

Connecticut General Assembly

Office of Fiscal Analysis

The State Budget Process

December 10, 2002

****Note: Some data included in this document is time sensitive.****



Office of Fiscal Analysis **Connecticut General Assembly**

- ❖ We are a Non-partisan Professional Staff Office
- ❖ We Serve the Appropriations & Finance Committees, Legislative Leadership, Substantive Committees, Rank and File Legislators
- ❖ We Conduct Research on Programs, Budget Recommendations, and New Initiatives
- ❖ We Provide Legislative Oversight of State's \$13 Billion Budget



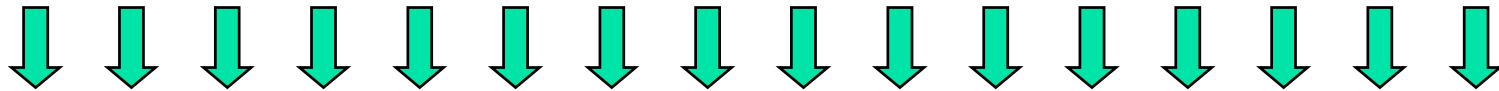
OFA Staff Role

- Analyze Current Services Estimates, Track & Forecast Expenditure & Revenue Levels
- Develop Forecasting Models
- Develop Out-Year Expenditure & Revenue Projections
- Estimate Costs and Program Impact for All Legislative Budgetary Changes
- Record Legislative Intent
- Assist in Developing Alternative Proposals
- Analyze Fiscal Impact of All Bills & Amendments
- Prepare & Publish Budget Book Based on Final Action



