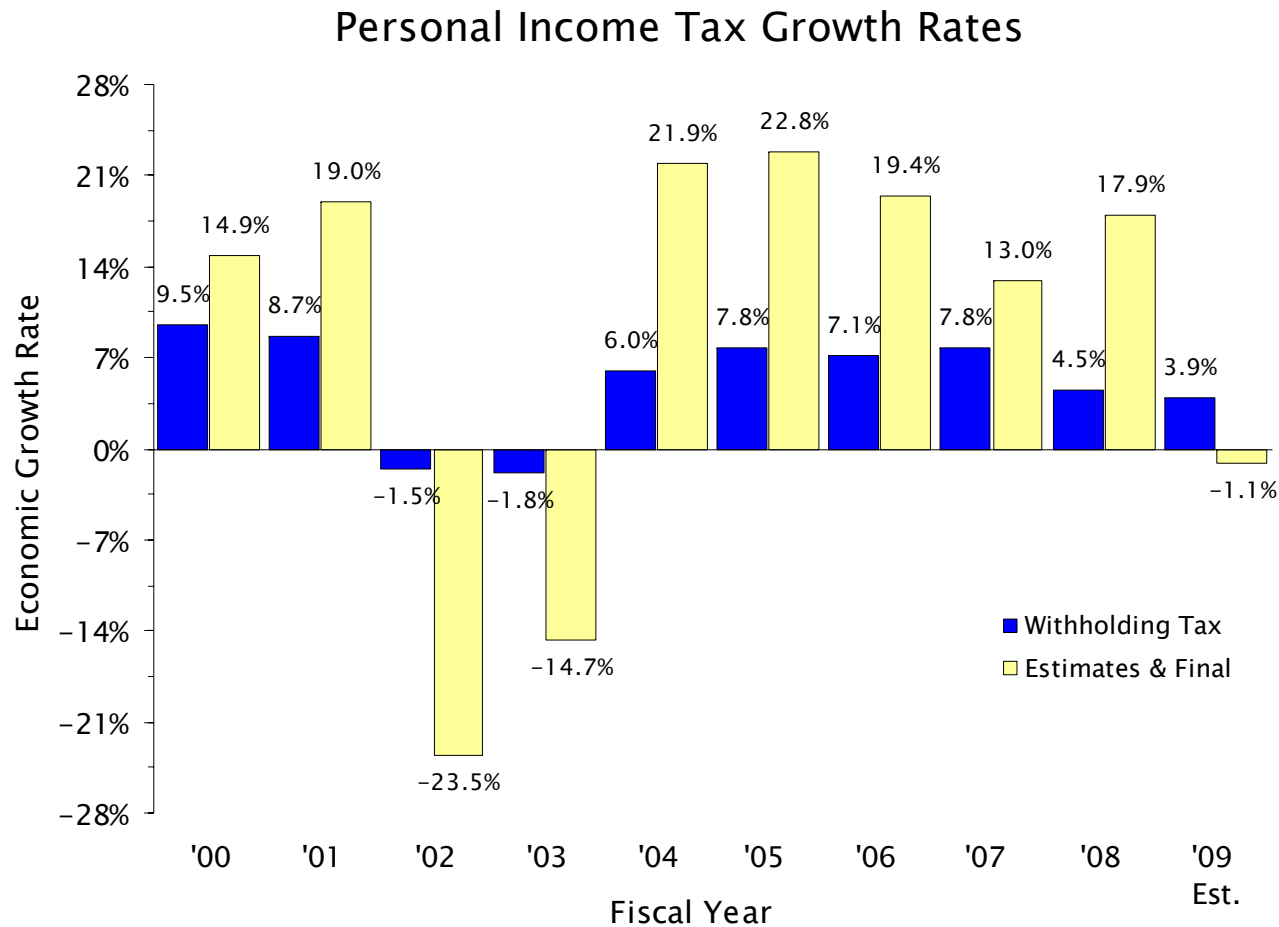
FY 2009 General Fund Revenue* (In Millions)

	2009 Budget	9/22 OPM Estimate	Diff.	% Decline
Personal Income Tax	\$ 7,676.4	\$ 7,545.0	\$ (131.4)	-1.7%
Sales & Use Tax	3,747.7	3,656.2	(91.5)	-2.4%
Corporation	791.5	712.6	(78.9)	-10.0%
Insurance Companies	263.0	217.2	(45.8)	-17.4%
Cigarettes	348.1	325.0	(23.1)	-6.6%
Real Estate Conveyance	204.0	133.2	(70.8)	-34.7%
Oil Companies	144.3	233.0	88.7	61.5%
Indian Gaming Payments	449.0	391.4	(57.6)	-12.8%
Investment Income	85.0	50.0	(35.0)	-41.2%
Federal Grants	2,768.1	2,844.8	76.7	2.8%
All Other	596.0	593.8	(2.2)	-0.4%
	<u>\$ 17,073.1</u>	<u>\$ 16,702.2</u>	<u>\$ (370.9)</u>	<u>-2.2%</u>

- Most revenue items are projected to bring in less than the originally adopted revenue forecast
- The only other significantly positive revenue trend is the oil companies tax and while it brings in additional revenue, higher oil prices also mean higher state energy costs and higher demand for energy assistance programs offered by the Dept. of Social Services

