

# Briefing on Governor Rell's March Deficit Mitigation Plan

Presentation for the Joint Committee on Appropriations  
by

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# INTRODUCTION

- \$17,370.3 million FY2010 General Fund budget
- \$503.9 million deficit projection as of February 22, 2.9% of General Fund
  - \$342.9 million related to revenue below budgeted levels
    - 68% of problem
    - 1.9% of General Fund
  - \$142.6 million related to deficiencies
    - 28% of problem
    - 0.8% of General Fund
  - \$18.4 million in minor changes (refunds of escheated property)

## DEFICIT PROJECTION - REVENUE ITEMS

\$342.9 million related to revenue below budgeted levels

- Change from enacted budget to January 15th consensus revenue forecast

# DEFICIT PROJECTION - REVENUE ITEMS

	FY 2010 Budget*	OPM 2/22/2010	Difference	% Change
<u>Taxes</u>				
Personal Income Tax	\$ 6,630.7	\$ 6,423.0	\$ (207.7)	-3.1%
Sales & Use	3,166.7	3,076.1	(90.6)	-2.9%
Corporation	721.6	706.6	(15.0)	-2.1%
Inheritance & Estate	208.7	196.2	(12.5)	-6.0%
Oil Companies	98.9	124.4	25.5	25.8%
All Other Taxes	1,192.7	1,183.7	(9.0)	-0.8%
Total Taxes	\$ 12,019.3	\$ 11,710.0	\$ (309.3)	-2.6%
Refund of Taxes	(1,080.5)	(1,145.5)	(65.0)	6.0%
R & D Credit Exchange	(9.4)	(9.4)	-	0.0%
Total Taxes Less Refunds	\$ 10,929.4	\$ 10,555.1	\$ (374.3)	-3.4%
<u>Other Revenue</u>				
Indian Gaming Payments	409.1	371.0	(38.1)	-9.3%
Licenses, Permits, Fees	279.9	264.9	(15.0)	-5.4%
Rents, Fines, Escheats	112.3	170.0	57.7	51.4%
All Other Revenue	528.9	513.5	(15.4)	-2.9%
Total Other Revenue	\$ 1,330.2	\$ 1,319.4	\$ (10.8)	-0.8%
<u>Other Sources</u>				
Federal Grants	\$ 4,051.8	\$ 4,094.0	\$ 42.2	1.0%
All-Other Sources	1,061.0	1,061.0	-	0.0%
Total Other Sources	\$ 5,112.8	\$ 5,155.0	\$ 42.2	0.8%
Total General Fund Revenues	\$ 17,372.4	\$ 17,029.5	\$ (342.9)	-2.0%

\* Adjusted to reflect technical changes to estimates in various accounts

# DEFICIT PROJECTION - EXPENDITURE ITEMS

- \$193.6 million related to deficiencies (offset by \$51 million in rescissions)
  - \$133.1 million in DSS
    - (\$136.5) million Medicaid
    - (\$16.0) million Other Expenses
    - (\$2.9) million Temporary Family Assistance
    - (\$1.2) million Charter Oak Health Plan
    - (\$1.2) million CT Home Care Program
    - \$24.7 million offset via lapses in SAGA and Child Care subsidies
  - \$19.5 million in DOC
    - (\$13.5) million Other Expenses
    - (\$6.0) million Workers' Compensation Claims
  - \$10.6 million in DMHAS
    - (\$9.0) million Other Expenses
    - (\$4.0) million Discharge and Diversion
    - (\$2.1) million Professional Services
    - (\$2.0) million in General Assistance Managed Care
    - \$6.5 million offset via lapses in Personal Services and Behavioral Health Meds
  - \$7.8 million in DDS
    - (\$9.0) million Early Intervention (Birth to Three)
    - (\$2.0) million Workers' Compensation Claims
    - (\$1.3) million Other Expenses
    - (\$1.1) million Voluntary Services
    - \$5.6 million offset via lapse in Personal Services
  - \$22.6 million in all other agencies (DOIT, DPW, DPS, DPH, DAS - WC)