Overview of the Budget

Spending Cap



**Appropriated Funds = Estimated
Revenues**

STATE BUDGET- FY02



GENERAL FUND

\$11.894 BILLION



TRANSPORTATION FUND

\$841 MILLION



MASHANTUCKET PEQUOT AND MOHEGAN FUND

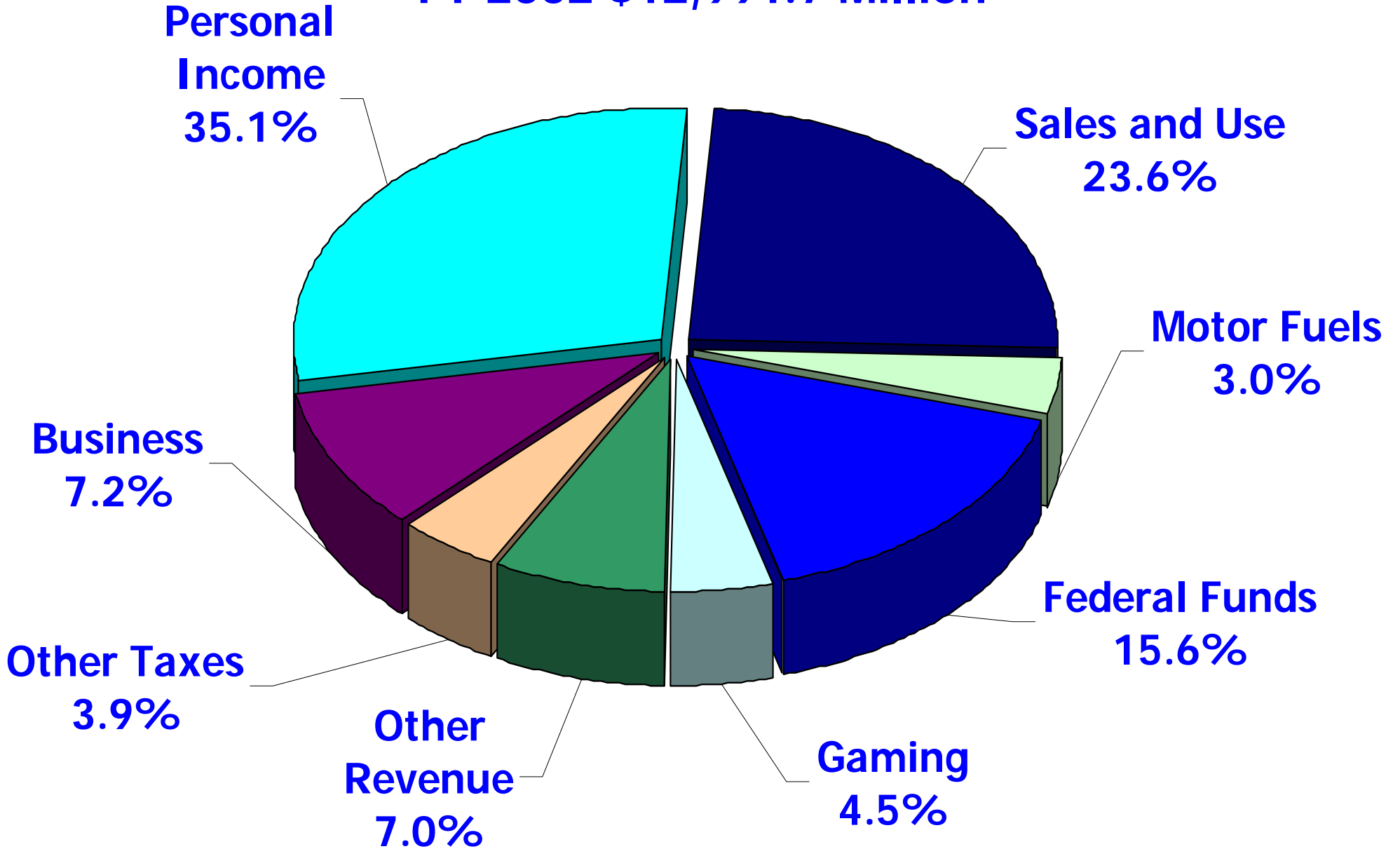
\$135 MILLION



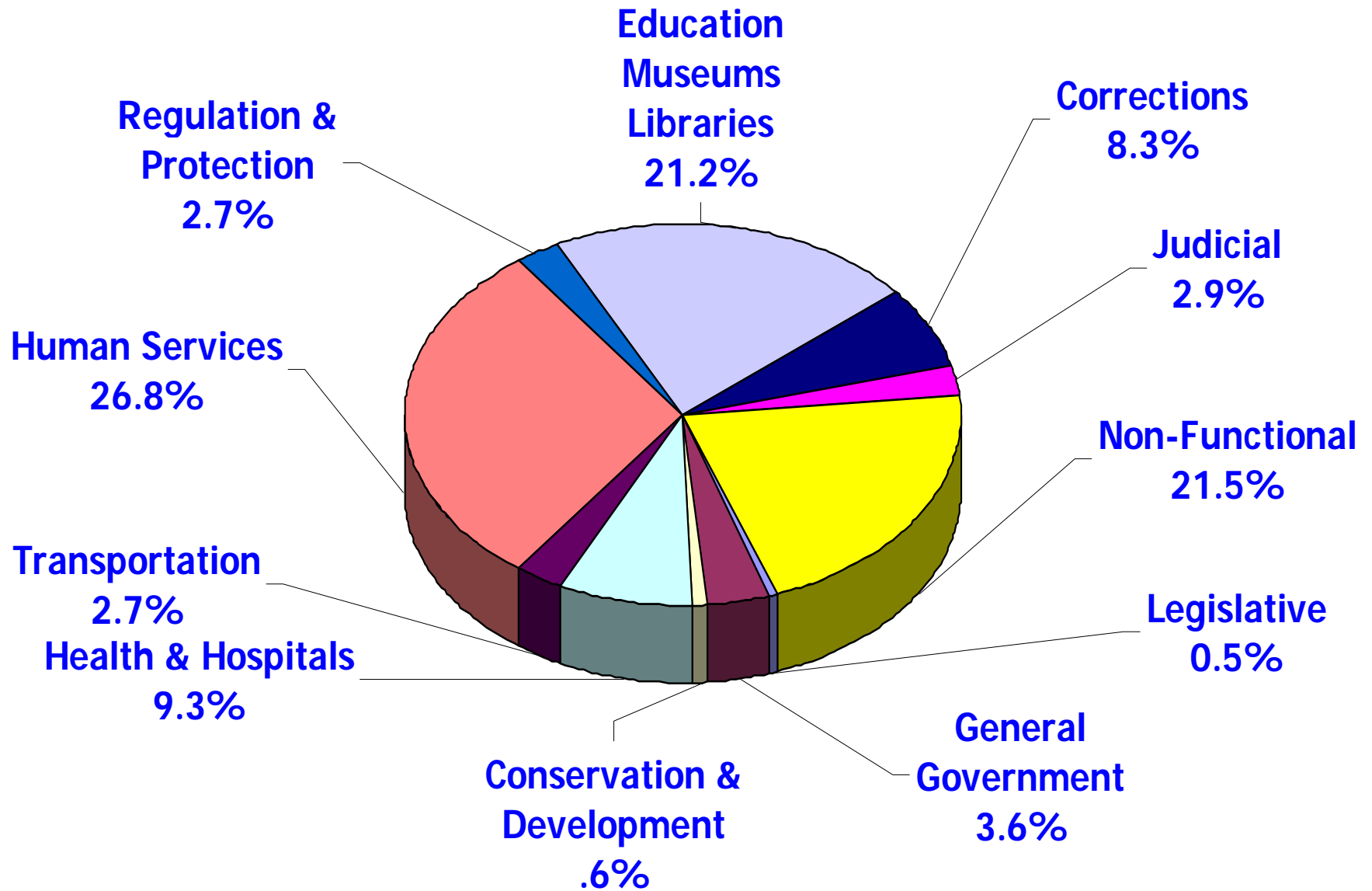
ALL OTHER FUNDS

\$86 MILLION

REVENUE
(All Appropriated Funds)
FY 2002 \$12,991.7 Million



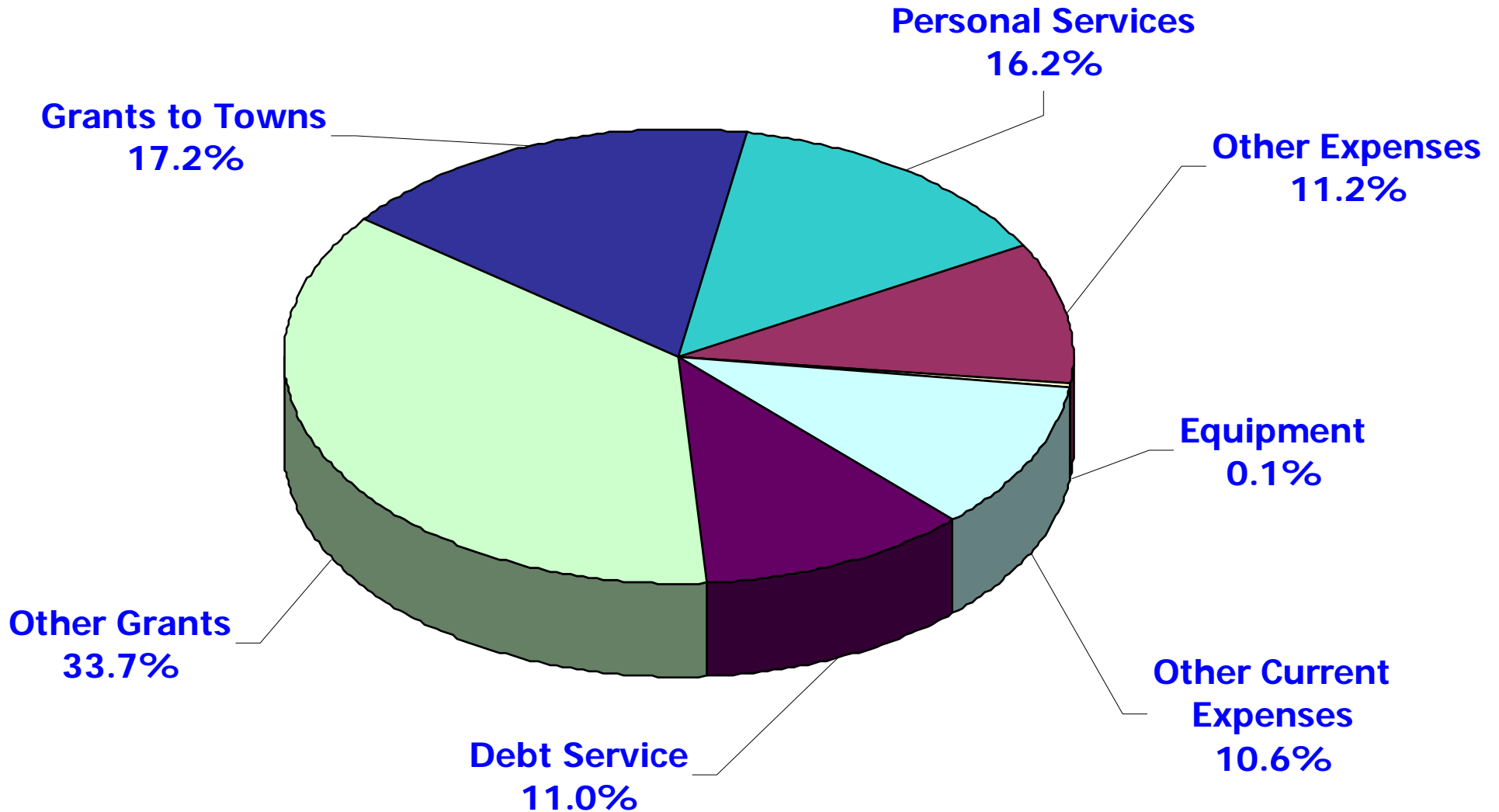
All Appropriated Funds By Function of Government FY 2002 \$12,956 Million



All Appropriated Funds

By Character of Expenditure

FY 2002 \$12,956.0 Million



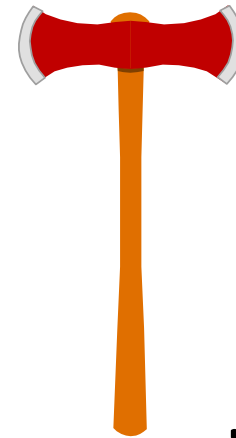


Major Budget Documents

- Agency Budget Requests
 - Current Services (*September*)
 - Budget Options (*November*)
- Governor's Recommended Budget
 - Budget Message (*February*)
 - Recommended Appropriations for Each Agency
 - Proposed Appropriations Act
 - Out-Year Projections (3 Years Beyond Biennium)
 - Economic Analysis of Budget Recommendation
 - Capital Projects & Facilities Plan (5 Years)
- Appropriations Act & OFA Budget Book
 - Line Item Appropriations (*May-June*)
 - Legislative Intent of Changes

The Budget Process: Two Parts

- Budget Formulation
 - State Agency Requests
 - Governor & OPM
 - Legislature & OFA
 - Final Budget Action (Appropriations Act)
- Budget Execution
 - Appropriation
 - Quarterly Allotments
 - Oversight (Monthly Financial Statements)





Legislature's Budget Process

- Budget Submitted to Legislature: Governor's Message
- Appropriations Holds Hearings for Each State Agency
- Subcommittees Review Budget Information
- OFA Staff Provide Information
 - Analysis of Current Services & Options
 - Analysis of Governor's Budget Recommendations
 - Research on Questions Raised by Legislators, Interest Groups & the Public
- Subcommittee Reports to the Appropriations Chairmen