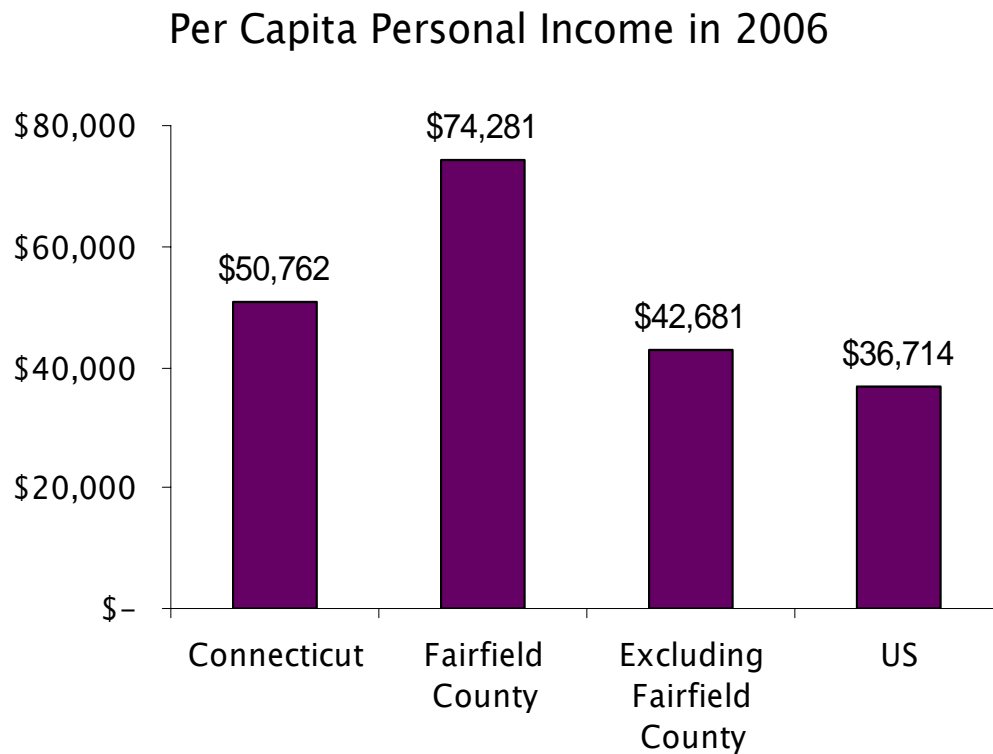
* Does not include FY 2008 Transfer to fund Energy Assistance Programs

INCOME TAX GROWTH IS SLOWING



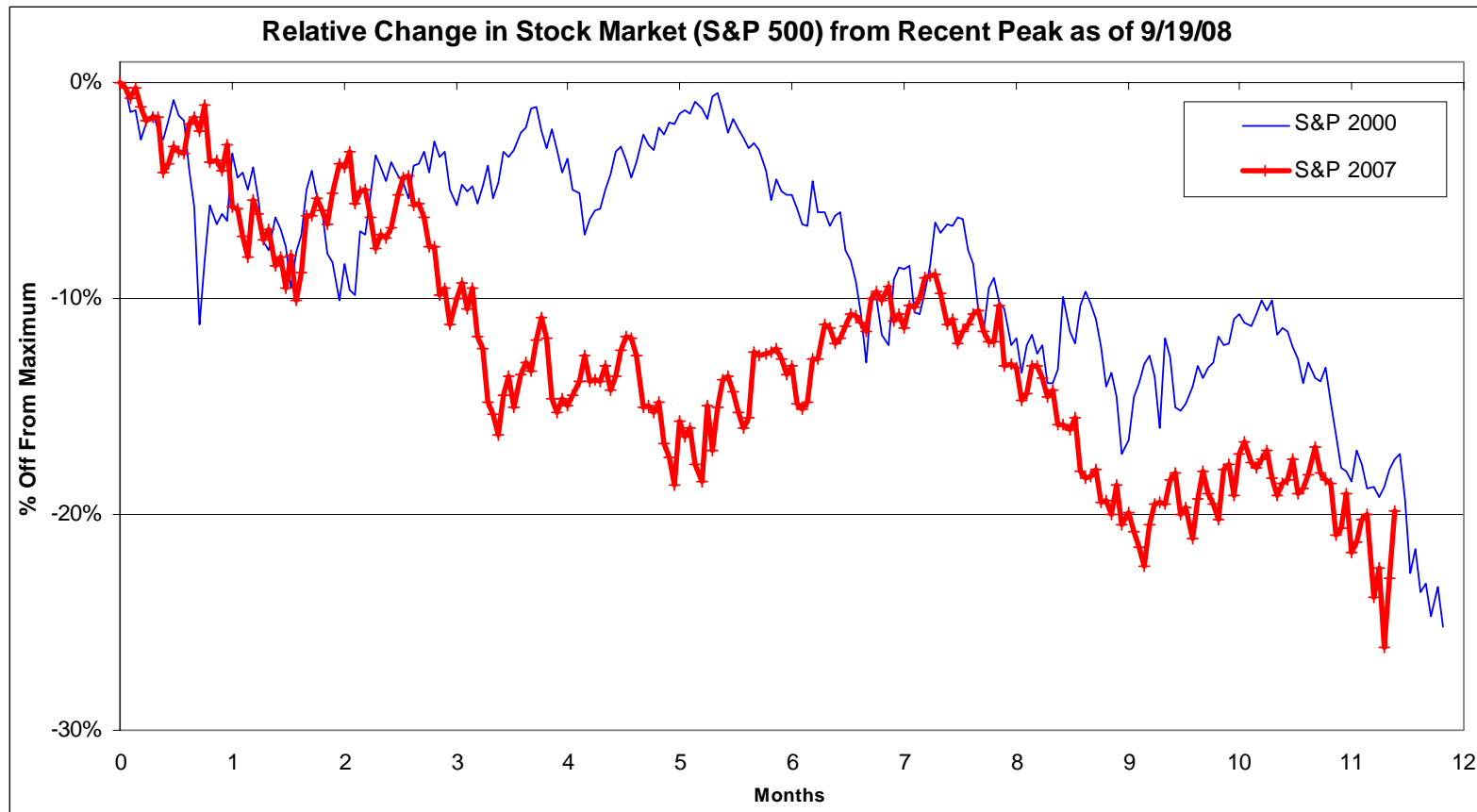
- The above growth rates do not reflect the impact of recent events in the financial markets

