

TESTIMONY PRESENTED TO THE APPROPRIATIONS COMMITTEE
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Testimony Supporting House Bill No. 6381

AN ACT MAKING DEFICIENCY APPROPRIATIONS
FOR THE FISCAL YEAR ENDING JUNE 30, 2011

Senator Harp, Representative Walker and distinguished members of the Appropriations Committee, thank you for the opportunity to offer testimony on House Bill 6381, An Act Making Deficiency Appropriations for the Fiscal Year Ending June 30, 2011.

Before addressing our projections for agency deficiencies, a brief recap of the overall status of the state budget for FY 2011 may be helpful. On March 21, 2011, OPM released projections indicating an anticipated General Fund balance of \$116.4 million. The Office of the State Comptroller certified that surplus on April 1, 2011. While this is welcome news given the financial challenges the state has experienced over the last two years, please note several caveats. First and foremost, our forecast is based on the assumption that revenues will exceed the budget plan by \$444.5 million, which represents a modest amount of growth over the consensus forecast reached by my office and the Office of Fiscal Analysis in January. As you know, an updated consensus revenue forecast is due at the end of this month. Second, our revenue estimate includes the planned issuance of Economic Recovery Revenue Bonds, which as you know faces a legal challenge that is as-yet undecided. Should the planned securitization be barred or significantly delayed as a consequence of a legal decision, the ability to enact deficiency appropriations would be jeopardized. As a final note, the estimates presented here today are based on the best information available at this time.

While projected revenues exceed the level programmed in the adjusted budget for FY 2011, we do anticipate shortfalls on the expenditure side of the budget that are the subject of today's meeting. As of March 21, 2011, OPM forecast an overall balance in the General Fund of \$116.4 million. Included in this estimate is a projection of \$321 million in deficient accounts in thirteen agencies. It is important to note that House Bill 6381 was developed based on deficiency

projections from OPM's January 20, 2011, forecast. At that time, we projected additional requirements at eleven agencies totaling \$315.68 million in the General Fund. The bill will therefore need to be modified to incorporate updated estimates.

Following are our estimates for specific agency deficiencies:

Department of Administrative Services

The department will experience a net \$600,000 million shortfall in its Workers' Compensation Administrator account as a result of the contract holdback.

Office of the State Comptroller

A \$430,000 shortfall is a result of deficiencies in the Other Expenses account related to budgeted holdbacks.

Department of Public Works

A shortfall is anticipated in the Department of Public Works totaling \$6.4 million in the Other Expenses, Management Services, and Rents and Moving Expenses accounts due to the holdbacks programmed to achieve budgeted savings, particularly those for contract reductions and reducing Other Expenses to FY 2007 levels. We are also monitoring a potential additional shortfall totaling \$0.5 million in the Facilities Design account.

Agricultural Experiment Station

In March, we forecast a \$220,000 shortfall as a result of deficiencies in the Other Expenses account. However, the agency anticipates lapsing funding in Personal Services that could be transferred with Finance Advisory Committee approval that would eliminate the need for a deficiency appropriation.

Department of Agriculture

In March, we forecast a \$280,000 deficiency in the Other Expenses account. Our latest estimate is a deficiency of \$175,500.

Department of Public Safety

The Department of Public Safety is expected to have a shortfall totaling \$8.0 million in the Other Expenses and Fleet Services accounts. The \$5.9 million Other Expenses shortfall is a result of programmed holdbacks that are 21% of the appropriation, which funds utilities, telecommunications, fuel and maintenance costs for motor vehicles and other critical public safety costs. The \$2.1 million Fleet Services shortfall is the result of a programmed holdback that will not be met due to the need to replace aging State Trooper vehicles which have become more costly to repair and maintain than to replace.

Department of Mental Health and Addiction Services

A \$54.7 million shortfall is anticipated in the General Assistance Managed Care account to reflect higher than budgeted caseload and utilization as a result of the conversion of the SAGA population to the Medicaid Low Income Adult (LIA) program, and which is addressed further as part of the DSS deficiency. In addition, a \$5.3 million Other Expenses shortfall is projected due to holdbacks programmed to achieve budgeted savings.