Appropriation Subcommittees

- Legislative
- General Government A
- General Government B
- Regulation and Protection
- Conservation and Development
- Health and Hospitals
- Human Services
- Transportation
- Elementary and Secondary Education
- Higher Education
- Judicial and Corrections

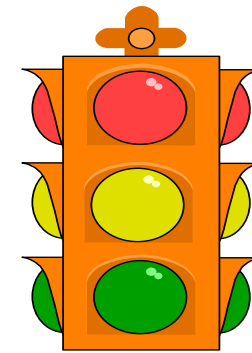


Legislature's Budget Process

- Appropriations Chairmen Prepare Budget Recommendations
- Budget Report Submitted to Full Appropriations Committee & Voted Upon
- Finance Committee Produces Revenue Estimates & Capital Budget Bill
- Appropriation & Finance Bills Submitted to House & Senate
- Leadership and Executive Negotiations on Budget Prior to Passage
- Governor's Signature or Veto (Returned to Legislature)



The Fiscal Note

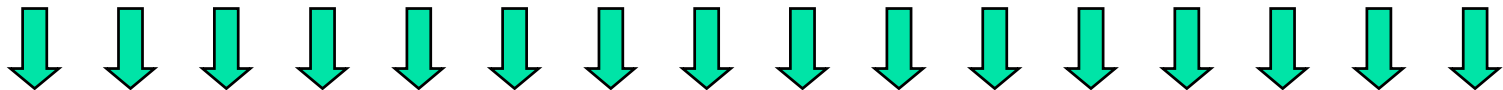


- ✓ **A Brief Statement of the Fiscal Impact Legislation Would Have on State and Local Government**
- ✓ **Prepared as an Objective Non-Partisan Statement by the Analyst with Budgetary Responsibility for Agency Fiscally Affected**
- ✓ **Required of Every Bill, Amendment, or Conference Report that Reaches the House or Senate Floor**
- ✓ **Fiscal Notes on Bills are Printed with Each File, Notes on Amendments are Delivered to the Floor**
- ✓ **Fiscal Notes Need Not be Requested, They Are Prepared Upon Receiving A Bill or Amendment from LCO**
- ✓ **Informal Costs Estimates are Prepared Upon Request If Time Permits**



