STATE OF CONNECTICUT
OFFICE OF POLICY AND MANAGEMENT

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE
March 23, 2010

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Secretary
Office of Policy and Management

Regarding:
House Bill 5016, AN ACT MAKING DEFICIENCY APPROPRIATIONS FOR THE FISCAL YEAR ENDING JUNE 30, 2010

Senator Harp, Representative Geragosian, Senator Debicella, Representative Miner, and distinguished members of the Appropriations Committee, thank you for the opportunity to offer testimony regarding House Bill 5016, AN ACT MAKING DEFICIENCY APPROPRIATIONS FOR THE FISCAL YEAR ENDING JUNE 30, 2010.

I have appeared before you three times—in November, December and again just a few weeks ago—to discuss deficiencies as well as the Governor's proposed deficit mitigation plans, so much of my testimony today will no doubt be familiar to you. We have two major and most immediate Fiscal Year 2010 budget issues to deal with: one is the major overall budget deficit and the other is related to agency specific budget deficits. While the two have clear intersection, we are primarily here today to discuss the latter issue, although these individual agency fiscal problems do feed into the overall budget problems facing the state.

The budget that was enacted in September counted on more than $473 million in unspecified savings—"below the line" lapses that the Executive Branch was charged with achieving. These lapses were in addition to specific reductions to agency budgets as well as significant policy initiatives designed to achieve savings. In addition to the aggressive savings estimates contained in the enacted budget, the demands on our state agencies have also increased, such as through increased Medicaid caseloads, leading to costs which were not envisioned in the enacted budget. As a result, based on the estimates released yesterday by my office, expenditures exceed budgeted levels at a number of agencies by a total of $143.5 million, which I will cover in more detail later in my testimony.

Before I get into the detail about deficiencies forecast by my office, I would like to explain the approach we took in constructing the deficiency bill that is before you today. First, we looked at whether an agency had sufficient lapses in other accounts that could be transferred via Finance Advisory Committee action to cover its deficiencies. Several agencies have already been before the FAC to resolve deficiencies, and I anticipate a fair number of agencies will be on the agendas for upcoming meetings for similar consideration. Next, we looked at whether we could resolve an agency's deficiencies by releasing holdbacks, which could directly resolve deficiencies in Personal Services or Other Expenses, which is where the bulk of the holdbacks have been programmed. In some cases, we would need to release holdbacks and agencies would need to transfer some of those funds via FAC action to resolve deficiencies in accounts other than Personal Services or Other Expenses. Lastly, there were several agencies where no combination of internal transfers and release of holdbacks would be sufficient to resolve deficiencies, and those are the agencies that are noted in House Bill 5016.

It is critical to note that the release of budgeted holdbacks will not—and I need to emphasize that again—will not resolve the projected FY 2010 deficit. As I noted earlier, the budget as enacted relies on over $473 million in budgeted lapses or holdbacks. Every dollar that is released to provide cash to an agency experiencing a deficiency is a dollar that must be replaced in order to help bring the budget into balance. And it's worth noting at this point that the current year General Fund deficit projection is primarily the result of revenue that is $342.9 million below budgeted levels—beyond any deficiencies we are discussing here on the expenditure side of the budget. As a result, passage of the Governor's deficit mitigation plan is also necessary to bring the current year into balance.

With that, let me return to the specifics of House Bill 5016. The bill was developed based on deficiency projections in place as of OPM's January 20, 2010, letter to the Comptroller. At that time, OPM was projecting additional requirements at nine agencies totaling $193.65 million in the General Fund. In order to address those additional requirements, the bill relies on the release of approximately $108.4 million in holdbacks in addition to the transfer of $85.25 million noted in the bill from a variety of agencies to the Department of Social Services and the Department of Administrative Services Workers' Compensation account. Based on the most recent projections released by my office yesterday, net additional requirements have dropped to $143.5 million in fifteen agencies. If this bill were to be revised based on these estimates, the general fund transfer in the bill could be reduced to $59.3 million and the amount of holdbacks needing to be released would also be reduced to $84.3 million. In the Special Transportation Fund, the bill relies on the release of $2.4 million in holdbacks in addition to the $3.6 million transferred to the Department of Transportation and the

Department of Administrative Services Workers' Compensation account to address the $6 million in additional requirements projected in that fund.