CT PERSONAL INCOME TAX IS HEAVILY RELIANT ON FAIRFIELD COUNTY WEALTH



- 45% of Personal Income Tax collections comes from Fairfield County
- Per Capita Income in Fairfield County is 46.3% higher than Connecticut as a whole

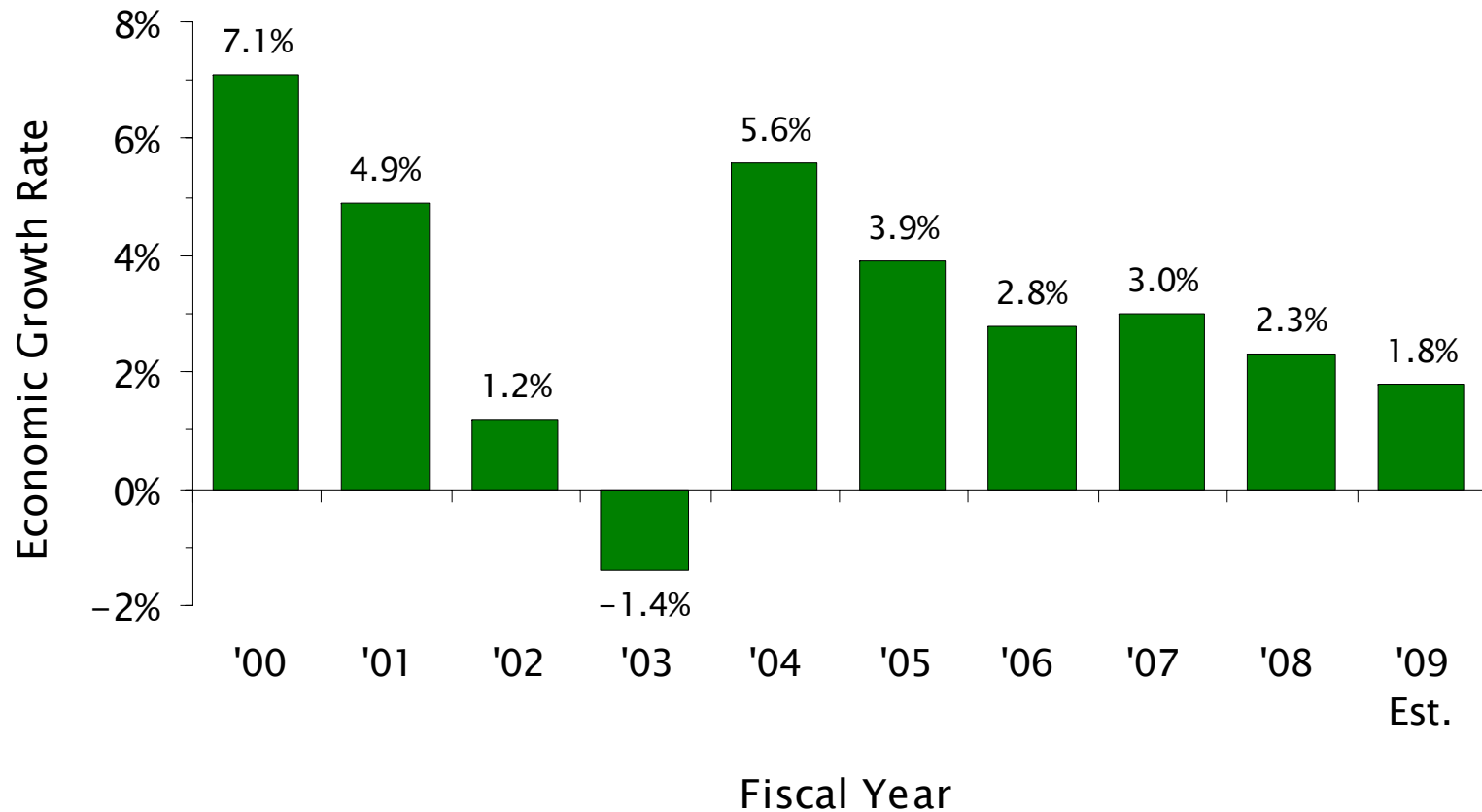
STOCK MARKET DECLINES



- The stock market has fallen by nearly the same percentage as in 2000
- S&P Peak Dates: March 24, 2000 and October 9, 2007