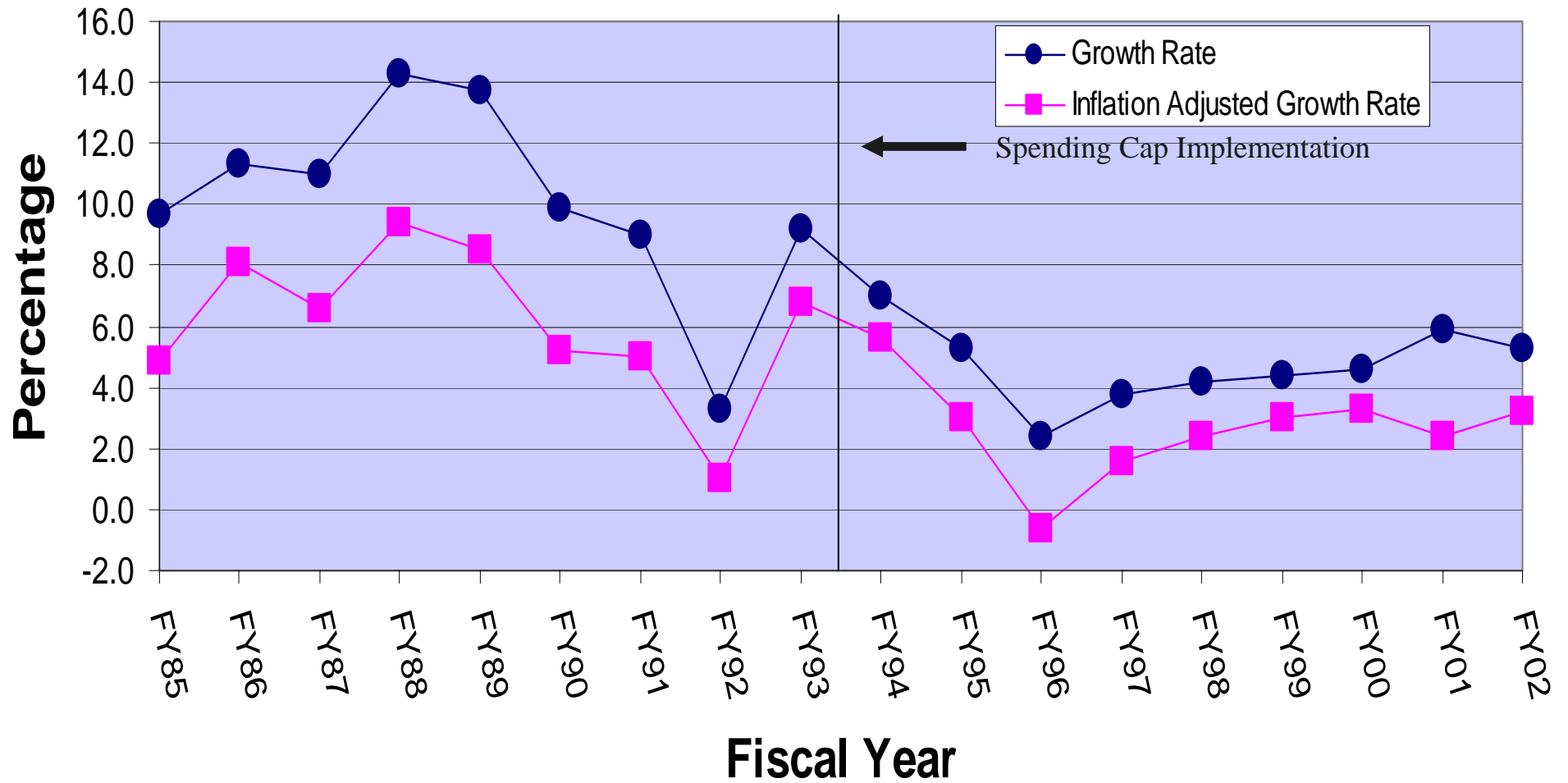
Budget Parameters

Spending Cap

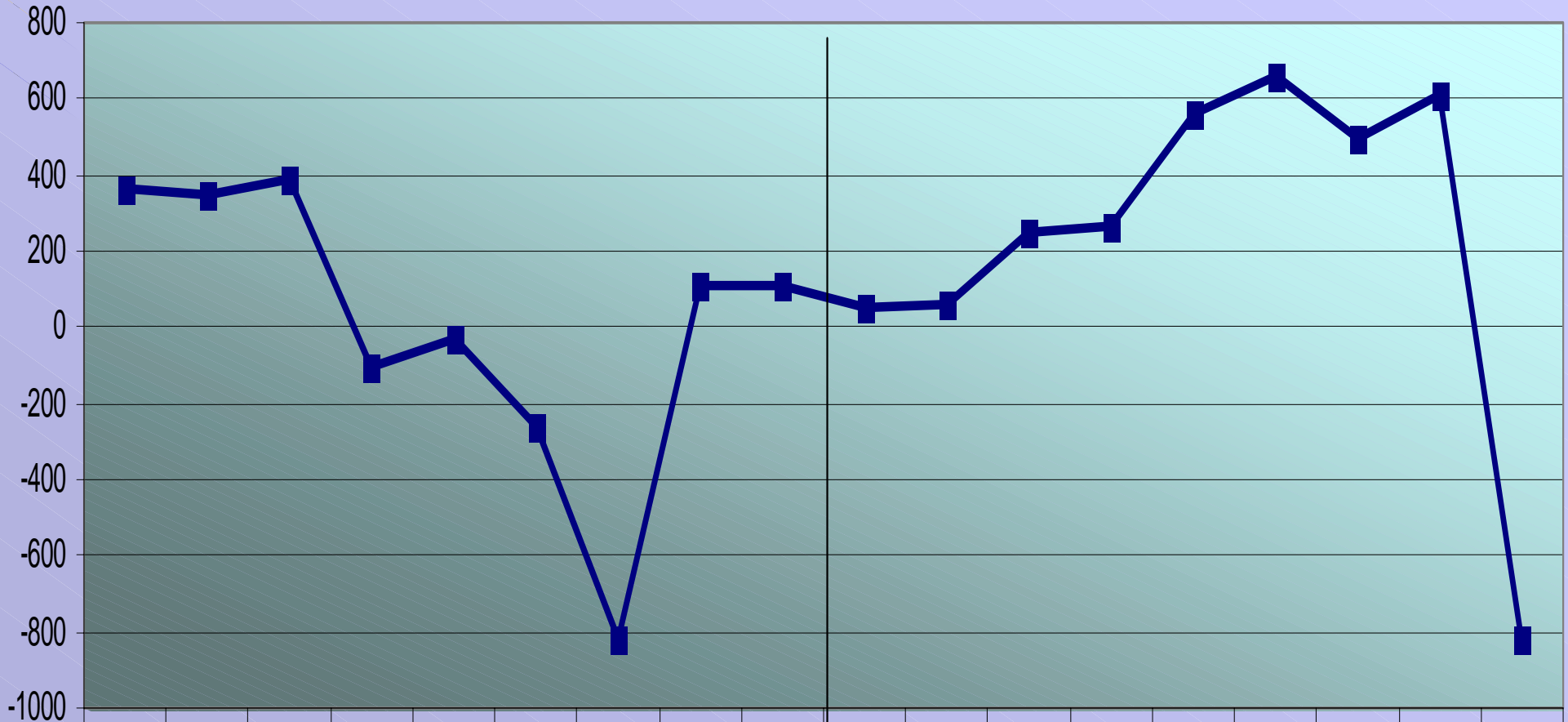


**Appropriated Funds = Estimated
Revenues**

General Budget Expenditure Growth



Budget Surpluses & Deficits

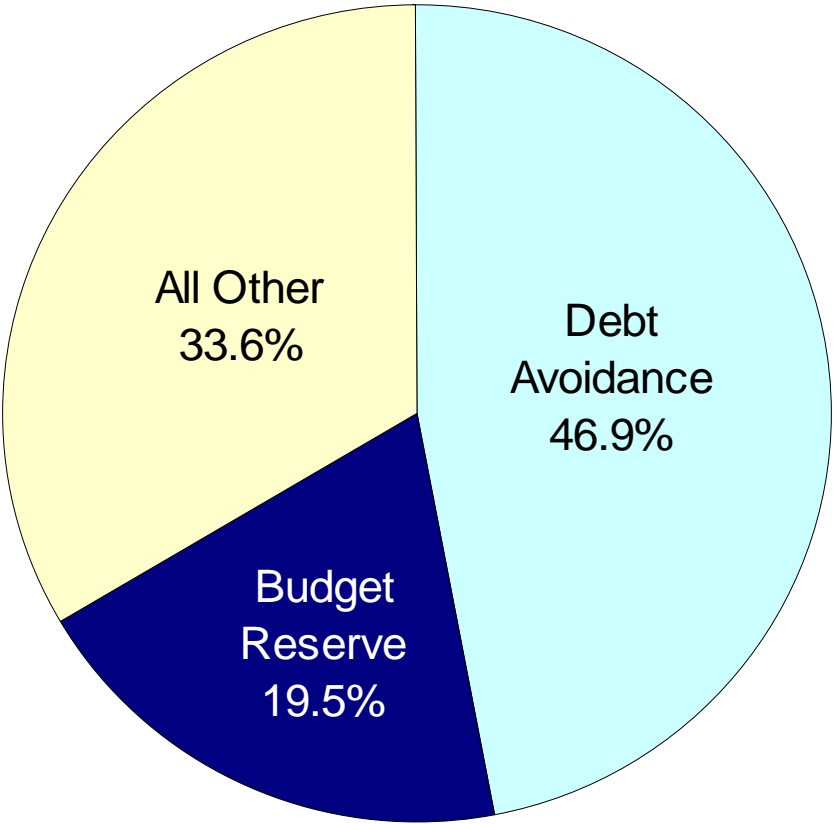


	FY85	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01	FY02
Surplus/ Deficit	365.5	350.5	387.9	-104.8	-27.1	-260.6	-817.3	112.8	113.5	55.8	60.8	250	262.6	562.2	663	496.8	606.9	-817.1



Use Of General Fund Surplus

Cumulative Surplus of \$3,036.7 Million
For Fiscal Years 1995 Through 2001





The Spending Cap

History

- **Legislature Passes Income Tax & Spending Limit Legislation (1991)**
- **Voters Approve by 4 to 1 a Constitutional Amendment to Limit State Spending in 1992**
- **Statutory Cap Prevails Until Constitutional Amendment Is Implemented by 3/5 Vote of House & Senate**



The Spending Cap: Key Features

- **Calculated from Previous Year's Base (Total Appropriated Funds)**
- **Growth=Base Year X 5-Year Average Income Growth (or Prior Years Inflation Rate, Which Ever is Higher)**
- **Excluded: Debt Payments, Grants to Distressed Municipalities & Federal Mandates & Court Orders (1st year only)**