# SUMMARY OF THE GOVERNOR'S DEFICIT MITIGATION PLAN

Projected FY 2010 Deficit per OPM's 1/20/10 Letter to the Comptroller	(\$500.5)	
Additional FY 2010 Deficit Projection per OPM's 2/22/10 Letter to the Comptroller	(\$3.4)	
	(\$503.9)	
<b>Revised FY 2010 Deficit Projection</b>		
	<b>FY 2010 Impact</b>	<b>FY 2011 Impact</b>
Defer State Employee Retirement System Contribution per SEBAC Agreement	\$100.0	\$0.0
Receive ARRA FMAP for Part D Clawback Payments	\$44.8	\$34.2
Fund Transfers	\$58.2	\$0.0
Expenditure Reductions	\$81.8	\$120.3
Revenue Changes	\$0.0	\$64.7
	<b>\$284.8</b>	<b>\$219.2</b>
<b>Subtotal</b>		
Budget Reserve Fund Transfer From FY 2011 to FY 2010 (based on FY 2011 savings from plan implementation)	\$219.2	(\$219.2)
	<b>\$504.0</b>	<b>\$0.0</b>
<b>Total</b>		
<b>Balance</b>	<b>\$0.1</b>	

## EXPENDITURE REDUCTIONS

- Difficult choices, but given that only a few months remain to address FY 2010, there are few alternatives
- Savings created in FY 2011 are in addition to those proposed in the Governor's FY 2011 budget adjustments
  - Accelerate start dates of FY 2011 proposals
- Structural reform
  - Changes we can effect now will not only help with the FY 2010 deficit, but will also help us deal with FY 2011 and beyond
- Allows the shift of resources from the Budget Reserve Fund budgeted for FY 2011 into FY 2010
  - FY 2011 remains balanced – BRF shift is used only to the extent of proposed additional reductions in FY 2011 expenditures
  - Our recommendation to shift BRF resources from FY 2011 to FY 2010 is contingent upon approval of expenditure reductions equal to the amount of the shift

## MUNICIPAL AID

- Why does municipal aid need to be part of the solution?
- Increase in General Fund Payments to Towns from FY2007 to FY2009 of \$329.9 million (11.5%)
  - FY2007 = \$2,527.8 million
  - FY2009 = \$2,857.7 million
- FY2010 enacted budget includes \$2,769.6 million for town aid.
- FY2011 Governor's recommended budget adjustments includes \$2,783.5 million for town aid.
  - This represents an increase of 10.1% over FY2007.
  - \$45 million reduction = 1.6% of FY2011 total.

## WHAT IS THE ALTERNATIVE?

- Leaving municipalities untouched assumes no efficiencies or reasonable prioritization that can be adopted at the local level.
- What is the alternative?
  - Should the state borrow so municipalities can preserve their fund balances?
  - Should the state pursue another \$45 million in service reductions?

# EXPENDITURES

## ESTIMATED GRANTS TO MUNICIPALITIES

### Total FY2011 State Municipal Aid (includes education-related grants)

- Budget \$2,783.5 million  
(Includes \$61.8M Mashantucket Pequot & Mohegan Fund)
- Proposed reduction \$45.0 million
- Proposed reduction as percentage of total funding 1.6%

### Municipal Spending

- Total Spending, 2007-2008 \$12,748.1 million  
(source: OPM, Connecticut Municipal Fiscal Indicators, November 2009)
- Proposed reduction \$45.0 million
- Proposed reduction as percentage of total spending 0.35%
- Total fund balances FYE08, all municipalities \$859.5 million
- Proposed reduction as percentage of fund balance 5.2%

# EXPENDITURES

## DEPARTMENT OF SOCIAL SERVICES

*(amounts shown are net of any impact to federal reimbursements)*

- DSS – Reduce Certain Medicaid Provider Rates by 5% (2% for ICF/MR's and Chronic Disease Hospitals) – \$4,260,000 in FY 2010 and \$25,810,000 in FY 2011
- DSS – Defer MCO Payment – \$25,730,000 in FY 2010
- DSS – Suspend Non-Entitlement Grants for remainder of FY 2010 – \$6,217,140
  - Day Care Projects, Healthy Start, Human Resource Development, Services for Persons with Disabilities, Nutrition Assistance, Housing /Homeless Services, Employment Opportunities, Community Services, Human Services Infrastructure and Teen Pregnancy Prevention.
- DSS – Eliminate Non-Emergency Dental Services for Adults under Medicaid and SAGA – \$1,870,000 in FY 2010 and \$22,480,000 in FY 2011
- DSS – Reduce DSH-Urban and CCMC accounts by 10% – \$2,126,000 in each year
- DSS – Implement Hospital user fee and maximize federal reimbursement – \$64,700,000 in FY 2011

# EXPENDITURES

## DEPARTMENT OF SOCIAL SERVICES

- DSS – Hospital User Fee (acute-care general hospitals)
  - Maximize federal revenue:
    - Hospital gross earnings tax of 3.25% generates \$129.4 million
    - Redistribute these funds (\$129.4 million) to the hospitals under the disproportionate share hospital (DSH) program
    - Results in additional \$64.7 million in federal revenue (50% of increase in DSH payments)
  - Methodology for redistribution:
    - Distribution of DSH dollars is based on the proportion of low-income patients served by each hospital, however, federal rules require that 25% of the hospitals receive less than what the state assesses them under the user fee
  - According to the Kaiser Commission, 23 states had a hospital provider tax in place in FY 2009 with 3 additional states expected to implement such a tax in FY 2010.