SALES TAX GROWTH IS SLOWING

Sales & Use Tax Growth Rates



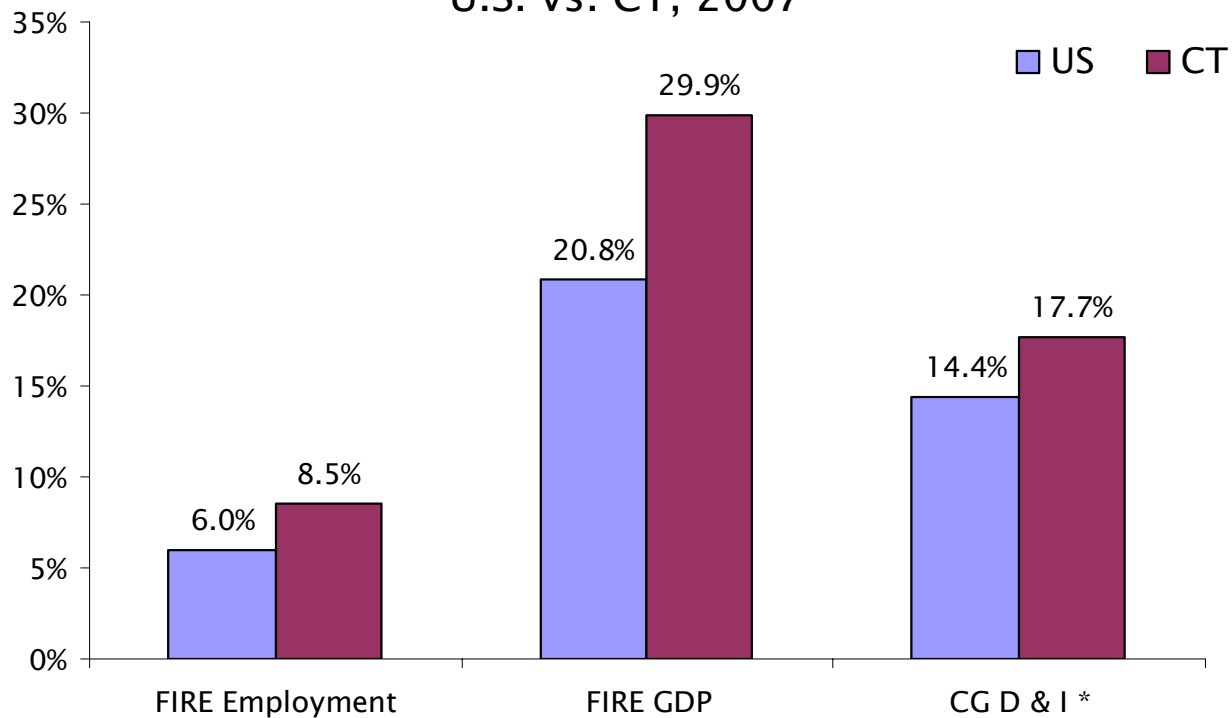
CT's ECONOMY HAS SLOWED SINCE THE FY 2009 BUDGET WAS ADOPTED

FY 2009 Connecticut Economic Indicators

	6/25/2007	9/22/2008	
	<u>Estimate</u>	<u>Estimate</u>	<u>Difference</u>
Personal Income	4.8%	3.2%	-33.3%
Real Gross State Product	2.7%	1.3%	-51.9%
Total Employment	0.8%	-0.5%	-162.5%
Unemployment Rate	4.0%	5.9%	47.5%
Housing Starts	16.3%	-3.7%	-122.7%

CT WILL BE HIT HARDER BY A CONTRACTION IN THE FINANCIAL SECTOR

FIRE Employment, FIRE GDP, and Investment Earnings As a Percentage of Total U.S. vs. CT, 2007



FIRE: Finance, Insurance and Real Estate

* Capital Gains, Dividends, and Interest in Income Year 2006

FY2009 PROBLEMS

Department of Correction Deficiency

- \$18.3 million rollout of FY2008 deficiency
 - \$8.3 million of the deficiency is in the agency's Personal Services account due to prison population
 - \$10.0 million of the deficiency is in Other Expenses largely due to prisoner population levels and inflationary impacts to direct and indirect inmate care line items
 - Historically under funded

DAS – Workers' Compensation Deficiency

- Estimated \$1.5 million deficiency, as no adjustments were made to compensate for the FY08 deficiency of \$1.25 million
- Increased medical inflation