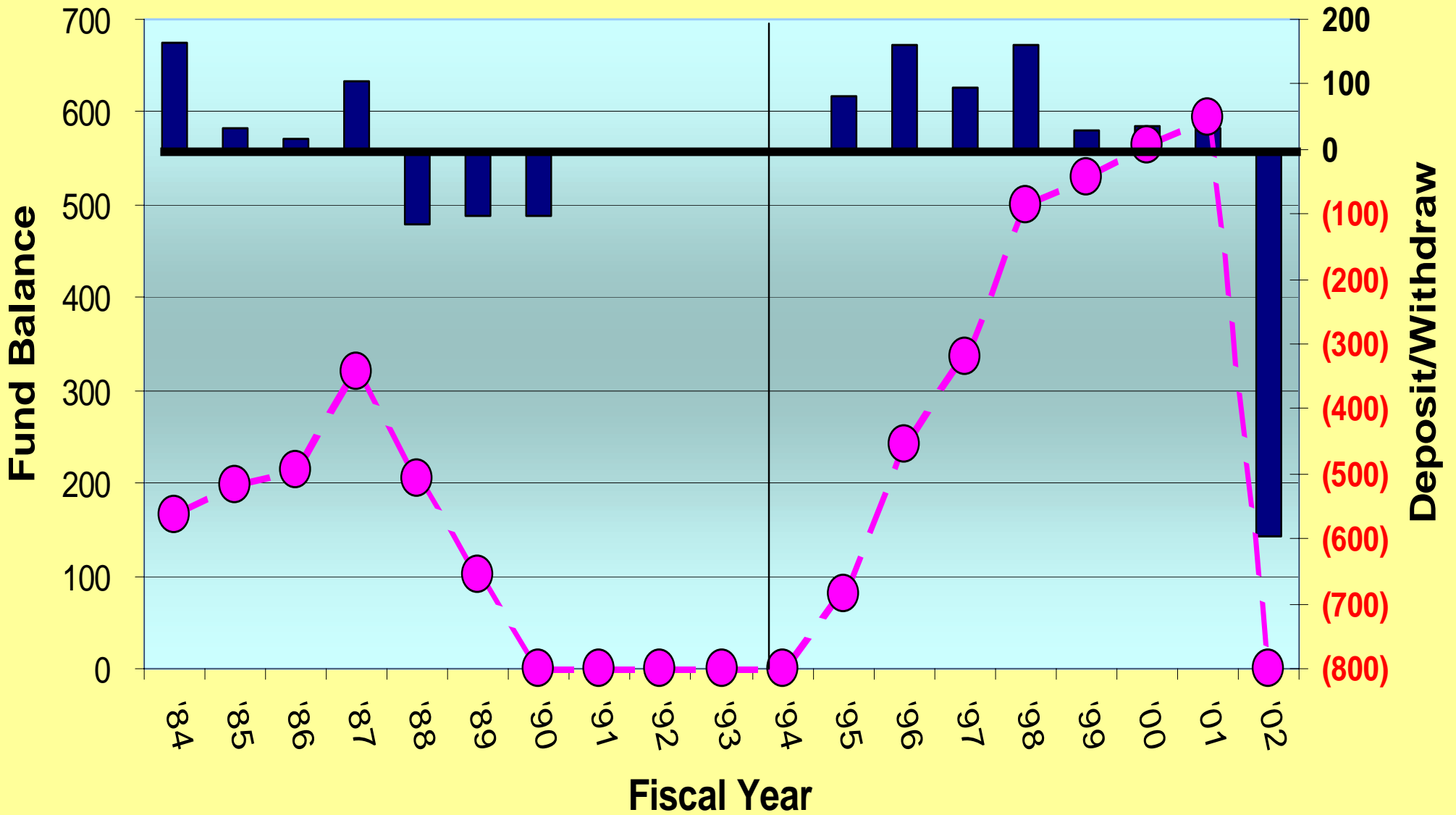
Exceeding the Spending Cap

Governor is required to issue a declaration of extraordinary circumstances or emergency.

Determines what spending in excess of the cap will be included or excluded in the base for future calculations.

Legislature must approve additional spending by a three-fifths majority. (91 votes in the House & 22 votes in the Senate)

History of Budget Reserve Fund (Rainy Day Fund)





Where are we now?

How large will this year's deficit be?

How will the FY03 Budget be revised ?

Options: Spending Reductions - Tax Increases: How much and where?

The Next Biennium (FY04 & FY05): Another Difficult Year?



Budget Status & Options for Balancing the Budget

Magnitude of the surplus/deficit in each of the last five years

Magnitude of the budget deficit for FY 03

Magnitude of the budget deficit for FY 04 and FY 05

Steps taken last June to help balance the FY 03 budget

Thirty major appropriation accounts total 90% of state spending - do these represent potential options for reduction?

**Degree to Which Overall Spending and Revenue
Have Contributed to General Fund Surpluses/(Deficits)
FY 98 through FY 02
(figures in \$ millions)**

	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>
Surplus/(Deficit)	562.2	663.0	496.8	606.9	(817.1)
Budgeted Surplus	0.2	19.9	64.4	0.5	0.1
Spending Above/ (Below) Budgeted	238.0	(18.7)	135.2	97.8	(231.5)
Revenue Above/ (Below) Budgeted	800.0	624.4	567.6	704.2	(1,048.7)
Conclusion: Revenue fluctuations have contributed the most in each year.					

FY 03 General Fund Summary
as of November 12, 2002
(in millions)

	FY 03 Estimate
Revenues	
Taxes	\$ 8,051.4
Other Revenue	1,043.9
Other Sources	<u>2,612.4</u>
Total Revenue	\$ 11,707.7
Appropriations	
Original Appropriations - Gross	\$ 12,343.7
Less:	
Estimated Budgeted Lapses	(251.9) [1]
Plus:	
Estimated Deficiency Appropriations	93.4
Estimated Adjudicated Claims	9.0
Estimated Refunds of Escheated Property	<u>9.0</u>
Total Estimated Expenditures	\$ 12,203.2
Projected Surplus / (Deficit) from Operations	\$ (495.5)

[1] Estimated Budgeted Lapses include:

(\$174.4)	unallocated budgeted lapses
(24.5)	general PS and OE reductions (holdbacks)
(7.0)	hard (hiring) freeze (holdback)
(11.0)	managerial wage freeze (holdback)
<u>(35.0)</u>	extraordinary governor's recision authority
(\$251.9)	

**FY 04 and FY 05 Preliminary
General Fund Current Services Projections
as of November 12, 2002
(in millions)**

	<u>FY 03 [1]</u>	<u>FY 04 [2]</u>	<u>FY 05 [2]</u>
Revenue	\$ 11,707.7	\$ 11,780.5	\$ 12,290.5
Expenditures	12,203.2	13,387.0	14,192.2
Shortfall	\$ (495.5)	\$ (1,606.5)	\$ (1,901.7)

[1] FY 03 revenue includes one-time revenues of \$400.2 million.

[2] In accordance with current law, FY 04 and FY 05 revenues include the resumption of the sales tax on hospital patient care services in the amount of \$115 million annually.

FY 04 and FY 05 expenditures also assume that the sales tax on hospital patient care services will be appropriated and returned to the hospitals and that federal revenue will increase by \$57.5 million as a result.

