



STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT

*TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE
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Testimony Regarding Anticipated Deficiencies

Senator Harp, Representative Geragosian and distinguished members of the Appropriations Committee, thank you for the opportunity to discuss anticipated deficiencies for the Fiscal Year Ending June 30, 2010.

As you know, the budget that passed in September became law without the signature of Governor Rell. Based on the subsequent budget implementation bills, consensus revenue estimates submitted on October 15th and our analysis of expenditures through the first quarter of the fiscal year, our October letter to the Comptroller projected a General Fund deficit of \$388.5 million. This estimate included a reduction in estimated revenue of \$172.1 million, \$212.5 million in additional expenditure requirements, and \$8.7 million in miscellaneous adjustments. In two more days, we will be releasing an updated analysis of our General Fund projections, and we anticipate that revenue will further weaken by \$78 million, primarily in the area of the sales tax.

While the focus of today's hearing is deficiencies on the expenditure side of the budget, I thought it would be helpful to first highlight a few challenges on the revenue side of the ledger. Our October revenue estimate reflects decreased Sales Tax revenue due to weaker than projected collections, and our November update projects a continuation of this trend. Other notable changes to our revenue estimates include a reduction in Indian Gaming revenue, Personal Income Tax revenue, and lower than projected revenues related to the Inheritance and Estate Tax and the Cigarette Tax, as well as higher than anticipated Refunds of Taxes. Not all of the news is bad, as there have been positive trends in the Oil Companies tax.

Sales tax trigger. Of considerable note is that the revenue decreases outlined above exceed one percent of the estimated gross tax revenue to the General Fund for fiscal 2010. As a result, the scheduled January 1, 2010, change in the sales tax rate from 6 percent to 5.5 percent will not occur. The effect of this change is that \$129.5 million in unbudgeted revenue will be realized in FY 10.

Bottom line lapses. It is important to note that the budget counts on an unprecedented level of lapses to achieve balance. In FY 10, \$473.3 million in lapses is budgeted. The majority of these lapses have been incorporated by OPM into agency budgets. As noted by the Comptroller in her November 1, 2009, letter to the Governor, the \$473 million in budgeted lapses "is a historically high lapse target and in light of rising deficiencies the ability to achieve this level of savings is questionable." In particular, the Other Expenses reductions have been difficult for agencies to absorb, especially those agencies responsible for feeding, housing, clothing, and otherwise caring for people, such as the Department of Correction, the Department of Mental Health and Addiction Services, and the Department of Developmental Services. In just a moment, I will describe some of these challenges in more detail, but overall you should note that only about \$51.9 million—less than one-fourth of the recognized deficiencies—are related to bottom line lapses.

Deficit mitigation plan. Also of note is the fact that the deficit projected by OPM and confirmed by the Comptroller triggers a requirement for the Governor to produce a plan for restoring budgetary balance. The Governor is obligated to provide that plan before December 1. I think it is particularly important for the General Assembly to take quick and decisive action to address the deficit.

As mentioned previously, OPM is currently projecting \$212.5 million in expenditure shortfalls. Deficiencies are currently projected in a variety of agencies as detailed in the remainder of my testimony.

The Department of Public Works is projecting a deficiency in Other Expenses (\$4 million), Property Management Services (\$1 million), Facilities Design Expense (\$1 million) and Rents and Moving (\$2.3 million) as a result of the required contract savings and the Other Expenses reduction to FY 07 levels included in the budget adopted by the General Assembly.

The Department of Public Safety will experience a shortfall of \$3.3 million in their Fleet Services account due to the application of the bottom line contract savings required in PA09-3, JSS. This account provides funding for the acquisition of Department of Public Safety vehicles, primarily patrol cars for the Division of State Police and the funds that were appropriated were only sufficient to pay for existing vehicles for the Department.