OTHER AREAS OF CONCERN FY2009 EXPENDITURES

OTHER AREAS OF CONCERN – FY2009

- Department of Social Services

- The \$150 million shortfall projection for FY 2009 assumes the enacted budget is correct, yet the Governor's mid-term budget adjustments anticipated that the Medicaid budget would be short by \$62 million in FY 2009
 - Major drivers behind the \$62 million are cost and caseload related, including HUSKY A, where caseload is expected to grow from 296,484 in July 2007 to 344,000 by the end of FY 2009.
- Costs in long-term care could escalate as DSS continues to assess nursing homes in financial distress due to court ordered receivership or pending bankruptcies
- Costs to bring in new providers under the HUSKY managed care re-bid are higher than originally anticipated

OTHER AREAS OF CONCERN – FY2009

- Department of Education
 - Section 17 of PA 08–170, will result in \$7.0 million of unfunded costs to the Magnet School account
 - Special Education Funding had an FY 2008 deficiency of \$5.4 million because the grant was uncapped; a potential FY 2009 deficiency of \$6.5 million will exist assuming the 8% growth in eligible expenditures that occurred between FY 2007 and FY 2008 reimbursements

- University of Connecticut Health Center
 - The UCONN Board approved a FY 2009 budget for the Health Center that forecasts an \$11.5 million deficit involving the John Dempsey Hospital, the University Medical Group and Research programs

OTHER AREAS OF CONCERN – FY2009

- Department of Mental Health and Addiction Services
 - \$13 million – rollout of deficiency related to compliance activities at Connecticut Valley Hospital
 - \$8 million – deficiencies related to caseload growth and other annualized shortfalls from FY08

- Department of Developmental Services
 - Birth to Three Program – potential shortfall of \$6.3 million due to increased caseload and a reduction in federal funding support
 - Workers' Compensation – potential shortfall of \$1 million resulting from a legislative appropriation reduction of \$1 million which is unsupported by trends in the account
 - Voluntary Services Program – potential \$5.6 million shortfall because of higher than budgeted caseload and no annualization of caseload growth from FY08

OTHER AREAS OF CONCERN – FY2009

■ Connecticut Energy Assistance Program (CEAP)

- The energy assistance plan for low income persons proposed by the Governor was projected to cost \$84.0 million, an increase of \$14.1 million over the \$69.9 million that was expended last year. Based on projected federal funding of \$42.6 million, the Governor's plan was expected to result in a shortfall of \$41.4 million. With the release of \$7.0 million in federal emergency contingency dollars on 9/17/08, however, this shortfall would have been reduced to \$34.4 million.
- The legislature increased benefits over the level proposed in the Governor's plan, resulting in an expected additional cost of \$29.9 million. The revised allocation plan, totaling \$113.9 million, was expected to result in a shortfall of \$71.3 million. With the recent release of \$7.0 million in federal emergency contingency funding, however, this shortfall is now estimated at \$64.3 million.
- Assuming that the full \$35 million in state energy contingency funds appropriated to OPM under PA 08-2, August Special Session, is utilized toward the shortfall in the revised CEAP allocation plan, the plan is still projected to have a shortfall of \$29.3 million.

OTHER AREAS OF CONCERN – FY2009

- Department of Public Safety
 - Potential \$5 million shortfall in Other Expenses due to:
 - Higher FY08 Actual Expenditures than FY09 Available Appropriation
 - Energy expenses, and Fuel Costs for Police Vehicles
 - IT Support and IT Contract Costs
 - Helicopter Maintenance

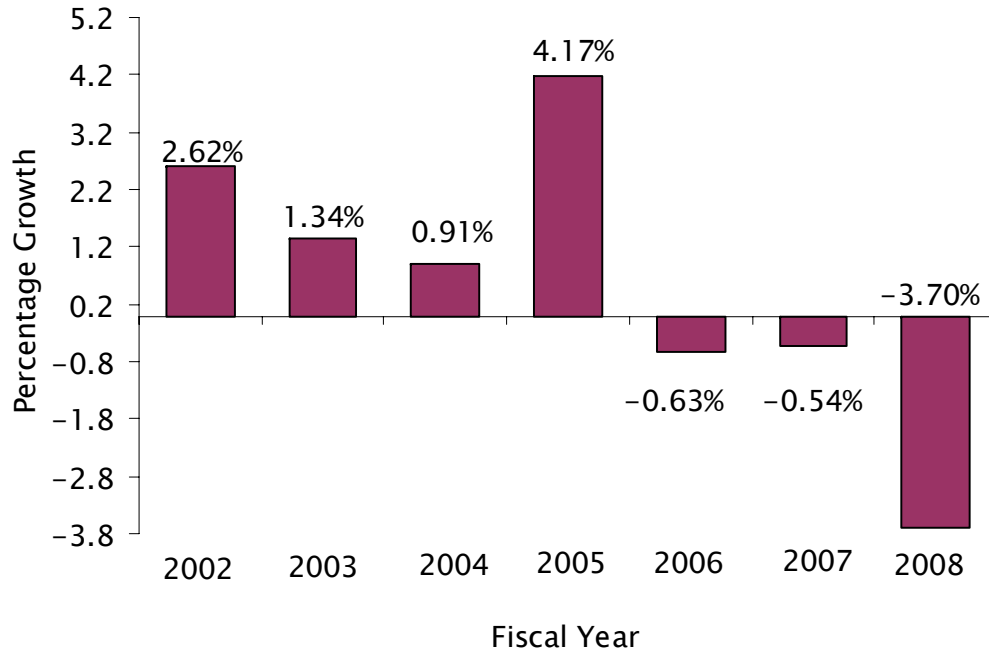
OTHER AREAS OF CONCERN – FY2009

- Spending Cap
 - Deficiencies must be met with transfers
 - Even without further deterioration of revenue, the \$302 million estimated deficit could exceed \$402 million if entitlement spending areas of concern grow beyond budgeted amounts
 - Further revenue decline could add to problems