Budget Shortfall Mitigation Accomplished Through FY 03 Budget Revisions

Approximate FY 03 Original General Fund Budget Shortfall prior to the 2002 Revisions			(1,000.0)
2002 Revisions:			
<i>Expenditure Reductions</i>			
Budgeted Lapse Increase:			
Unallocated	94.0		
Extraordinary Governor's Recision Authority	35.0		
Managerial Wage Freeze	11.0		
Hard Hiring Freeze	7.0		
Other Lapse Adjustments (net)	<u>(2.0)</u>		
Total Budgeted Lapse Increase (net)		145.0	
Annualize FY 02 Reductions and Implement 1.5% Cuts		58.9	
Reduce Teachers' Retirement Funding from 100% to 85%		32.2	
Restructure Pharmacy Services		16.8	
Delay Nursing Home Rate Increase		12.6	
Other Expenditure Reductions (net)		<u>74.1</u>	
Total Expenditure Reductions (net)			339.6
<i>Revenue Increases</i>			
Ongoing:			
Cigarette Tax Increase (from \$.50 to \$1.11 per pack effective 4/3/02)	122.3		
Various Corporation Tax Increases	71.5		
Reduce Petroleum Tax Transfer to the Transportation Fund	26.0		
HMO/HUSKY Tax Credit Repeal	15.6		
Other Ongoing Revenue Increases (net)	<u>25.4</u>		
		260.8	
One-Time:			
Liquidation of Stock from Anthem's Demutualization	127.2		
Transfer Resources from Quasi-Public Agencies	100.0		
Transfers from Tobacco Funds	66.9		
Tax Amnesty Program	22.0		
Other One-Time Revenue Increases (net)	<u>22.4</u>		
		<u>338.5</u>	
Total Revenue Increases			599.3

Major General Fund Accounts

(in millions)

Major Accounts:	FY 03	FY 04	Increase	Increase	FY 05	Increase	Increase
DSS - Medicaid	2,698.0	2,873.5	175.5	6.5%	3,060.3	186.8	6.5%
Personal Services	2,565.1	2,693.4	128.3	5.0%	2,828.0	134.7	5.0%
SDE - ECS	1,516.2	1,636.2	120.0	7.9%	1,711.2	75.0	4.6%
Debt Service	1,023.4	1,219.8	196.4	19.2%	1,373.5	153.7	12.6%
State Employees Health Cost	292.9	348.6	55.7	19.0%	400.5	51.9	14.9%
State Employees Retirement Contributions	285.7	300.7	15.0	5.3%	310.5	9.8	3.3%
DCF - Board & Care for Children	246.0	259.4	13.4	5.4%	268.2	8.8	3.4%
DMR - Community Residential Services	242.8	254.9	12.1	5.0%	267.7	12.7	5.0%
Retired State Employees Health Cost	241.0	286.8	45.8	19.0%	329.5	42.7	14.9%
Social Security	183.8	193.0	9.2	5.0%	202.6	9.6	5.0%
Teacher's Retirement Contributions	179.8	243.9	64.1	35.7%	256.1	12.2	5.0%
DSS - Temporary Assistance to Families - TANF	132.1	121.5	(10.6)	-8.0%	122.5	1.0	0.8%
DSS - State Administered General Assistance	116.3	130.4	14.1	12.1%	142.2	11.8	9.0%
DMR - Employment Opportunities & Day Services	115.5	121.3	5.8	5.0%	127.3	6.1	5.0%
DSS - Disproportionate Share (Hospital Tax)	-	115.0	115.0	NA	115.0	-	0.0%
DSS - Child Care Services - TANF/CCDBG	112.9	102.4	(10.5)	-9.3%	97.0	(5.4)	-5.3%
DMHAS - Disproportionate Share	106.0	106.0	-	0.0%	106.0	-	0.0%
PILOT - Private Property	100.9	105.4	4.5	4.5%	110.2	4.7	4.5%
SDE - Priority School Districts	81.6	83.2	1.6	2.0%	84.9	1.7	2.0%
DSS - DSH Payments	76.7	90.7	14.0	18.3%	83.7	(7.0)	-7.7%
DOC - Inmate Medical Services	75.3	89.6	14.3	19.0%	103.0	13.4	14.9%
DMHAS - Grants for Mental Health Services	73.8	77.1	3.3	4.5%	80.6	3.5	4.5%
PILOT - New Manufacturing	71.7	74.9	3.2	4.5%	78.3	3.4	4.5%
DSS - ConnPACE	67.7	73.3	5.6	8.3%	81.9	8.6	11.7%
DMHAS - General Assistance Managed Care	67.6	70.6	3.0	4.5%	73.8	3.2	4.5%
SDE - Excess Cost-Student Based	66.0	91.0	25.0	37.9%	111.0	20.0	22.0%
PILOT - State Property	65.0	67.9	2.9	4.5%	71.0	3.1	4.5%
DSS - Aid to the Disabled	57.5	57.2	(0.3)	-0.5%	57.6	0.4	0.7%
SDE - Transportation of School Children	45.4	55.4	10.0	22.0%	65.4	10.0	18.1%
SDE - Magnet Schools	44.8	45.7	0.9	2.0%	46.6	0.9	2.0%
Total - Selected Accounts	10,951.5	11,988.9	1,037.4	9.5%	12,766.1	777.2	6.5%
All Other Accounts	1,370.7	1,398.1	27.4	2.0%	1,426.1	28.0	2.0%
Expenditure Totals	12,322.2	13,387.0	1,064.8	8.6%	14,192.2	805.2	6.0%