# EXPENDITURES

## HEALTH AND HUMAN SERVICES

- DPH – Reduce School-Based Health Clinics account – \$1,044,064 in FY 2010
- DCF – Accelerate proposed FY 2011 contract suspensions – \$1,124,614 in FY 2010
  - Includes: Social Coach, Therapeutic Mentoring, Aftercare, Mentoring, Temporary Childcare, Youth Support Services, Assessment and Treatment in DCF Facilities, Substance Abusing Families at Risk, Respite Care, Enhanced Care Coordination, the Short-term Residential program, Life Long Family Ties and Outreach, Tracking and Reunification

# EXPENDITURES

## EDUCATION

- University of Connecticut (UCONN)
  - Debt service
    - OPM estimates that UCONN achieved approximately \$10 million of cumulative savings over the biennium as a result of the Retirement Incentive Program (RIP) – savings UCONN was allowed to keep (OPM estimate assumes lower refill, salary rates)
    - From FY 2008 to FY 2009, UCONN had an increase of \$2.4 million in its unrestricted Operating Fund balance to \$48.8 million
    - The deficit mitigation plan calls for UCONN to assume responsibility for \$5 million of debt service in FY 2010 and \$10 million in FY 2011 (UCONN has gotten \$645 million more in capital funding than CSU since UCONN 2000 was authorized)
    - The intent is to have UCONN attribute some of the retained RIP savings towards the debt service that has annually been appropriated through the General Fund since 1997 for the UCONN 2000 and UCONN 21<sup>st</sup> Century capital programs
    - The FY 2010 appropriation for UCONN debt service is \$106.9 million
    - The Governor's recommended FY 2011 appropriation for UCONN debt service is \$116.6 million
  - Correctional managed care
    - Postpone the purchase of an electronic medical records system for \$4,000,000, using those funds instead for ongoing inmate medical services

# EXPENDITURES

## GENERAL GOVERNMENT

- Reduction in Carry Forward Funding and Rescissions in FY 2010 (\$3,815,459)
  - OPM – Operation Fuel for 150–200% of Federal Poverty Level – \$2,000,000
  - OPM – E-Licensing – \$37,857
  - OPM/DECD – Home CT – \$1,777,602
- Reduce Various Office of Policy & Management Grants in FY 2010 (\$1,289,291)
  - Neighborhood Youth Centers – \$1,139,391
  - Regional Planning Organizations – \$149,900
- De-appropriate Funds In Lieu of Rescissions in FY 2010 (\$977,019)
  - Watchdog agencies – \$164,814
  - Office of Legislation Management– \$812,205
- DEP – Reduce Funding for Reimbursements from the Underground Storage Tank Program in FY 2010 (\$1,500,000)

## FUND TRANSFERS

Biomedical Research Trust Fund	\$6,000,000
Citizens Election Fund	\$12,000,000
Community Investment Act	\$5,000,000
DEP Account Balances	\$11,690,000
Public, Educational, Government Programming Account	\$2,300,000
Stem Cell Research Fund	\$5,000,000
Tobacco and Health Trust Fund	\$5,000,000
Emissions Enterprise Fund	\$1,000,000
Reduce General Fund Transfer to Special Transportation Fund	\$10,000,000
Sweep Remaining FEMA Administration Funds at OPM	\$222,411
<b>TOTAL, Fund Transfers</b>	<b>\$58,212,411</b>

# FUND TRANSFERS

	Sweep(s) FY 2009	Cash Balance June 30, 2009	Projected Transfers In		Enacted Sweeps		March 1, 2010	Remaining
			FY 2010	FY 2011	FY 2010	FY 2011	Proposed DMP FY 2010	Balance Available Through
Biomedical Research Trust Fund	\$ 3,000,000	\$ 13,348,351	\$4,000,000	\$4,000,000	\$4,500,000	\$4,500,000	\$ 6,000,000	\$ 6,348,351
Citizen Election Fund	14,200,000	42,776,466	18,200,000	18,200,000	18,000,000	7,000,000	12,000,000	42,176,466
Community Investment Account	-	35,565,411	20,000,000	20,000,000	200,000	-	5,000,000	70,365,411
DEP Account Balances	43,513,941	11,690,000 *	-	-	-	-	11,690,000	-
Public, Educational Government Programming	3,900,000	1,134,609	5,900,000	5,900,000	2,000,000	2,000,000	2,300,000	6,634,609
Stem Cell Research Fund	-	22,718,414	10,000,000	10,000,000	-	-	5,000,000	37,718,414
Tobacco and Health Trust Fund	25,300,000	16,068,722	12,000,000	12,000,000	10,000,000	10,000,000	5,000,000	15,068,722
Emissions Enterprise Fund	1,000,000	2,309,566	6,500,000	6,500,000	-	-	1,000,000	14,309,566
General Fund Transfer to STF	6,492,122	NA	NA	NA	-	-	10,000,000	NA
OPM FEMA Administration	-	222,411	-	-	-	-	222,411	-