The Department of Public Health has an estimated deficiency of approximately \$3 million in its personal services account due to "reinvention savings" identified in the Legislature's adopted budget. The agency is also projecting a shortfall of \$1 million in the other expenses line item. This shortfall is due to the reduced appropriation level and holdbacks that were necessary to implement PA 09-3, JSS.

Deficiencies totaling \$21.7 million are anticipated in the Department of Developmental Services. The deficiency is composed of \$2.3 million in Other Expenses due to higher than budgeted costs, \$9 million in Early Intervention resulting from significant caseload growth, \$2 million in Workers' Compensation Claims due to higher than budgeted monthly claims, \$2.5 million in Voluntary Services due to unbudgeted caseload growth and \$5.9 million in Community Residential Services because of unbudgeted

development needs and movement of clients from state operated to privately provided services.

Deficiencies totaling \$13.8 million are anticipated in the Department of Mental Health and Addiction Services. The deficiency is composed of \$9.0 million in Other Expenses due to higher than budgeted costs, \$800,000 in Professional Services due to higher than budgeted contracted medical services for DMHAS inpatients and \$4 million in the Discharge and Diversion account for unbudgeted costs of community placements.

A net deficiency of \$73.5 million is projected in the Department of Social Services. This includes a projected deficiency of \$68.2 million in Medicaid related to lower savings estimates for special needs plans, managed care for the aged, blind and disabled, and managed care rate changes. A deficiency of \$9.5 million in Other Expenses is projected as a result of higher than budgeted costs. Increased caseloads are resulting in projected deficiencies of \$6.0 million in the Charter Oak Health Plan and \$3.5 million in the Temporary Family Assistance program. A \$5.0 million deficiency is projected in the HUSKY B account due to higher caseloads and utilization. An estimated deficiency of \$4.0 million in the Connecticut Home Care Program is due to delays in the implementation of the cost sharing initiative as a July 1, 2009 date was assumed in the enacted budget. These increases are partially offset by lapses in the Child Care Subsidies and SAGA accounts.

The Department of Correction is currently projected to be short \$21.5 million, \$17 million of which is in Other Expenses and \$4.5 million in Workers' Compensation Claims. The Other Expenses shortfall is the result of applying bottom line lapse amounts necessary to implement requirements of PA 09-3, JSS compounded with a reduced appropriation that reflects anticipated savings through the establishment of various correctional policies to manage the prison population. The Workers' Compensation Claims account shortfall is due to an appropriation \$2 million below what was previously expended in FY08 and FY09 as well as medical expenditures in August and September at twice the expected level.

A deficiency of \$5.5 million is projected in the Judicial department. \$2.5 million of the shortfall is in Other Expenses to cover general operating expenses and as a result of holdbacks necessary to implement PA 09-3, JSS. There is a \$2.0 million shortfall in Juvenile Alternative Incarceration due to the cost of programs and services for the juvenile justice system; facilities and early intervention projects for juvenile offenders and a \$1.0 million shortfall in Juvenile Justice Centers related to costs to develop and implement services at various Juvenile Justice Centers throughout the state.

In the Office of the State Comptroller - Retiree Health account, the budgeted appropriations for fringe benefits under Public Acts 09-3 JSS and PA 09-7 SSS were not adjusted for the impact of the Retirement Incentive Program (RIP). Active employee health costs are divided among various funds depending on the agency in which an employee worked. However, once an employee retires the health costs are attributed to the General Fund only. The \$60.9 million shortfall in this account represents the additional retiree health costs of the approximately 3,900 state employees who

participated in the RIP. Funds to offset this deficiency are anticipated to be available in the Comptroller's other fringe benefit accounts due to other RIP-related savings.

We continue to monitor expenditures very closely and I have no doubt that there will be adjustments in our estimates as the year progresses. In some cases, projected deficiencies may be partially or even wholly resolved, while some deficiencies could worsen or new deficiencies could arise.

I would like to again thank the committee for the opportunity to present this testimony and I will be happy to answer any questions you may have.