As noted above, while this bill was based on projections that were in place on January 20th, the estimates released yesterday by my office show that the current year deficit is now projected at $356.5 million, primarily as a result of the deferral of $100 million of the State's SERS contribution based on the terms of the 2009 agreement with SEBAC, as well as a $47.4 million reduction to Medicaid requirements based on the federal government's decision to apply the ARRA enhanced reimbursement rate to the State's Medicare Part D "clawback" payments. In addition, the composition of our projected deficiencies has changed, with the result that some modification of the deficiency bill will be necessary. OPM's deficiency projections are as follows:

Department of Revenue Services	325,000
Department of Veterans' Affairs	600,000
Department of Administrative Services	383,000
Department of Public Works	5,858,000
Department of Public Safety	10,400,000
Office of the Victim Advocate	34,000
Commission on Human Rights and Opportunities	220,000
Office of Protection and Advocacy	63,000
Department of Agriculture	240,000
Department of Public Health	4,696,000
Department of Developmental Services	3,822,000
Department of Mental Health and Addiction Services	6,734,000
Department of Social Services	98,800,000
Department of Correction	8,857,000
DAS-Workers' Compensation Claims	2,500,000

Of these agencies, most deficiencies can be accommodated through either release of holdbacks or a combination of releases of holdbacks followed by FAC action. Only the Department of Social Services, the Office of the Victim Advocate and DAS – Workers' Compensation Claims cannot be fully resolved through this strategy. And again, all of the holdbacks that are released must be replaced dollar for dollar to have any effect on the forecast deficit.

As for the three agencies where the deficit cannot be fully mitigated even after release of all holdbacks and FAC, a net deficiency of $98.8 million is projected in the Department of Social Services. This includes additional requirements of $103.1 million in Medicaid, $17.7 million in Other Expenses, $2.4 million in the Temporary Family Assistance program and $1.2 million in the Charter Oak Health Plan. These increases are partially offset by lapses in the Child Care subsidies and SAGA accounts. Most of this overall deficiency is related to entitlements which cannot be reduced without legislative action. A net deficiency of $34,000 is projected at the Office of the Victim Advocate as a result of a budgeted 20% reduction in Personal Services funding and a net General Fund deficiency of $2.5 million is projected in DAS – Workers' Compensation Claims.

In most cases, the remaining agencies appear on the list because of the challenge of meeting the mandated lapses related to bringing Other Expenses back to 2007 levels as well as the $95 million contract reduction. The following agencies all appear on the list as a result of these Other Expenses and contract reductions: Veteran's Affairs (OE), Agriculture (OE), Administrative Services (Workers' Comp Administrator and Hospital Billing Systems), Public Works (OE, Property Management, Facilities Design, and Rents & Moving), and Public Safety (OE, Workers' Comp, Fleet Services). In addition, a significant portion of the shortfall at departments of Public Health, Developmental Services, Mental Health and Addiction Services, Human Rights and Opportunities, and Correction is attributable to these Other Expenses and contract lapse targets. At the Department of Correction, the difficulty of meeting lapse targets is compounded by a reduced appropriation that reflects anticipated savings through the establishment of various correctional policies to manage the prison population.

It should be noted that many of these agencies will be able to partially mitigate these deficits through FAC action. Significantly, many agencies, including Administrative Services, Correction, Public Works, Veteran's Affairs, Agriculture, Developmental Services and Mental Health and Addiction Services are experiencing additional lapses in Personal Services which can be used to partially offset other deficiencies. While many agencies will have lapses in Personal Services, there are several anticipating PS shortfalls. The Departments of Revenue Services, Commission on Human Rights and Opportunities, Office of Protection and Advocacy, and Department of Public Health are all experiencing PS shortfalls as a result of the application of lapse savings. In Public Health, Protection and Advocacy, and CHRO's case, the adopted budget also called for significant agency-specific savings targets in addition to the savings from the 2009 SEBAC agreement.

The remaining deficits at the agencies noted above consist of the Workers' Compensation accounts at Developmental Services and Correction, the Birth to Three account at Developmental Services, and the General Assistance Managed Care and Discharge and Diversion accounts at Mental Health and Addiction Services.

My office is available to work with the Committee and the Office of Fiscal Analysis on adjustments to the deficiency bill to reflect our more recent projections. I would like to again thank the committee for the opportunity to present this testimony, and am happy to answer any questions you may have.