OTHER AREAS OF CONCERN – FY2009

Special Transportation Fund

History of Growth in Motor Fuels Tax Collection



- The dramatic increase in gasoline prices is changing consumer behavior
- The fall off in Motor Fuels Tax collections and motor vehicle related receipts is resulting in significant out-year imbalances in the fund
- FY 2009 has an estimated operating deficit of \$42.7 million which does not include a potential DOT shortfall of \$6.8 million in Other Expenses for items such as utility costs, fuel, and steel
- By FY 2012 the fund is projected to be in deficit by approximately \$215 million

STEPS TAKEN TO DATE

STEPS TAKEN TO DATE

- Actions taken by Governor Rell to mitigate the FY 2009 deficit
 - Issued orders to implement the following:
 - Hiring Freeze
 - Out of State Travel Ban
 - Limited Purchases to Items/Services Critical to agency mission
 - Implemented a Rescission Plan which globally reduces allotments by \$137.6 million; \$26.9 million or 19% is in Personal Services line items
 - Planned PS savings that do not require layoffs, instead relying upon attrition to achieve savings
 - Planned OE savings that do not target those agencies facing current service level deficiencies
 - Planned other savings in a manner that does not reduce payments to private providers serving vulnerable clients
-

STEPS TAKEN TO DATE

Limits on Governor's Rescission Authority – FY2009 General Fund

General Fund FY 2009 Expenditures

(In Millions)

FY'09 Appropriation	\$ 17,073.0	<u><i>D. Major "Entitlement" Programs:</i></u>	
CF from prior years	<u>504.1</u>	Medicaid	\$ (3,819.1)
Total Available	\$ 17,577.1	TANF	(115.9)
		CONNPACE	(56.5)
<u><i>A. Not subject to Rescissions</i></u>		SAGA-- DSS	(186.7)
Municipal Aid	\$ (2,883.3)	SAGA -- DMHAS	(81.2)
Teachers Pensions	(539.3)	AABD	(92.7)
State Auditors	(12.2)	Child Care-TANF/ccdbg	(93.1)
Ethics, Elections, FOI	(6.3)	Conn. Home Care Program	(63.1)
		HUSKY B Program	(54.0)
<u><i>B. Rescissions only if \$ not needed:</i></u>		DSH – Medical Emergency Assistance	(53.7)
Debt Service	\$ (1,543.9)	DSH – Urban Hospitals	(31.6)
Pensions, Health insurance, etc.	(1,781.9)		
		<i>Sub-total (A – D):</i>	\$ (13,085.8)
<u><i>C. Agencies with restrictions:</i></u>		<u><i>Remaining GF subject to rescission</i></u>	\$ 4,491.4
DCF	\$ (900.2)		
DOC	(669.2)		
UCHC	(102.0)	5% of amount subject to rescission	\$ 224.6

STEPS TAKEN TO DATE

Governor's Rescission Authority – FY2009

<u>Remaining GF subject to rescission:</u>	<u>Amount Available</u>	<u>3% cut</u>	<u>5% cut</u>	<u>July Rescission</u>
Legislative	\$ 68.5	\$ 2.1	\$ 3.4	\$ 3.3
Judicial	485.5	14.6	24.3	11.1
Higher Ed	617.1	18.5	30.9	16.3
OPM	87.2	2.6	4.4	3.3
DDS	974.1	29.2	48.7	5.2
DMHAS	609.3	18.3	30.5	1.3
DPH	88.7	2.7	4.4	1.5
DSS	441.9	13.3	22.1	6.9
DPS	170.0	5.1	8.5	1.9
RSA	92.8	2.8	4.6	-
All Other	856.3	25.7	42.8	21.3
Total	\$ 4,491.4	\$ 134.7	\$ 224.6	\$ 72.1

Other Rescissions taken:

Debt Service	\$ 15.0
Fringe Benefits	34.5
DCF	5.4
All Other	10.6
Total All Funds	\$ 137.6

ADDITIONAL STEPS TO BE TAKEN IN FY2009

- Prepare Next Round of Rescissions within Governor's Existing Authority
- Request Compliance with 5% Reductions from Statutorily Exempt Agencies
- Work with Agencies on the Watch List to Reduce Expenses and Identify Offsets within Existing Appropriations
- Develop an Overall Deficit Reduction Plan

FY2010 & FY2011 BIENNIAL BUDGET

Problems in Addition to Rollout of FY2009 Deficit

STRUCTURAL HOLES – FY2010

CREATED BY FUNDING EXPENDITURES WITH PRIOR YEAR SURPLUSES

Structural Holes in the Fiscal 2010 Budget – General Fund (In Millions)