\* Estimated June 30 Balance

# REVISED CITIZENS' ELECTION PROGRAM

Per Governor's Bill 5021

Governor Rell's proposed revisions would:

- Eliminate additional qualifying criteria for candidates of minor parties and petitioning candidates
- Revise Grant Amounts
  - provide grants in same amounts to all candidates - major party, minor party and petitioning
  - reduce amounts of grants in response to judge's labeling of grant amounts as "windfall"
  - to the extent that provisions concerning excess and independent expenditures are found to be unconstitutional, temporarily suspend their operation until the issue is finally resolved

Office Sought	Primary Grant	General Election Grant
Governor	\$ 1,000,000	\$ 2,500,000
LG, AG, SOS, Treasurer, Comptroller	\$ 200,000	\$ 400,000
State Senator*	\$ 25,000	\$ 70,000
State Representative*	\$ 7,500	\$ 20,000
* These amounts are for contested races between major parties.		

The assumptions used to develop the estimated need for the 2010 election are as follows:

- Primaries in both major parties for Governor
- Question of unconstitutionality is resolved and excess expenditure and independent expenditure supplements are made for the primary and general election in the Governor's race only
- Primaries in the Attorney General and Secretary of State race as well as a minor party candidate for both races
- 10% of all seats would have primaries and 95% of the 36 Senate seats and 95% of the 151 House seats would be contested for a total of 365 candidates

**Total available in the CEF for 2010 elections after proposed \$12 million sweep is over \$42 million, total needed is estimated at \$40 million based on these assumptions**

## CITIZENS ELECTION FUND

• FY2009 Ending Cash Balance *	\$42,776,466
• FY2010 Sweep per PA09-3	(\$18,000,000)
• FY10 Revenues	\$18,200,000
• Proposed Sweep per FY10 GDMP	(\$12,000,000)
• Estimated FY11 Revenues	\$18,200,000
• FY2011 Sweep per PA09-3	(\$7,000,000)
• Amount Available for 2010 Election	\$42,176,466

\* Per Core-CT

# OUT-YEAR FORECASTS

## FINANCIAL SUMMARY OF THE GENERAL FUND (In Millions)

	Estimated FY2010	Revised Estimated <sup>(1)</sup> FY2011	Projected FY2012
<b><u>Office of Policy and Management</u></b>			
Revenues	\$ 17,029.5	\$ 17,566.5	\$ 15,649.7
Expenditures	17,513.0	17,566.1	18,957.2
Surplus Adjustment	<u>(20.4)</u>	<u>-</u>	<u>-</u>
Surplus/(Deficit)- February 22, 2010	\$ (503.9)	\$ 0.4	\$ (3,307.5)
	<u>FY2010<sup>(2)</sup></u>	<u>FY2011</u>	<u>FY2012</u>
Revenues	\$ 17,029.5	\$ 17,144.2	\$ 15,385.8
Expenditures	<u>17,565.0</u>	<u>17,869.9</u>	<u>19,266.5</u>
Surplus/(Deficit)-February 2, 2010	\$ (535.5)	\$ (725.7)	\$ (3,880.7)

- (1) FY 2011- OPM- per the Governor's Midterm Budget Adjustments-February 3, 2010.  
 FY 2011- OFA- per the FY 10-FY 14 General and Transportation Fund Budget Projections-February 2, 2010.
- (2) OFA's FY10 projection includes the assumption of a greater level of deficiencies as well as the deferral of \$100M SERS contribution, while OPM did not assume the deferral.

## WHAT ARE THE ALTERNATIVES?

- Spending reductions are necessary
- Quick and decisive action is required
- The Governor's proposal is a reasonable plan to address the deficit
- The fiscal year is nearly three quarters over; further deterioration in revenues will leave us with no reasonable alternatives to address the FY 2010 deficit
- Reductions in FY 2011 will begin to mitigate projected shortfalls in FY 2012 and beyond
- We are willing to work with the legislature in order to reach real solutions
- But alternative proposals must be real

WHAT ARE THE ALTERNATIVES?