Department of Social Services

A net deficiency of \$211.0 million is projected in the Medicaid account, primarily as a result of overly optimistic budgeted savings estimates or implementation timelines. Additionally, the Medicaid expansion to cover low-income adults (the so-called "SAGA waiver") has also resulted in significantly higher costs than had been budgeted. The caseload has jumped from 44,752 clients in April 2010 to 62,084 clients in February 2011, an increase of 38.7%. OPM's current estimate assumes a DSS deficiency of \$78.9 million related to LIA. A \$21 million deficiency is anticipated in Other Expenses, largely as a result of the required holdbacks, which represent over 21% of the agency's Other Expenses appropriation. The vast majority of expenses under this account support key contractual obligations, such as eligibility management and the Medicaid claims payment system, which are required to support the array of programs provided by the department.

Teachers' Retirement Board

In March we estimated a \$200,000 deficiency due to payments for identity theft insurance for its members resulting from encrypted pension information that was misplaced in November 2009. A more recent projection is that the deficiency is \$68,000.

Department of Correction

The Department of Correction is forecast to incur a net \$8.0 million deficiency in Other Expenses because of the implementation of budgeted holdbacks, which represent 20% of the agency's Other Expenses appropriation. This account funds food and utility expenses and other costs of running and maintaining the correctional system. More recent estimates show an additional lapse in the Inmate Medical account which, if transferred, would reduce the net deficiency in Other Expenses to \$5.0 million. It should be noted that for cash flow purposes we have released the OE holdback, but will need the deficiency appropriation to ensure we hit budgeted lapse targets.

Public Defender Services Commission

The Public Defender Services Commission is anticipated to end the year with a \$1.8 million deficiency: \$1.0 million in the Special Public Defenders-Noncontractual account, and \$800,000 million in the Expert Witnesses account.

Approximately \$545,000 of the total shortfall is due to FY 2010 bills that were unpaid even after May 2010 Finance Advisory Committee action to realign funds to enable the Commission to pay its bills.

Commission on Child Protection

A \$2.6 million shortfall is estimated in the Child Protection Commission's Contracted Attorneys account due to increased use of services from contracted attorneys as well as an unbudgeted increase in the rates paid to those attorneys.

DAS-Worker's Compensation Claims

A \$500,000 deficiency is anticipated in the Department of Administrative Services' Workers Compensation Claims account due to claims costs that exceed the estimates used in developing the budget.

Department of Transportation

While we did not recognize a shortfall in this agency in March, it is likely that the agency will require a deficiency appropriation for Personal Services in the amount of \$4.0 million. At the March Finance Advisory Committee meeting, slightly more than \$4 million was transferred from Personal Services to Other Expenses due to the impact of severe winter weather. The Other Expenses shortfall was the result of motor vehicle fuel costs, winter truck rental, salt, emergency snow removal and other storm-related costs. Overtime and differential payments related to the winter weather have also contributed to the Personal Services shortfall. A deficiency appropriation in Personal Services would replace this funding. We believe a transfer from the Treasurer's Debt Service account in the amount of \$4.0 million will resolve this deficiency and result in no change in the balance forecast for the Special Transportation Fund.

Additional Item – Nursing Homes

Finally, I would like to propose an additional deficiency appropriation item for your consideration. As you know, for budgetary purposes a two week delay in Medicaid payments to nursing homes was included in Public Act 09-5 of the September Special Session. We are proposing to reverse this delay in June, which would result in a gross cost of \$52.4 million in FY 2011. By making this payment now, Connecticut can take advantage of enhanced federal reimbursement available under ARRA and garner an additional \$3.6 million in revenue. After factoring in the higher ARRA reimbursement, this proposal will result in a net cost to the state of \$22.6 million in FY 2011. There would be no budgetary impact for the upcoming biennium. This proposal is not only good for the nursing home industry, but it is also consistent with Governor Malloy's commitments to Generally Accepted Accounting Principles (GAAP) and to maximizing federal reimbursement.

In closing, my office is available to work with the committee and the Office of Fiscal Analysis on adjustments to the deficiency bill to reflect more recent projections. As a final comment, I would note that several agencies are experiencing significant cash flow problems due to the deficiencies noted above and are unable to make payments to vendors and providers, which could lead to interest accruing on overdue payments—an unnecessary additional state cost. Accordingly, I ask for favorable action on this bill as soon as possible.

I would like to again thank the committee for the opportunity to present this testimony. I know that you have invited agencies to provide more in-depth information regarding their budget shortfalls, but I am happy to answer any questions you may have.