<u>From the FY 2007 Surplus</u>	<u>Amount</u>
1. Teachers' Retirement Contributions	\$ 210.0
2. Payment in Lieu of Taxes– State Property	7.0
3. Payment in Lieu of Taxes– Private Property	7.0
4. Debt Service– Supportive Housing	3.0
5. DOT– Town Aid Road	8.0
6. DOT– Enhanced Transit	5.0
7. DOT– Section 16 Projects	2.3
8. Comptroller– Health Coverage up to age 26	8.0
9. Revenue Transferred from FY 2008 to FY 2009	16.0
10. Revenue Transfer– Used to Balance FY 2009	80.0
<u>From the Tobacco and Health Trust Fund</u>	
1. DSS–Charter Oak Health Plan	25.5
<u>Other</u>	
1. Criminal Justice Reform PA08–1	17.1
2. PA08–176, Mortgage Assistance, ongoing costs for Judicial and Debt Service	4.5
3. Persistent Violent Offenders PA08–51	18.4
Total	\$ 411.8

- Approximately \$393.4 M of projected FY 2010 spending will be funded with surplus dollars in FY 2009
- These spending commitments, without ongoing revenue sources to pay for them, are contributing to our large projected FY 2010 imbalance

OTHER FY2010 & FY2011 BIENNIAL BUDGET ISSUES

- ❑ Raise the Age/Juvenile Jurisdiction
- ❑ Rollout of FY09 Medicaid Underfunding
- ❑ Pension Issues – Revaluation, POB Requirements
- ❑ UConn Health Center
- ❑ Health Care Worker Contracts expiration – Nursing Homes – Spring 2009
- ❑ Private Provider Increases
- ❑ Special Transportation Fund
 - Construction Cost Escalation
 - Unknown Federal Commitments

OTHER FY2010 & FY2011 BIENNIAL BUDGET ISSUES

- Energy
 - State Agency Costs
 - Recent Legislation and Block Grant action

- Department of Education–
 - Implementation of “Sheff v. O’Neill” incentive programs
 - Sunset of biennial caps on major education grants, like Adult Education and Transportation

GENERAL FUND

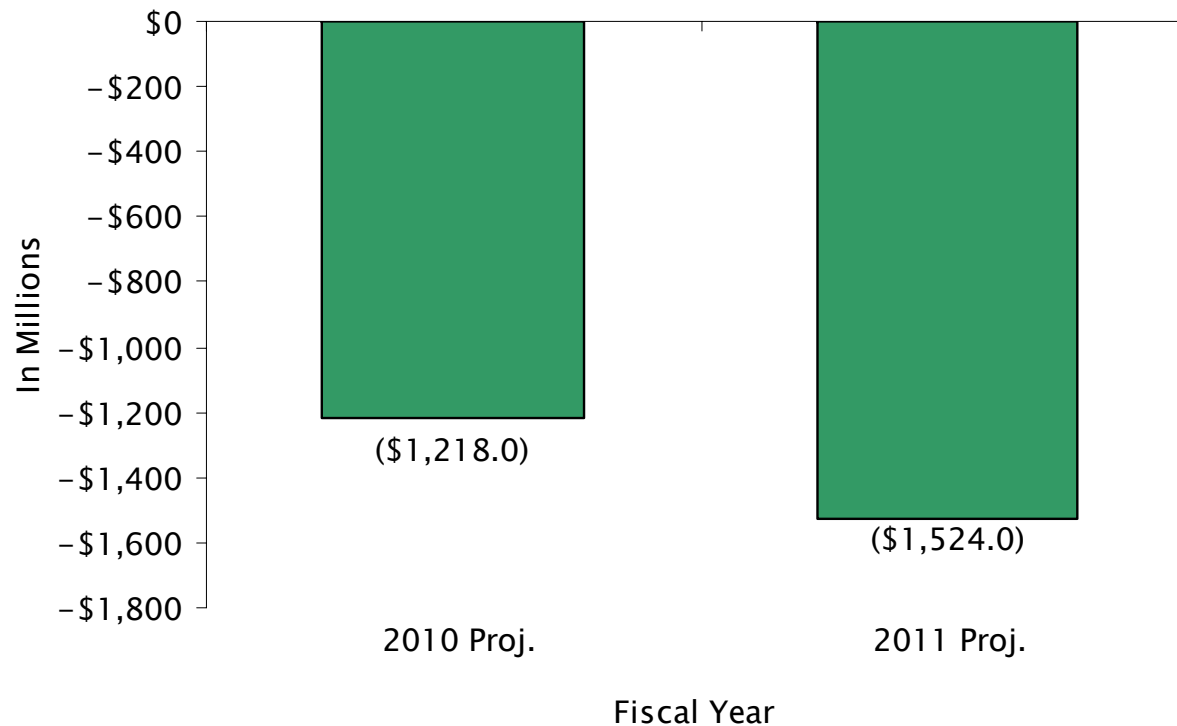
- According to the Office of Fiscal Analysis, preliminary General Fund estimates indicate large current services budget gaps when compared to current projections of revenue in the out-years



These projections are built on OFA's assumption of a (\$23.6) million deficit for FY2009

GENERAL FUND

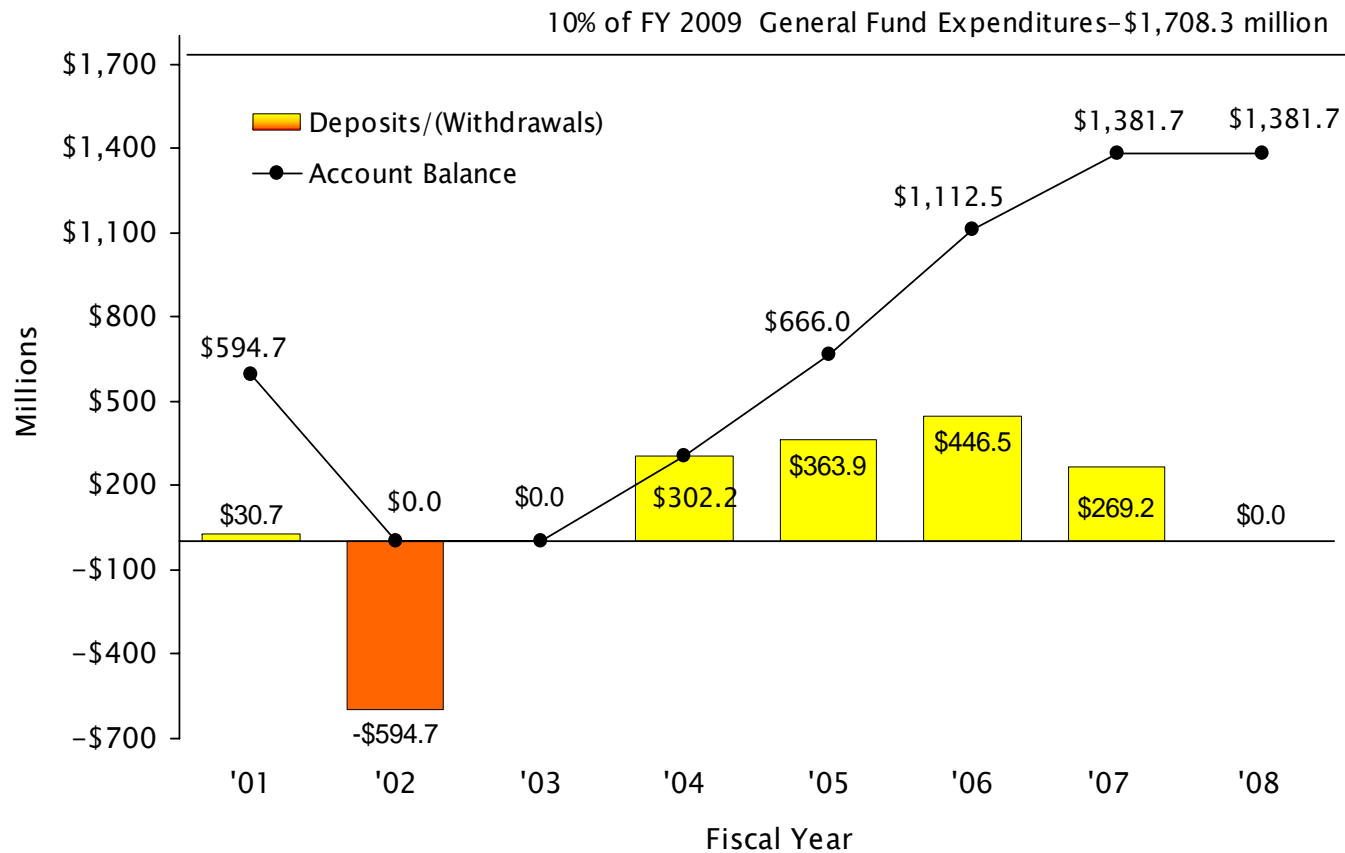
Deficits will reach \$1.2 billion in FY2010 and \$1.5 billion in FY2011 if spending trends continue unchecked



Assumes:

- No further deterioration on revenue side
- Additional \$1 billion in spending in FY10 and FY11

BUDGET RESERVE FUND



- Budget Reserve Fund was fully funded at the then 5% statutory level prior to the 2000 recession
- Fund balance was insufficient to carry the State through the recession even at 5% of General Fund appropriations
- Wiped-out the entire Fund balance overnight
- Borrowed \$319 million, raised taxes, and cut spending in order to balance the budget

WHERE DO WE GO
FROM HERE ?

WHERE DO WE GO FROM HERE – FY2009

- More Rescissions and cost saving measures like the hiring freeze have become necessary due to:
 - September revenue data
 - Continuing deterioration of economic conditions
 - Significant declines in the State's projected collection of revenues
 - Built in problems with the adopted budget resulting from year-old estimates

WHERE DO WE GO FROM HERE FY2010 & FY2011

- Balanced Budget a Constitutional Requirement for the Biennial Budget
- Realistic and Meaningful Reduction Options Are Needed
 - Overtime
 - Part-time, temporary positions
 - Consultant contracts
 - Travel
 - Lower priority programs – those not central to agency mission
 - Delay start-up of new/expanded programs
- Limited new Expansion Options
 - Best chance is to reallocate funding within agency